

November 19, 2004

Honorable Mayor Gerald Jennings  
City of Albany  
City Hall  
Albany, New York 12207

Dear Mayor Jennings:

Enclosed are 30 copies of the financial statements of City of Albany, New York for the year ended December 31, 2003, together with our report thereon.

If you have questions or require additional information, please call.

Very truly yours,

**UHY LLP**

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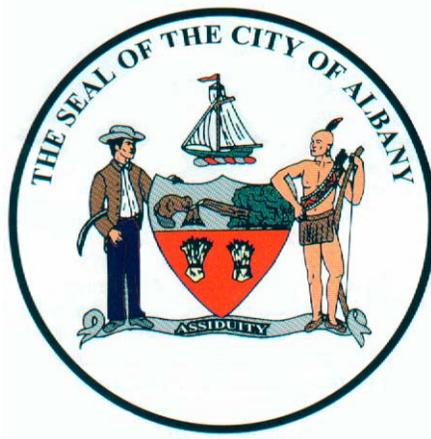
Marilyn A. Pendergast, CPA  
Partner

MAP:ljh  
Enclosures

**CITY OF ALBANY,  
NEW YORK**

**FINANCIAL STATEMENTS**

December 31, 2003



# City of Albany, New York

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# Independent Auditor's Report

Members of the City Council  
City of Albany, New York

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Albany, New York (the "City"), as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the Downtown Albany Restoration Program, Inc., Albany Parking Authority, Lark Street Area District Management Association, Inc., Albany Industrial Development Agency, and Central District Management Association, Inc. which represent approximately 20 percent and 22 percent, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Albany, New York as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and required supplementary information, as listed in the Table of Contents, are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Albany, New York  
August 26, 2004

# Management Discussion & Analysis

## OVERVIEW

The Management Discussion and Analysis (MD&A) of the City of Albany, New York is an introduction to the major activities affecting the operation of the City of Albany and an overview and analysis of the financial statements of the City of Albany for the calendar year that ended December 31, 2003. It also provides comparative analysis of the City's overall financial position and results of operations as compared to those reported in the City's financial statements for the calendar year ending December 31, 2002.

The information contained in this MD&A should be considered in conjunction with the information contained in the government-wide financial statements, the governmental funds financial statements, and footnotes to the governmental funds financial statements.

The City's government-wide financial statements are included here in conformance with Government Accounting Standards Board Statements (GASB) No. 34 "*State and Local Government Financial Statements and MD&A*"; GASB No. 37 "*Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*"; and GASB No. 38 "*Certain Financial Statement Disclosures*".

## FINANCIAL STATEMENTS

In accordance with required reporting standards, the City's financial statements include 1) *government-wide* financial statements and 2) *governmental funds* financial statements.

### Government-Wide Financial Statements

The intent of the government-wide financial statements is to present an overview of the City's overall financial position. The government-wide financial statements include two parts: the *statement of net assets* and *statement of activities*. They are prepared using generally accepted accounting principles and an economic basis of accounting similar to that used by commercial enterprises. The *statement of net assets* and the *statement of activities* delineate between the primary government (the City of Albany, plus the Albany Community Development Agency) and the component units<sup>1</sup>.

The purpose of the *statement of net assets* is to attempt to report all assets held and liabilities owed by the City on December 31, 2003. The City reports all assets when it takes ownership and reports liabilities at the time they are incurred. The City reports roads, buildings, and equipment as assets, even though they are not available to pay current obligations. The City reports capital assets based on historical costs, which may not reflect fair market value. Similarly, the City records the cost of accumulated vacation time as a liability, even though it will be paid over many years.

The difference between assets and liabilities is *net assets*, which is analogous to the *total owners' equity* reported by commercial enterprises. In contrast to commercial enterprises, the City has no goal of accumulating net assets. Increases in net assets over time *may* suggest that the financial position of the City is improving. However, increases in net assets may also create recurring expenses for staffing, maintenance, repair, and litigation, which may not be immediately recognizable. Moreover, assets may or may not prove useful in achieving the purposes for which they were acquired.

