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CITY OF RENSSELAER, NEW YORK  
REGULATORY BASIS FINANCIAL STATEMENTS  
JULY 31, 2011

**CITY OF RENNELAER, NEW YORK**  
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**JULY 31, 2011**

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and Members of the  
Common Council of the  
City of Rensselaer, New York

We have audited the accompanying regulatory basis financial statements of the City of Rensselaer, New York, as of and for the year ended July 31, 2011 as listed in the table of contents. These financial statements are the responsibility of the City of Rensselaer, New York's management. Our responsibility is to express an opinion on these regulatory basis 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 regulatory basis financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the regulatory basis financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall regulatory basis financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the City prepared these financial statements using accounting principles prescribed by the New York State Office of the State Comptroller to demonstrate compliance with the State's regulatory basis of accounting, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

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

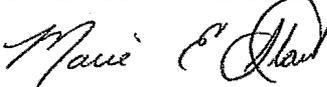
In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2012 on our consideration of the City of Rensselaer's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements

and other matters. The purpose of that report is to describe the scope of our testing of internal over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was made for the purposes of forming an opinion on the regulatory basis financial statements that collectively comprise the City of Rensselaer, New York's basic financial statements. The supplemental financial information on pages 5 to 6, 8 to 9 and 11 to 12 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by US Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic regulatory basis financial statements. The supplemental financial information and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the regulatory basis financial statements taken as a whole.

In our opinion, the regulatory basis financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balances of each fund of the City of Rensselaer, New York as of July 31, 2011, and their respective revenues and expenditures, and budgetary results for the year then ended, on the basis of accounting described in Note 1.

Very truly yours,  
STARK & BASILA  
Certified Public Accountants, PC

  
MARIE E. STARK, CPA

Dated: May 11, 2012

CITY OF RENSSELAER, NEW YORK  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY  
 ALL GOVERNMENTAL FUND TYPES AND FIDUCIARY FUND TYPES- ALL FUND TYPES  
 FOR THE YEAR ENDED JULY 31, 2011

	Governmental Fund Types				Proprietary	Fiduciary Fund Types		Memorandum Only Totals
	General	Community Development	Capital Projects	Library	Business-Type	Expendable Trust	Non-Expendable Trust	
<b>REVENUES</b>								
Taxes	\$ 6,856,954	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,856,954
Licenses and permits	23,048	-	-	-	-	-	-	23,048
Intergovernmental revenues	3,945,753	-	789,109	-	-	-	-	4,734,862
Charges for services	11,150	-	-	11,792	2,781,899	-	-	2,804,841
Fines and forfeitures	134,246	-	-	-	-	-	-	134,246
Use of money and property	18,224	494,444	1,222	7	29,211	393	-	543,501
Other revenue	559,071	-	2,900	6,379	-	-	-	568,350
<b>Total Revenues</b>	<b>11,548,446</b>	<b>494,444</b>	<b>793,231</b>	<b>18,178</b>	<b>2,811,110</b>	<b>393</b>	<b>-</b>	<b>15,665,802</b>
<b>EXPENDITURES</b>								
General government	1,276,235	-	-	-	-	-	-	1,276,235
Operations and maintenance	-	-	-	-	2,437,771	-	-	2,437,771
Security of persons and property	3,553,656	-	-	-	-	-	-	3,553,656
Physical environment	3,002,713	-	4,886,462	-	-	-	-	7,889,175
Economic environment	262,484	823,903	-	-	-	-	-	1,086,387
Culture and recreation	132,013	-	-	99,513	-	-	-	231,526
Employee Benefits	2,735,527	-	-	-	265,860	-	-	3,001,387
Debt service								
Principal	390,300	-	125,000	-	-	-	-	515,300
Interest and debt issue costs	135,580	-	1,000	-	34,000	-	-	170,580
<b>Total Expenditures</b>	<b>11,488,508</b>	<b>823,903</b>	<b>5,012,462</b>	<b>99,513</b>	<b>2,737,631</b>	<b>-</b>	<b>-</b>	<b>20,162,017</b>
Excess (deficiency) of revenues over (under) expenditures	59,938	(329,459)	(4,219,231)	(81,335)	73,479	393	-	(4,496,215)
<b>OTHER FINANCING SOURCES</b>								
Bond Proceeds	-	-	3,435,000	-	-	-	-	3,435,000
BANs redeemed from appropriations	-	-	210,000	-	-	-	-	210,000
Transfers in	-	-	67,049	82,000	-	-	-	149,049
Transfers out	(149,049)	-	-	-	-	-	-	(149,049)
<b>Total other financing sources (uses)</b>	<b>(149,049)</b>	<b>-</b>	<b>3,712,049</b>	<b>82,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,645,000</b>
Net change in fund equity	(89,111)	(329,459)	(507,182)	665	73,479	393	-	(851,215)
Fund equity (deficit) - Beginning of year	1,955,551	1,120,260	(8,870)	8,403	285,041	6,870	5,000	3,372,255
Fund equity (deficit) - End of year	\$ 1,866,440	\$ 790,801	\$ (516,052)	\$ 9,068	\$ 358,520	\$ 7,263	\$ 5,000	\$ 2,521,040

See accompanying notes and independent auditor's report.

CITY OF RENSSELAER, NEW YORK  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JULY 31, 2011

	General Fund	Community Development	Capital Projects	Library Fund	Memorandum Only Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 483,860	\$ 798,314	\$ 1,267,741	\$ 10,179	\$ 2,560,094
Receivables:					
Taxes, net of allowance for uncollectible of \$ 580,000	1,716,280	-	-	-	1,716,280
Rehabilitation loans, net	-	1,276,572	-	-	1,276,572
Accounts Receivable	1,478	-	-	-	1,478
Due from other funds	1,355,309	-	1,166,620	-	2,521,929
Due from other governments	585,148	-	-	-	585,148
<b>Total Assets</b>	<b>\$ 4,142,075</b>	<b>\$ 2,074,886</b>	<b>\$ 2,434,361</b>	<b>\$ 10,179</b>	<b>\$ 8,661,501</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts Payable	\$ 281,685	\$ -	\$ -	\$ 1,111	282,796
Accrued Liabilities	288,783	7,513.00	-	-	296,296
Other Liabilities	5,965	-	82,545	-	88,510
Bond Anticipation Notes	-	-	1,617,949	-	1,617,949
Due to other funds	566,674	-	1,249,919	-	1,816,593
Due to other governments	158,349	-	-	-	158,349
Deferred Revenues	974,179	1,276,572	-	-	2,250,751
<b>Total Liabilities</b>	<b>2,275,635</b>	<b>1,284,085</b>	<b>2,950,413</b>	<b>1,111</b>	<b>6,511,244</b>
<b>Fund Balances:</b>					
Reserved for:					
Encumbrances	131,123	-	-	-	131,123
Unreserved, reported in:					
General Fund	1,735,317	-	-	-	1,735,317
Community Development	-	790,801	-	-	790,801
Capital Projects	-	-	(516,052)	-	(516,052)
Library Fund	-	-	-	9,068	9,068
<b>Total Fund Balances</b>	<b>1,866,440</b>	<b>790,801</b>	<b>(516,052)</b>	<b>9,068</b>	<b>2,150,257</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 4,142,075</b>	<b>\$ 2,074,886</b>	<b>\$ 2,434,361</b>	<b>\$ 10,179</b>	<b>\$ 8,661,501</b>

See accompanying notes and independent auditor's report.

CITY OF RENSSELAER, NEW YORK  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND EQUITY  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JULY 31, 2011

	General Fund	Community Development	Capital Projects	Library Fund	Memorandum Only
					Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 6,856,954	\$ -	\$ -	\$ -	\$ 6,856,954
Licenses and permits	23,048	-	-	-	23,048
Intergovernmental revenues	3,945,753	-	789,109	-	4,734,862
Charges for services	11,150	-	-	11,792	22,942
Fines and forfeitures	134,246	-	-	-	134,246
Use of money and property	18,224	494,444	1,222	7	513,897
Other revenue	559,071	-	2,900	6,379	568,350
Total Revenues	<u>11,548,446</u>	<u>494,444</u>	<u>793,231</u>	<u>18,178</u>	<u>12,854,299</u>
<b>EXPENDITURES</b>					
General government	1,276,235	-	-	-	1,276,235
Security of persons and property	3,553,656	-	-	-	3,553,656
Physical environment	3,002,713	-	4,886,462	-	7,889,175
Economic environment	262,484	823,903	-	-	1,086,387
Culture and recreation	132,013	-	-	99,513	231,526
Employee Benefits	2,735,527	-	-	-	2,735,527
Debt service					
Principal	390,300	-	125,000.00	-	515,300
Interest and debt issue costs	135,580	-	1,000.00	-	136,580
Total Expenditures	<u>11,488,508</u>	<u>823,903</u>	<u>5,012,462</u>	<u>99,513</u>	<u>17,424,386</u>
Excess (deficiency) of revenues over (under) expenditures	<u>59,938</u>	<u>(329,459)</u>	<u>(4,219,231)</u>	<u>(81,335)</u>	<u>(4,570,087)</u>
<b>OTHER FINANCING SOURCES</b>					
Bond Proceeds	-	-	3,435,000	-	3,435,000
EANs redeemed from appropriations	-	-	210,000	-	210,000
Transfers in	-	-	67,049	82,000	149,049
Transfers out	(149,049)	-	-	-	(149,049)
Total other financing sources (uses)	<u>(149,049)</u>	<u>-</u>	<u>3,712,049</u>	<u>82,000</u>	<u>3,645,000</u>
Net change in fund equity (deficit)	(89,111)	(329,459)	(507,182)	665	(925,087)
Fund Equity (deficit) - Beginning of year	<u>1,955,551</u>	<u>1,120,260</u>	<u>(8,870)</u>	<u>8,403</u>	<u>3,075,344</u>
Fund Equity (deficit) - End of year	<u>\$ 1,866,440</u>	<u>\$ 790,801</u>	<u>\$ (516,052)</u>	<u>\$ 9,068</u>	<u>\$ 2,150,257</u>

See accompanying notes and independent auditor's report.