The *statement of activities* attempts to show the net cost of the various activities provided by the City and its component units. The first column shows the costs of each of the City's major functions. Subsequent columns show revenues related to fees charged for services, grants and other sources of revenue. The final column shows the net difference between expenses and revenues--attempting to reflect the extent to which each activity is a draw on revenues or is self-financing.

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<sup>1</sup> The component units consist of the Albany Water Board and Municipal Water Finance Authority, the Albany Parking Authority, the Albany Industrial Development Agency, the Albany Port Commission, Albany Local Development Corporation and the three Business Improvement Districts. Independent accounting firms separately audit these entities. Significant financial information from these entities has been disclosed in the footnotes to the City's financial statements. The fiduciary funds consist of the police and firefighter pension funds, the City Trust and the payroll accounts. Copies of the complete financial reports for the component units can be obtained by contacting the Comptroller's office of the City of Albany.

The City's government-wide financial statements distinguish between primary government and component units. Component units are legally separate from the City, but because the City has some financial accountability for them, they are reported in the City's financial statements. The government-wide financial statements are presented on pages 12-13.

### **Governmental Funds Financial Statements**

Governmental funds financial statements consist of a *balance sheet* and *statement of revenues, expenditures, and change in fund balances*. The City's financial statements have traditionally been presented in this format. These statements measure and account for cash and other assets that can easily be converted to cash. The *balance sheet* includes items such as cash, but not capital assets such as land and buildings. Fund liabilities include amounts that are to be paid within a short period after the end of the fiscal year. For example, amounts reported on the balance sheet include items such as accounts payable, and interest and principal on long term debt payable during that period, but not total long-term debt obligations. The difference between a fund's total assets and total liabilities is labeled as the fund balance, and indicates the amount that is available to finance subsequent years' activities. Likewise the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash during the current period or shortly after the end of the year. The governmental funds financial statements are included on pages 14-15.

### **Reconciliation of the Government-wide Financial Statements with the Governmental Funds Financial Statements.**

Many financial transactions are treated differently on the governmental fund statement and the government-wide statements. The basic financial statements contain a reconciliation of these items and a full explanation of these differences is contained in Note 2 of the Notes to Financial Statements.

### **Reconciliation of Balance Sheet with Statement of Net Assets**

Balances and activities accounted for in the *balance sheet* (governmental funds financial statements) and those accounted for in the *statement of net assets* (government-wide financial statements) are substantially different because the measurement focus differs between the two statements. For example, long-term liabilities, including bonds payable, vacation and sick time, and judgments and claims are included in the *statement of net assets*, but not included in the *balance sheet* because they are paid over many years and not with currently available funds.

Net capital assets (fixed assets and infrastructure, minus depreciation) are reflected in *the statement of net assets*, but are not reported on the *balance sheet*. Other long-term assets, such as receivables resulting from property transactions, are not reported as assets on the *balance sheet* but are reflected in the *statement of net assets*.

A more complete reconciliation between financial statements is presented on pages 16 and 17 and in Note 2.

### **Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances with Statement of Activities**

The *revenues, expenditures and fund balance* reported in *the statement of revenues, expenditures and changes in fund balances* (governmental funds financial statements) differ from those reported on the *statement of activities* (government-wide financial statements) in several respects:

- Capital outlays are shown as expenditures on *the statement of revenues, expenditures and changes in fund balances*, however, only the depreciation expense of capital assets is reported on the *statement of activities*.
- Vacation expenses, employee retirement benefits, and judgments and claims are expensed as they are paid on the *statement of revenues, expenditures and changes in fund balances*. However, the *statement of activities* shows those expenses as they are incurred during the reporting period.

- Long-term debt principal paid is reported as an expenditure on *the revenues, expenditures and changes in fund balances*, but is not reported as an expenditure on the *statement of activities*. Rather, principal paid is reported as a reduction of the bonds and loans payable liability in the *statement of net assets*. Long-term debt interest is reported as an expenditure when the interest is paid on the *revenues, expenditures and changes in fund balances*. Interest expense reported in the statement of activities is the interest expense incurred during the year, irrespective of when the interest is paid.