CITY OF RENSSELAER, NEW YORK  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY  
BUDGET TO ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JULY 31, 2011

	Original Budget FY 2011	Final Budget FY 2011	Actual FY 2011	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 7,577,271	\$ 7,577,271	\$ 6,856,954	\$ (720,317)
Licenses and permits	73,050	73,050	23,048	(50,002)
Intergovernmental revenues	3,453,175	3,973,942	3,945,753	(28,189)
Charges for services	51,910	51,910	11,150	(40,760)
Fines and forfeitures	95,000	95,000	134,246	39,246
Investment income	52,000	52,000	18,224	(33,776)
Other revenue	82,500	233,019	559,071	326,052
Total Revenues	<u>11,384,906</u>	<u>12,056,192</u>	<u>11,548,446</u>	<u>(507,746)</u>
<b>EXPENDITURES</b>				
General government	1,305,963	1,272,533	1,276,235	(3,702)
Security of persons and property	3,775,152	4,057,393	3,553,656	503,737
Physical environment	2,558,992	3,331,177	3,002,713	328,464
Economic environment	247,321	290,958	262,484	28,474
Culture and recreation	146,007	160,595	132,013	28,582
Employee Benefits	2,715,338	2,620,354	2,735,527	(115,173)
Debt service				
Principal	420,300	411,244	390,300	20,944
Interest and debt issue costs	97,135	125,099	135,580	(10,481)
Total Expenditures	<u>11,266,208</u>	<u>12,269,352</u>	<u>11,488,508</u>	<u>780,844</u>
Excess (deficiency) of revenues over (under) expenditures	<u>118,698</u>	<u>(213,160)</u>	<u>59,938</u>	<u>273,098</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	-	-	-	-
Transfers out	(103,698)	(103,698)	(149,049)	(45,351)
Total other financing sources (uses)	<u>(103,698)</u>	<u>(103,698)</u>	<u>(149,049)</u>	<u>(45,351)</u>
Net change in fund equity (deficit)	15,000	(316,858)	(89,111)	227,747
Fund Equity (deficit) - Beginning of year	<u>1,955,551</u>	<u>1,955,551</u>	<u>1,955,551</u>	<u>-</u>
Fund Equity (deficit) - End of year	<u>\$ 1,970,551</u>	<u>\$ 1,638,693</u>	<u>\$ 1,866,440</u>	<u>\$ 227,747</u>

See accompanying notes and independent auditor's report.

CITY OF RENSSELAER, NEW YORK  
BALANCE SHEET  
PROPRIETARY FUNDS  
JULY 31, 2011

	Business-type Activities		
	Enterprise Funds		
	Solid Waste	Water Fund	Memorandum Only Totals
<b>ASSETS</b>			
Cash and cash equivalents	\$ 30,311	\$ 789,147	\$ 819,458
Accounts Receivable	147,172	940,140	1,087,312
Due from other funds	47,563	464,263	511,826
Due from other government	-	63,233	63,233
<b>Total Assets</b>	<b>\$ 225,046</b>	<b>\$ 2,256,783</b>	<b>\$ 2,481,829</b>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities:</b>			
Accounts Payable	\$ 44,943	\$ 420,051	\$ 464,994
Accrued Liabilities	5,439	229,996	235,435
Other Liabilities	213	372	585
Bond Anticipation Notes	-	-	-
Due to other funds	298,619	912,238	1,210,857
Deferred Revenues	-	211,438	211,438
<b>Total Liabilities</b>	<b>349,214</b>	<b>1,774,095</b>	<b>2,123,309</b>
<b>FUND BALANCE</b>			
<b>Reserved for:</b>			
Encumbrances	-	-	-
<b>Unreserved, reported in:</b>			
Solid Waste	(124,168)		(124,168)
Water Fund		482,688	482,688
<b>Total Fund Balance</b>	<b>(124,168)</b>	<b>482,688</b>	<b>358,520</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 225,046</b>	<b>\$ 2,256,783</b>	<b>\$ 2,481,829</b>

See accompanying notes and independent auditor's report.

CITY OF RENSSELAER, NEW YORK  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JULY 31, 2011

	Business-type Activities Enterprise Funds		
	Solid Waste	Water Fund	Memorandum Only Totals
Revenues:			
Charges for services	\$ 648,399	\$ 2,133,500	\$ 2,781,899
Use of money and property	761	28,450	29,211
Total operating revenue	<u>649,160</u>	<u>2,161,950</u>	<u>2,811,110</u>
Expenditures:			
Operations and maintenance	525,910	1,911,861	2,437,771
Employee Benefits	134,057	131,803	265,860
Debt service			
Principal	-	-	-
Interest and debt issue costs	-	34,000	34,000
Total Expenditures	<u>659,967</u>	<u>2,077,664</u>	<u>2,737,631</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(10,807)</u>	<u>84,286</u>	<u>73,479</u>
OTHER FINANCING SOURCES			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund equity	(10,807)	84,286	73,479
Fund Equity (deficit) - Beginning of year	<u>(113,361)</u>	<u>398,402</u>	<u>285,041</u>
Fund Balances (deficit) - End of year	<u>\$ (124,168)</u>	<u>\$ 482,688</u>	<u>\$ 358,520</u>

See accompanying notes and independent auditor's report.