## OVERVIEW OF THE CITY'S FINANCIAL POSITION

### Government-wide Financial Statements

#### *Statement of Net Assets*

Primary government net assets exceeded total liabilities by approximately \$45.5 million, an increase of \$4.7 million from 2002. (Liabilities decreased by approximately \$5.4 million while assets decreased by almost \$8 million.) Of these assets, \$49.6 million is invested in capital assets, net of related debt, and \$2.9 million is restricted for debt service, leaving a deficit balance of (\$7.1) million in unrestricted net assets. This reflects a decrease from 2002 of \$10.9 million.

Increased costs of the State pension system (\$3.4 million), increased health care costs (\$1.7 million), contractual salary increases (\$3.3 million), and overtime expenses (\$1.2 million) reduced unrestricted net assets. Additionally, police compensatory time was recorded in 2003 for the first time, increasing liabilities by \$1 million. Workers compensation claims increased liabilities by \$1.4 million. Revenues from grants decreased from 2002. Gains to assets included an increase in PILOT payments from the State of New York (\$5.9 million) and an increase in property tax revenue (\$2.9 million). New capital assets increased by approximately \$8.6 million largely the result of state and federally funded transportation projects.

For the Component Units, net assets total approximately \$13 million and decreased from 2002 by \$3.7 million. After investment in capital assets and restricted for debt service and program specific activities, unrestricted net assets total approximately \$33.7 million, which is an increase from 2002 of \$17.8 million.

Total net capital assets, which includes all property and equipment net of accumulated depreciation are valued at \$150.1 million, an increase from 2002 of \$8.4 million. Of the approximately \$35 million of assets not subject to depreciation, approximately \$34 million is construction in progress, comprised principally of state and federally funded transportation projects. A more complete description of capital assets is found in Footnote 7.

	Primary Government 2003	Primary Government 2002	Change
Total Assets	\$ 225,927,674	\$ 226,683,191	\$ (755,517)
Total Liabilities	\$ 180,468,905	\$ 185,899,045	\$ (5,430,140)
<b>Net Assets</b>	\$ 45,458,769	\$ 40,784,146	\$ 4,674,623
<b>Invested in capital assets, net of related debt</b>	\$ 49,650,190	\$ 32,532,776	\$ 17,117,414
<b>Restricted for debt service &amp; program activities</b>	\$ 2,863,376	\$ 4,449,126	\$ (1,585,750)
<b>Unrestricted Net Assets</b>	\$ (7,054,797)	\$ 3,802,244	\$ (10,857,041)

	Component Units		
	2003	2002	Change
Total Assets	\$ 148,594,149	\$ 139,156,794	\$ 9,437,355
Total Liabilities	\$ 135,590,168	\$ 122,449,761	\$ 13,140,407
<b>Net Assets</b>	<b>\$ 13,003,981</b>	<b>\$ 16,707,033</b>	<b>\$ (3,703,052)</b>
<b>Invested in capital assets, net of related debt</b>	<b>\$ (26,232,538)</b>	<b>\$ (350,735)</b>	<b>\$ (25,881,803)</b>
<b>Restricted for debt service &amp; program activities</b>	<b>\$ 5,535,084</b>	<b>\$ 1,189,968</b>	<b>\$ 4,345,116</b>
<b>Unrestricted Net Assets</b>	<b>\$ 33,701,435</b>	<b>\$ 15,867,800</b>	<b>\$ 17,833,635</b>

### Statement of Activities

The *Statement of Activities* (page 13) describes the cost of the major governmental functions and compares the costs of these functions with revenues attributable to these activities. This statement further delineates the major sources of revenues, which in the case of the City consists of property taxes, sales tax, landfill revenue, grants (including State Aid), and Payments in Lieu of Taxes (PILOTs).

### Expenses

Public safety expenses increased from 2002 by \$7.5 million (12.9%) which reflects contracted salary increases, overtime spending in excess of budget, and increases in costs of retirement and health care. Public Safety expenses of \$66.0 million are offset by \$8.7 million in charges for services, an increase from 2002 of \$3.4 million. The increase is a result of increased parking fines, federal law enforcement grants, and some reclassification of fees from General Government to Public Safety.