CITY OF RENSSELAER, NEW YORK  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND EQUITY  
BUDGET TO ACTUAL  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JULY 31, 2011

Business-Type Activities Enterprise Funds						
	Solid Waste FY 2011 Budget	Solid Waste Actual	Variance with Final Budget Positive (Negative)	Water Fund FY 2011 Budget	Water Fund Actual	Variance with Final Budget Positive (Negative)
Operating revenues:						
Charges for services	\$ 657,000	\$ 648,399	\$ (8,601)	\$ 1,920,100	\$ 2,133,500	\$ 213,400
Use of money and property	250	761	511	32,000	28,450	(3,550)
Total operating revenue	<u>657,250</u>	<u>649,160</u>	<u>(8,090)</u>	<u>1,952,100</u>	<u>2,161,950</u>	<u>209,850</u>
Operating expenditures:						
Operations and maintenance	446,464	525,910	(79,446)	1,652,210	1,911,861	(259,651)
Employee Benefits	146,586	134,057	12,529	140,390	131,803	8,587
Debt service						
Principal	64,000	-	64,000	125,000	-	125,000
Interest and debt issue costs	-	-	-	34,000	34,000	-
Total Expenses	<u>657,050</u>	<u>659,967</u>	<u>(2,917)</u>	<u>1,951,600</u>	<u>2,077,664</u>	<u>(126,064)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>200</u>	<u>(10,807)</u>	<u>(11,007)</u>	<u>500</u>	<u>84,286</u>	<u>83,786</u>
OTHER FINANCING SOURCES						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund equity	200	(10,807)	(11,007)	500	84,286	83,786
Fund equity (deficit) - Beginning of year	<u>(113,361)</u>	<u>(113,361)</u>	<u>-</u>	<u>398,402</u>	<u>398,402</u>	<u>-</u>
Fund equity (deficit) - End of year	<u>\$ (113,161)</u>	<u>\$ (124,168)</u>	<u>\$ (11,007)</u>	<u>\$ 398,902</u>	<u>\$ 482,688</u>	<u>\$ 83,786</u>

See accompanying notes and independent auditor's report.

CITY OF RENSSELAER, NEW YORK  
STATEMENT OF FIDUCIARY FUND BALANCE  
FIDUCIARY FUNDS  
JULY 31, 2011

	Private Purpose Trusts	Agency Funds	Memorandum Only Totals
<b>ASSETS</b>			
Cash	\$ 12,263	\$ 72,532	84,795
Due from Governmental funds	-	-	-
<b>Total Assets</b>	<u>\$ 12,263</u>	<u>\$ 72,532</u>	<u>\$ 84,795</u>
<b>LIABILITIES</b>			
Due to other Governmental funds	\$ -	\$ 6,305	\$ 6,305
Custodial Funds	-	66,227	66,227
<b>Total Liabilities</b>	<u>-</u>	<u>72,532</u>	<u>72,532</u>
<b>FUND BALANCE</b>			
Reserved for Library	<u>12,263</u>	<u>-</u>	<u>12,263</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 12,263</u>	<u>\$ 72,532</u>	<u>\$ 84,795</u>

See accompanying notes and independent auditor's report.

CITY OF RENSSELAER, NEW YORK  
STATEMENT OF CHANGES IN FIDUCIARY FUND EQUITY  
FIDUCIARY FUNDS  
JULY 31, 2011

	Private Purpose Trusts
<b>ADDITIONS</b>	
Use of money and property	\$ 393
Total additions	393
 <b>DEDUCTIONS</b>	
Library expenditures	-
Total deductions	-
Change in net assets	393
Fund equity (deficit) - beginning of year	11,870
Fund equity (deficit) - end of year	\$ 12,263

See accompanying notes and independent auditor's report.

CITY OF RENSSELAER, NEW YORK  
NOTES TO REGULATORY BASIS FINANCIAL STATEMENTS  
JULY 31, 2011

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Rensselaer, New York (the "City") have been prepared in conformity with accounting principles prescribed by the New York State Office of the State Comptroller for complying with Article 3, Section 30 of the General Municipal Law in which every municipal corporation is required to make an annual financial report. The most significant difference between this regulatory basis of accounting and generally accepted accounting principles ("GAAP") is that Government Accounting Standards Board ("GASB") Statements 34 and 45 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" and "Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions" need not be implemented to meet the requirements of General Municipal Law. GASB 34 and 45 require significant changes including:

- Government-Wide Reporting
- Focus on Major Funds
- Changes in Budgetary Reporting
- Full Accrual Accounting Including Depreciation
- Management Discussion and Analysis
- Capitalization of Infrastructure Assets
- Actuarial Valuation and Accrual Recognition of Postemployment Benefits Expenditures and Related Liabilities

Management has considered the costs and benefits of adopting GASB 34 and 45 and determined that auditing the financial statements utilizing another Comprehensive Basis of Accounting as opposed to GAAP makes fiscal sense for the City.