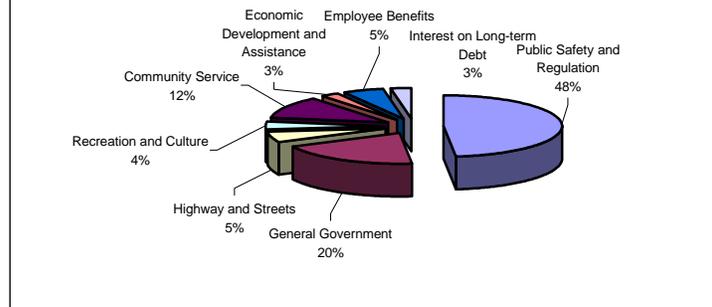
General Government expenses of \$26.7 million increased from 2002 by \$.9 million or 3.6 percent. The increase reflects salary increases as well as increases in costs of health care and retirement. Expenses are offset by \$3.3 million in charges for services, which is a reduction from 2002 by \$2.4 million. Most of the reduction is due to reclassification of charges for services to Public Safety.

Highways and Streets expenses increased by \$1.8 million or 31.8 percent. The increase is a result of higher than normal snow removal costs, increased costs of street lighting, contractual salary wage increases, and increased costs of health care and retirement.

Community Service expenses of \$15.9 million are offset by \$15.9 million in charges, mostly from fees from operation of the regional landfill.

Governmental Functions	Expenses			
	Expenses 2003	2002	Change	% Change
Public Safety and Regulation	\$ 66,049,821	\$ 58,511,906	\$ 7,537,915	12.9%
General Government	\$ 26,715,322	\$ 25,779,271	\$ 936,051	3.6%
Highway and Streets	\$ 7,512,997	\$ 5,699,235	\$ 1,813,762	31.8%
Recreation and Culture	\$ 5,781,677	\$ 6,929,773	\$ (1,148,096)	-16.6%
Community Service	\$ 15,911,867	\$ 16,977,370	\$ (1,065,503)	-6.3%
Economic Development and Assistance	\$ 3,423,088	\$ 4,833,997	\$ (1,410,909)	-29.2%
Employee Benefits	\$ 7,487,600	\$ 6,742,691	\$ 744,909	11.0%
Interest on Long-term Debt	\$ 3,853,620	\$ 4,868,057	\$ (1,014,437)	-20.8%
<b>Total</b>	<b>\$ 136,735,992</b>	<b>\$ 130,342,300</b>	<b>\$ 6,393,692</b>	<b>4.9%</b>

## Expenses - Primary Government

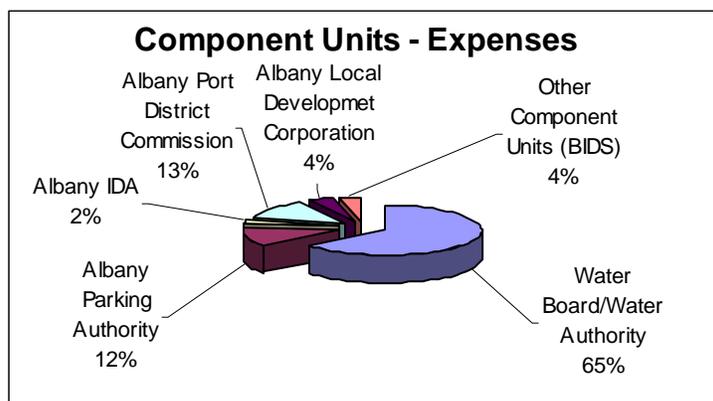


Government Functions	Charges for Services & Grants 03	Charges for Services & Grants 02	Change
Public Safety and Regulation	\$ 8,735,277	\$ 5,355,940	\$ 3,379,337
General Government	\$ 3,313,962	\$ 5,674,624	\$ (2,360,662)
Highway and Streets	\$ 9,555,730	\$ 11,932,127	\$ (2,376,397)
Recreation and Culture	\$ 1,628,160	\$ 2,083,427	\$ (455,267)
Community Service	\$ 15,851,467	\$ 15,626,793	\$ 224,674
Economic Development and Assistance	\$ 3,009,006	\$ 3,776,223	\$ (767,217)
<b>Total</b>	<b>\$ 42,093,602</b>	<b>\$ 44,449,134</b>	<b>\$ (2,355,532)</b>

The overall expenses of the Component Units total \$37.2 million, an increase from 2002 of \$1.2 million. The Water Board/Water Authority spending increased by \$2.2 million as a result increased salaries (including overtime), increased cost of benefits, and increased taxes paid to other municipalities. IDA spending declined by \$1.8 million from 2002. The following is a summary of the relative expenses of the component units, which excludes the Albany Community Development Agency, because it is a blended component unit and is therefore included with the Primary Government in the *statement of activities*.

Component Units	2003	2002	Change
Water Board/Water Authority	\$ 24,082,583	\$ 21,921,661	\$ 2,160,922
Albany Parking Authority	\$ 4,651,944	\$ 4,701,324	\$ (49,380)
Albany IDA	\$ 799,717	\$ 2,615,370	\$ (1,815,653)
Albany Port District Commission	\$ 4,694,315	\$ 3,350,016	\$ 1,344,299
Albany Local Development Corporation	\$ 1,579,368	\$ 1,938,351	\$ (358,983)
Other Component Units (BIDS)	\$ 1,423,350	\$ 1,498,954	\$ (75,604)
<b>Total</b>	<b>\$ 37,231,277</b>	<b>\$ 36,025,676</b>	<b>\$ 1,205,601</b>

The following chart indicates the relative value of expenses (including depreciation) for the component units:



### Revenues

Property tax (\$39.1 million) increased from 2002 by \$2.9 million or 8.1 percent. A citywide reassessment that was effective for the 2003 tax roll resulted in an increase in the taxable value. The increase is a result of relatively constant rate of taxation combined with increased property values.

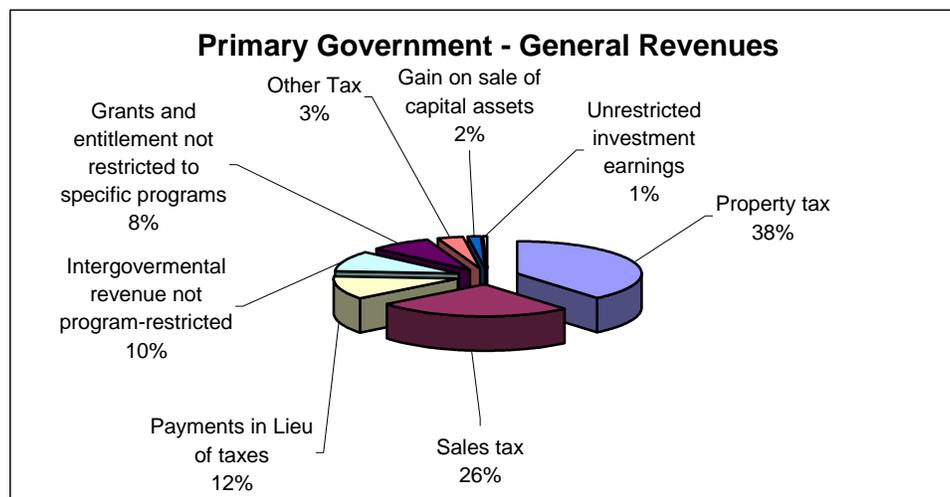
Payments in Lieu of Taxes (PILOTS) increased from \$5.8 million to \$11.7 million because of state legislation that increased payment from the State of New York for the Empire State Plaza state office complex from \$4.5 million to \$9.9 million.

Grants and entitlements not restricted to specific programs declined from \$9.4 million to \$8.1 (-14.1%) million.