*A. Financial Reporting Entity*

The City was incorporated in 1897 and is governed by a charter, General Laws of the State of New York, and various local laws and ordinances. The Common Council is the legislative body responsible for the overall operation of the City. The City provides general government support, police and fire protection, garbage collection, water services, a public library, and recreation services.

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

- Primary Government  
A legally separate state, general purpose local or special purpose government with a separately elected governing body. It must be fiscally independent of other primary governments.
- Component Unit  
A legally separate organization for which the elected officials are financially accountable. Also the primary government is able to impose its will on the component unit or there is a potential for the component unit to provide a financial benefit or incur a financial burden on the primary government.

See independent auditor's report.

CITY OF RENSSELAER, NEW YORK  
NOTES TO REGULATORY BASIS FINANCIAL STATEMENTS  
JULY 31, 2011

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*A. Financial Reporting Entity - Continued*

In accordance with accounting principles prescribed by the New York State Office of the State Comptroller, only the primary government is presented in these financial statements.

Based on the foregoing criteria and the significant factors presented below, the following organizations, functions, or activities are not included in the reporting entity:

City of Rensselaer Industrial Development Agency

The City of Rensselaer Industrial Development Agency (Agency) is a public benefit corporation created by state legislation to promote the economic welfare and prosperity of the inhabitants of the City. Members of the Agency are appointed by the City's Common Council that exercises no oversight responsibilities. The Agency members have complete responsibility for management of the Agency and accountability for fiscal matters. The City is not liable for Agency Bonds or notes. The Agency obtains a separate audit apart from city operations.

Rensselaer City School District

The Rensselaer City School District (School District) was created by state legislation, which designates the School Board as the governing authority. The public elects the School Board members. The School Board designates management and exercises complete responsibility for all fiscal matters. The City Council exercises no oversight concerning school operations.

Rensselaer Housing Authority

The Rensselaer Housing Authority (Authority) was established by the New York State Legislature. The Governing Board of the Authority is made up of five members who are appointed by the Mayor. The City provides no subsidy to the Authority, nor is it responsible for the debt or operating deficits of the Authority.

Authority's debt is essentially supported by operating revenues of the Authority and is not guaranteed by the City. The City does not appoint management of the Authority nor does it approve the Authority's budget, contracts, or hiring of staff. The City has no oversight responsibility for the funds of the Authority.

*B. Basis of Presentation - Fund Accounting*

The accounts of the City are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. The individual funds account for the governmental resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions. Certain funds of the local government are utilized to account for resources derived from, and/or expenditures applicable

See independent auditor's report.

CITY OF RENSSELAER, NEW YORK  
NOTES TO REGULATORY BASIS FINANCIAL STATEMENTS  
JULY 31, 2011

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*B. Basis of Presentation - Fund Accounting - Continued*

to an area less than the entire City. The following fund types and account groups are used:

*Governmental Fund Types*

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

**General Fund** - The general fund is the primary operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Funds** - Special revenue funds are used to account for all general federal funds received in the form of community development grants and rental rehabilitation programs. As certain other receivables are collected, the related portion of deferred revenue is recognized as revenue.

**Capital Projects Fund** - The capital projects fund accounts for and reports financial resources to be used for the acquisition, construction or renovation of major capital facilities or equipment.

**Public Library Fund** - used to account for the operations of a public library established and supported by taxes pursuant to Education Law, Section 259.

**Proprietary Funds** - Used to account for resources in the same manner as a privately owned commercial business.

- Water Fund - established by law to account for revenues and expenditures for the purpose of providing water to the City.
- Solid Waste Fund - established by law to account for revenues and expenditures for the purpose of providing refuse and trash collection to the City.

*Fiduciary Fund Types*

Fiduciary Funds account for assets held by the City as an agent for individuals, private organizations, other governmental units and/or other funds.

**Trust and Agency Funds** - used to account for money received and held in the capacity of trustee, custodian, or agent.

**Expendable Trust Fund** - used to account for the earnings of the Non-Expendable Trust Fund.

**Non-Expendable Trust Fund** - an estate gift given to the City for the benefit of the Library.

See independent auditor's report.

CITY OF RENSSELAER, NEW YORK  
NOTES TO REGULATORY BASIS FINANCIAL STATEMENTS  
JULY 31, 2011

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*B. Basis of Presentation - Fund Accounting - Continued*

*Account Groups*

Account Groups are used to establish accounting control and accountability for general fixed assets and general long-term debt. The account group is not a "fund". It is concerned with measurement of financial position and not results of operations.

**General Long-Term Debt Account Group** - used to account for permanently financed long-term debt and other long-term liabilities to be provided for in future budgets which are not required to be accounted for in other funds such as retirement and compensated absences.

**General Fixed Assets Account Group** - used to account for land, buildings, and equipment utilized for general government purposes.

*C. Basis of Accounting*

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

All governmental funds and expendable trust funds are accounted for on the modified accrual basis using current financial resources measurement 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 financial uses) in net current assets.

The modified accrual basis of accounting is used by all governmental fund types, expendable trust funds, and agency funds. Under the modified accrual basis of accounting, 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 determined and "available" means 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. A 120-day availability period is used for revenue recognition for all other governmental fund type revenues. Expenditures are recorded when the related liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due. Those revenues susceptible to accrual are property taxes, state and federal aid, sales tax, interest revenue, and charges for services. Fines, permits, and parking meter revenues are not susceptible to accrual because, generally, they are not measurable until received.

The City reports deferred revenue on its combined balance sheet. Deferred Revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition

See independent auditor's report.

CITY OF RENSSELAER, NEW YORK  
NOTES TO REGULATORY BASIS FINANCIAL STATEMENTS  
JULY 31, 2011

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*C. Basis of Accounting - Continued*

criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Expenditures are recorded when the fund liability is incurred except that:

- Expenditures for prepaid expenses and inventory type items are recognized when paid.
- Principal and interest on indebtedness are not recognized as expenditures until paid.
- Compensated absences are recognized as expenditures when paid.

In applying the susceptible-to-accrual concept to State and Federal Aid, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These revenues are generally reflected as revenues at the time of receipt.

The primary non-property tax item is sales tax which is recorded as revenue in the general fund when it is received by the State and available for distribution to the City. Other revenues are recorded when received in cash because they are generally not measurable until actually received.

*D. Budgetary Data*

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

- a. No later than June 1, the budget officer submits a tentative budget to the Common Council for the fiscal year commencing the following August 1. The tentative budget includes proposed expenditures and the proposed means of financing for all funds.
- b. After public hearings are conducted to obtain taxpayer comments, no later than June 30, the Common Council adopts the budget.
- c. All modifications of the budget must be approved by the Common Council.

*E. Encumbrances*

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order 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

See independent auditor's report.

CITY OF RENSSELAER, NEW YORK  
NOTES TO REGULATORY BASIS FINANCIAL STATEMENTS  
JULY 31, 2011

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*E. Encumbrances - Continued*

since the commitments do not constitute expenditures or liabilities. Open encumbrances, after review by the Common Council, are added to the subsequent year's budget to provide the modified budget presented in the combined general purpose financial statements. Expenditures for such commitments are recorded in the period in which the liability is incurred.

*F. Cash and Cash Equivalents*

The City's investment policies are governed by State statutes. City monies are deposited in banks or trust companies located and authorized to do business in New York State. The City is authorized to use demand accounts and invest in special time deposits and certificates of deposits. Permissible investments also include obligations of the U.S. Treasury and U.S. agencies where principal and interest are guaranteed by the United States of America and obligations of New York State or, with permission of the State Comptroller, in revenue and tax anticipation notes of New York State municipalities, school districts, public authorities, and district corporations.

Collateral is required for special time deposits and certificates of deposit not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, where principal and interest are guaranteed, and obligations of New York State and its municipalities, school districts, public authorities, and housing authorities.

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.

*G. Accounts Receivable*

Accounts receivable in the Proprietary Funds represent water rents receivable and refuse and garbage receivables that are relieved on the City tax roll on August 1. Therefore, management does not believe it is necessary to establish an allowance for doubtful accounts.

The City has established an allowance for doubtful accounts based on collection history and a review of accounts by management for the rehabilitation loan receivable. The allowance for doubtful accounts was \$75,000 at July 31, 2011.

*H. Short-term Interfund Receivables/Payables*

During the course of operations, numerous transactions occur between individual funds for the goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the combined balance sheet.

*I. General Fixed Assets*

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected in

See independent auditor's report.

CITY OF RENSSELAER, NEW YORK  
NOTES TO REGULATORY BASIS FINANCIAL STATEMENTS  
JULY 31, 2011

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*I. General Fixed Assets - Continued*

governmental funds, and the related assets are reported in the general Fixed Assets Account Group.

Accounting principles generally accepted in the United States of America 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 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.

Public domain (infrastructure) general fixed assets consisting of roads, bridges, curbs and gutter, streets and sidewalks, drainage systems, and lighting systems are not capitalized, as these assets are immovable and have value only to the city.

Assets in the General Fixed Assets Account Group are not depreciated nor has interest on general fixed asset construction in progress been capitalized.

*J. Compensated Absences*

City employees are granted vacation and sick leave and earn compensatory absences in varying amounts. In the event of termination or upon retirement, an employee is entitled to payment for accumulated vacation and sick leave and unused compensatory absences at various rates subject to certain maximum limitations. The liability for accumulated vacation and related benefits has been recorded in the respective governmental fund type in accordance with GASB 16. Payment of vacation and sick leave recorded in the general Long-Term Debt Account Group is dependent upon many factors; therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payments of vacation and sick leave and compensatory absences when such payment becomes due.

*K. Post Employment Benefits*

In addition to providing pension benefits, the City provides health insurance coverage and survivor 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 an insurance company. Premiums are based on the benefits paid during the year. The City recognizes the cost of providing benefits by recording its share of insurance payments as expenditures in the year paid. During the year, \$517,490 was paid on behalf of 47 retired employees.