Gain on sale of capital assets declined by \$6.0 million or 78% because in 2002 the City sold Six Mile Water Works to the Albany Water Board. This sale resulted in a gain of approximately \$7.7 million in 2002. Sales of capital assets, principally property transactions with component units (as described in footnote 10 of the Basic Financial Statements) resulted in net gains of approximately \$1.7 million.

<b>General Revenues</b>	<b>2003</b>	<b>2002</b>	<b>Change</b>	<b>%</b>
Property tax	\$ 39,117,190	\$ 36,192,102	\$ 2,925,088	8.1%
Sales tax	\$ 26,068,741	\$ 26,195,799	\$ (127,058)	-0.5%
Other tax	\$ 3,368,788	\$ 3,155,769	\$ 213,019	6.8%
Payments in lieu of taxes	\$ 11,696,914	\$ 5,763,970	\$ 5,932,944	102.9%
Grants and entitlement not restricted to specific programs	\$ 8,059,081	\$ 9,386,275	\$ (1,327,194)	-14.1%
Intergovernmental revenue not program-restricted	\$ 10,303,230	\$ 10,159,081	\$ 144,149	1.4%
Gain on sale of capital assets	\$ 1,720,318	\$ 7,740,547	\$ (6,020,229)	-77.8%
Unrestricted investment earnings	\$ 250,251	\$ 1,022,327	\$ (772,076)	-75.5%
Other income		\$ 505,832	\$ (505,832)	-100.0%
<b>Total General Revenues</b>	<b>\$ 100,584,513</b>	<b>\$ 100,121,702</b>	<b>\$ 462,811</b>	<b>0.5%</b>

The following chart indicates the relative value of Primary Government's general revenues:



### Combined Statement of Revenues Expenditures Budget to Actual

General Fund revenues including other financing sources totaled \$122,361,456 million and General fund expenses \$122,702,056 resulting in a general fund loss of \$340,600, but a gain to unrestricted fund balance of \$1,022,377. The result is an unrestricted fund balance of \$3.5 million and total fund balance of \$6.8 million or 2.7% and 5% of actual expenditures respectively.

	Original Budget	Modified Budget	Actual	Actual Over (Under) Modified Budget
<b>REVENUES</b>				
Real property taxes	\$ 39,040,000	\$ 39,040,000	\$ 39,117,193	\$ 77,193
Sales and use taxes	27,005,000	27,005,000	26,068,741	(936,259)
Other taxes	3,015,750	3,350,350	3,368,788	18,438
Payments in lieu of taxes	6,740,000	11,542,400	11,696,914	154,514
Intergovernmental revenue	13,997,600	15,745,954	15,885,911	139,957
Charges for services	12,760,900	13,117,900	13,064,917	(52,983)
Fines, interest and penalties	3,132,000	3,199,138	3,786,331	587,193
Use of money and properties	722,000	902,000	384,298	(517,702)
Licenses and permits	1,005,845	1,350,145	1,335,653	(14,492)
Other revenues	4,104,226	4,142,880	4,265,151	122,271
<b>Total revenues</b>	<b>111,523,321</b>	<b>119,395,767</b>	<b>118,973,897</b>	<b>(421,870)</b>
<b>EXPENDITURES</b>				
Public safety and regulation	57,406,579	63,161,697	62,393,471	(768,226)
General government	18,469,829	18,866,385	18,261,769	(604,616)
Highways and streets	6,339,973	7,106,276	7,106,268	(8)
Recreation and culture	5,025,833	5,701,432	5,701,337	(95)
Community service	6,405,107	6,614,863	6,614,829	(34)
Employee benefits	10,063,000	10,526,459	10,416,886	(109,573)
Debt service	12,068,000	11,657,502	12,207,496	549,994
<b>Total expenditures</b>	<b>115,778,321</b>	<b>123,634,614</b>	<b>122,702,056</b>	<b>(932,558)</b>
Excess (deficiency) of revenues and appropriated fund balance over expenditures	(4,255,000)	(4,238,847)	(3,728,159)	510,688
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from general obligation bonds and long-term notes payable	-	-	124,957	124,957
Transfers, net	-	(16,151)	(1,339,100)	(1,322,949)
Proceeds from sale of property	4,255,000	4,255,000	4,601,702	346,702
<b>Total other financing sources (uses)</b>	<b>4,255,000</b>	<b>4,238,849</b>	<b>3,387,559</b>	<b>(851,290)</b>
Excess (deficiency) of revenues, appropriated fund balance and other financing sources over expenditures and other financing uses	\$ -	\$ 2	\$ (340,600)	\$ (340,602)