*L. Total Columns*

Total columns on the regulatory basis financial statements are captioned *Memorandum Only* to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with accounting principles prescribed by the New York

See independent auditor's report.

CITY OF RENSSELAER, NEW YORK  
 NOTES TO REGULATORY BASIS FINANCIAL STATEMENTS  
 JULY 31, 2011

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*L. Total Columns - Continued*

State Office of State Comptroller, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**NOTE 2 - CASH AND CASH EQUIVALENTS**

New York State statutes require the City to collateralize its cash and cash equivalents in excess of the Federal Deposit Insurance Corporation limit of \$500,000 (\$250,000 on checking and \$250,000 on time deposits and other cash accounts). This collateral is to be in the form of state and local government securities held in trust for and pledged to secure the City's cash and cash equivalents. The City's cash and cash equivalents were adequately insured or collateralized as of July 31 2011.

**NOTE 3 - PROPERTY TAXES**

The City Council adopts the budget for the ensuing fiscal year not later than June 30<sup>th</sup> of each year. Real property taxes for the City's purposes are levied and become a lien on August 1<sup>st</sup>. All taxes levied on property within the City are collected by the City Treasurer for 30 days, after August 1<sup>st</sup>, without penalty or interest. After such 30-day period, interest and penalty are added as appropriate and collection continues until July 15<sup>th</sup>. The City enforces its own taxes via a tax sale performed in mid-July.

The City has established an allowance for doubtful accounts based on collection history and a review of accounts by management. Allowance for doubtful accounts was \$580,000 at July 31, 2011.

In addition to the City tax levy, the City is responsible for collecting the School District's taxes levied on property within the City. The City remits school tax collections to the School District throughout the year and has until the end of the following fiscal year to reimburse the School District for taxes uncollected at July 31 of the current fiscal year.

**NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES**

A summary of Interfund receivables and payables at July 31, 2011, is as follows:

<u>Fund</u>	<u>Interfund</u>		<u>Interfund</u>	
	<u>Receivable</u>	<u>Payable</u>	<u>Revenues</u>	<u>Expenditures</u>
General Fund	\$1,355,309	\$566,674	\$0	\$149,049
Community Development Fund	0	0	0	0
Solid Waste Fund	47,563	298,619	0	0
Water Fund	464,263	912,238	0	0
Capital Projects Fund	1,166,620	1,249,919	67,049	0
Library Fund	0	0	82,000	0
Trust & Agency Fund	0	6,305	0	0
	<u>0</u>	<u>6,305</u>	<u>0</u>	<u>0</u>
Totals	<u>\$3,033,755</u>	<u>\$3,033,755</u>	<u>\$149,049</u>	<u>\$149,049</u>

See independent auditor's report.

CITY OF RENSSELAER, NEW YORK  
 NOTES TO REGULATORY BASIS FINANCIAL STATEMENTS  
 JULY 31, 2011

**NOTE 5 - REHABILITATION LOANS RECEIVABLE**

The City has loaned monies to various companies and individuals under United States Department of Housing and Urban Development programs. The total commercial and residential loans receivable is \$1,351,572 at July 31, 2011.

The City has established an allowance for doubtful accounts based on a review of loan payment histories and judgments that have been filed. The allowance for doubtful accounts was \$75,000 at July 31, 2011.

**NOTE 6 - FIXED ASSETS**

A summary of changes in the general Fixed Assets Account Group is as follows:

	Balance August 1, 2010	Additions	Disposals	Balance July 31, 2011
Land	\$ 638,704	\$ -0-	\$ -0-	\$ 638,704
Buildings	3,864,100	3,611,829	-0-	7,475,929
Infrastructure	10,678,766	1,274,633	-0-	11,953,399
Equipment	7,935,187	-0-	-0-	7,935,187
<b>Total</b>	<b>\$23,116,757</b>	<b>\$4,886,462</b>	<b>-0-</b>	<b>\$ 28,003,219</b>

**NOTE 7 - NOTES PAYABLE**

The City may issue Revenue Anticipation Notes (RANs) in anticipation of the receipt of revenues. These notes are recorded as a liability of the fund that will actually receive the proceeds from the issuance of the notes. The RANs represent a liability that will be extinguished by the use of expendable, available resources of the fund.

Liabilities for Bond Anticipation Notes (BANs) relating to capital assets are generally accounted for in the Capital Projects Fund. BANs must be renewed annually.

State law requires that BANs issued for capital purposes be converted into long-term obligations within five years after the original issue date. However, BANs issued for assessable improvement projects may be renewed for a period equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made.

Currently, amortization of BANs is funded through operating transfers from the General Fund, Solid Waste Fund and Water Fund. This is the procedure presently in place for funding the undesignated deficit fund balance in the Capital Projects Fund.

The following is an analysis of BANs and RANs outstanding at July 31, 2011:

See independent auditor's report.

CITY OF RENSSELAER, NEW YORK  
 NOTES TO REGULATORY BASIS FINANCIAL STATEMENTS  
 JULY 31, 2011

**NOTE 7 - NOTES PAYABLE - Continued**

<u>BANs and RANs</u>	<u>Amount</u>	<u>Rate</u>	<u>Maturity</u>
Court House	\$ 300,000	3.50	11/19/11
Streets & Sidewalks	55,000	2.50	2/03/12
City Hall Roof	231,255	2.50	01/25/12
Falcon Chase Drainage	25,000	2.60	03/30/12
North End Firehouse Equipment	33,000	2.60	03/30/12
Heating Units - City Hall Roof	18,150	2.60	03/30/12
City Construction	45,544	2.60	03/30/12
Salt Shed	210,000	1.91	11/17/11
Clean Water Project	300,000	2.44	07/20/12
RAN	<u>400,000</u>	2.46	08/01/11
BANs and RANs outstanding at July 31, 2011	<u>\$ 1,617,949</u>		

**NOTE 8 - LONG-TERM DEBT**

*General Long-Term Debt Account Group*

A summary of the transactions in the General Long-Term Debt Account Group is as follows:

	Balance August 1, <u>2010</u>	<u>Additions</u>	<u>Reductions</u>	Balance July 31, <u>2011</u>
Serial Bonds	\$3,613,500	\$3,435,000	\$ 305,000	\$6,743,200
Compensated absences	<u>1,010,090</u>	<u>35,335</u>	<u>-</u>	<u>1,045,425</u>
	<u>\$4,623,590</u>	<u>\$3,470,335</u>	<u>\$ 305,000</u>	<u>\$7,788,625</u>

The following is a summary and description of the serial bonds outstanding at July 31, 2011:

<u>Issue Date</u>	<u>Original Issue</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Outstanding at July 31, 2011</u>
7/22/09	\$ 270,000	7/20/14	4.54%	\$ 162,000
4/01/10	389,000	4/01/15	4.52%	311,200
6/22/10	3,008,500	4/01/25	3.50%	2,835,000
04/05/11	3,435,000	4/01/40	4.75%	<u>3,435,000</u>
				<u>\$6,743,200</u>

Following is a summary of maturity of debt service requirements for general obligation bonds:

<u>Years</u>	<u>Principal</u>	<u>Interest</u>
7/30/12	\$ 356,800	\$ 283,809
7/30/13	361,800	269,216
7/30/14	366,800	254,448
7/30/15	317,800	239,442
7/30/16	250,000	226,713
Thereafter	<u>5,090,000</u>	<u>2,573,945</u>
	<u>\$6,743,200</u>	<u>\$3,847,573</u>

See independent auditor's report.

CITY OF RENSSELAER, NEW YORK  
NOTES TO REGULATORY BASIS FINANCIAL STATEMENTS  
JULY 31, 2011

**NOTE 9 - PENSION PLANS**

*Pension Plan*

a. Plan Description

The City participates in the New York State and Local Employee's Retirement System (ERS), the New York State 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 requires supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, New York 12244.

b. Funding Policy

The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976, who contribute 3% of their salary for the first ten years of membership. Under the authority of the NYSRSSL, the 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>
2011	258,205	413,689
2010	192,691	407,619
2009	197,352	379,506

Contributions made to the Systems were equal to 100 percent of the contributions required for each year.

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

**NOTE 10 - STEWARDSHIP, COMPLIANCE, ACCOUNTABILITY**

At July 31, 2011 the Capital Projects Fund had a deficit fund balance of \$516,052. The deficit is attributable to projects, which have been financed utilizing short-term bond anticipation notes. The proceeds of short-term debt are not recognized as revenue, but as fund liability, in accordance with the New

See independent auditor's report.

CITY OF RENSSELAER, NEW YORK  
NOTES TO REGULATORY BASIS FINANCIAL STATEMENTS  
JULY 31, 2011

**NOTE 10 - STEWARDSHIP, COMPLIANCE, ACCOUNTABILITY - Continued**

York State Uniform System of Accounts, and merely serve to provide cash to meet expenditures. The expenditure of these proceeds has resulted in a deficit fund balance until such time that expenditure reimbursement for certain projects are obtained or permanent financing in the form of bonds is secured. In the past, it has been the City's policy to repay short-term borrowings from the City's operating budget.

At July 31, 2011 the Solid Waste Fund had a deficit fund balance of \$124,168.

**NOTE 11 - COMMITMENTS AND CONTIGENCIES**

*Judgments and Claims*

There are numerous tax certiorari cases pending against the City. The ultimate outcome of these cases is not presently determinable.

There are numerous notices of claim and asserted claims pending against the City. The ultimate outcome of these claims is not presently determinable. The City is of the opinion that any liability or loss in excess of insurance coverage resulting from such notices and asserted claims will not have a material adverse effect on the City's general-purpose financial statements.

*Grant Programs*

The City has received federal grants, which are subject to audit by agencies of the state and federal governments. Such audits may result in disallowances and a request for return of funds to the federal and state governments. Based on prior audits, the City's administration believes disallowances, if any, will be immaterial.

*Environmental Concerns*

The City is engaged in many activities (e.g. water and sewer service, refuse collection), in the normal course of operations, that are potentially hazardous to the environment. As of July 31, 2011 the City is not aware of any significant environmental problems that should be disclosed in the financial statements.

See independent auditor's report.