Spending in excess of budget on public safety overtime, increased expenses for employee benefits (health and pension) and lower than anticipated sales tax revenue were largely offset by increased revenue from the State of New York (19-a PILOT payments) and proceeds from the sale of property.

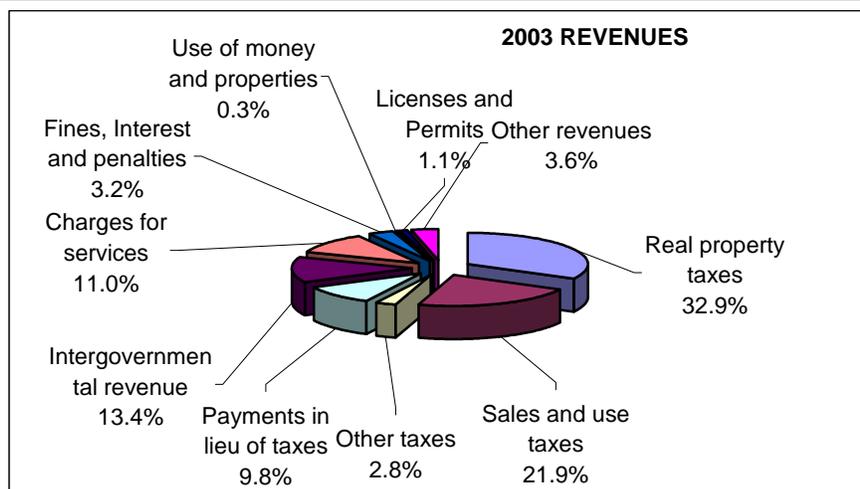
The City's budget, which is effective on January 1, is proposed by the Mayor prior to October 1<sup>st</sup> and is enacted by the Common Council by November 30th. This is the *Original Budget*. Changes to the budget throughout the year are made by the Board of Estimate and Apportionment, composed of the Mayor, the Comptroller, the President of the Common Council, and two designees of the Mayor. This is the *Modified Budget*. *Actual* reflects the operational results, including any audit adjustment.

## Revenues

General Fund revenues were approximately \$7.5 million more than was originally budgeted. The most significant variances in revenues when compared to the original budget include the following:

- Real property taxes were slightly over budget and \$2.9 million more than in 2002.
- Other Payments including Payments in Lieu of Taxes (PILOTs) were almost \$5 million over budget and more than \$5.9 million more than 2002. The increase is caused by a statutory change in payments by the State of New York for the Empire State Plaza complex. <sup>2</sup>
- Sales Tax revenue was \$936K under budget and \$127K less than 2002. This deficiency was caused by a slump in countywide retail sales.
- Intergovernmental Revenue was \$1.9 million more than budgeted and \$882K more than in 2002. The increase is a result of greater than anticipated revenues from mortgage recording tax, court security reimbursement, and grants for youth programs.
- Fines, Interest and penalties totaled \$654K more than budgeted and \$698K more than 2002. The increase is largely caused by increases in penalties for parking violations.

REVENUE	2003	2002	Change
Real property taxes	39,117,190	36,192,102	2,925,088
Sales and use taxes	26,068,741	26,195,799	(127,058)
Other taxes	3,368,788	3,155,769	213,019
Payments in lieu of taxes	11,696,914	5,763,970	5,932,944
Intergovernmental revenue	15,885,911	15,002,189	883,722
Charges for services	13,064,917	12,397,442	667,475
Fines, Interest and penalties	3,786,331	3,088,277	698,054
Use of money and properties	384,298	773,246	(388,948)
Licenses and Permits	1,335,653	1,154,050	181,603
Other revenues	4,265,150	3,929,305	335,845
<b>Total revenues</b>	<b>118,973,893</b>	<b>107,652,149</b>	<b>11,321,744</b>



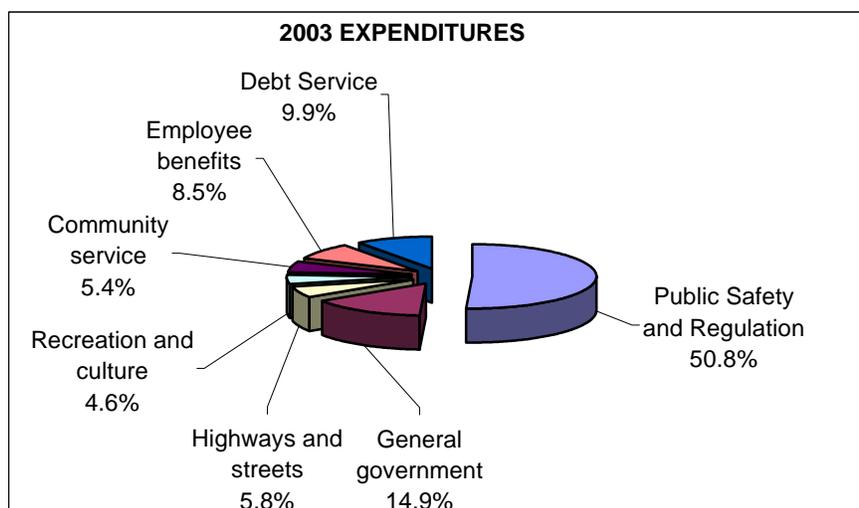
<sup>2</sup> Payments are made pursuant to Section 19-a of the Public Lands Law.

## Expenses

Expenditures totaled \$122.7 million, which were almost \$6.9 million more than was originally budgeted. The most significant variances in expenditures when compared to the original budget include the following:

- Public Safety spending was almost \$5 million more than budget, and \$6.6 million more than 2002. This is largely the result of spending in excess of budget on police department and fire department overtime, and contractual salary and benefit increases.
- General Government spending was \$208K more than budget and \$383K more than 2002. The cost of litigation, summer help, and overtime from Central Maintenance make up the bulk of this total.
- Transportation (Highways and Street) spending was \$766K more than budgeted and \$1.5 million more than in 2002. Increased costs of labor, street lighting, and snow removal are responsible.
- Recreation and Culture spending was over budget by \$676K but was \$1 million less than 2002. In 2002 the City provided six months of support to the Albany public Library.
- Spending on the summer youth employment program exceeded budget by \$143K. Special events, operating and festival expenditures were over original budget by \$153K. Revenues directly related to the events offset a significant portion of the extra expenses of festivals.
- Home and Community Services spending, which includes the expenses of the landfill, was \$210K more than budgeted and \$1.5 million more than 2002. Landfill overtime was \$104K over budget, Street Cleaning \$210K over budget, and Waste Collection \$285K over budget.
- Employee Benefits spending was \$354K over budget and \$1.5 million more than 2002. Most of the increase is the result of retirement costs for non-police and non-fire personnel.
- Debt Service payments were \$140K under the budget, and \$429K less than 2002.

EXPENDITURES	2003	2002	Change
Public Safety and Regulation	62,393,471	55,715,156	6,678,315
General government	18,261,768	17,879,111	382,657
Highways and streets	7,106,268	5,640,020	1,466,248
Recreation and culture	5,701,337	6,776,450	(1,075,113)
Community service	6,614,829	5,254,922	1,359,907
Employee benefits	10,416,886	8,938,182	1,478,704
Debt Service	12,207,496	12,636,828	(429,332)
<b>Total expenditures</b>	<b>122,702,054</b>	<b>112,840,669</b>	<b>9,861,385</b>



## Other Financing Sources

Proceeds from the sale of property (including payments received from the Albany Water Board for the sale of Six Mile Water Works) account for \$3.7 million. Proceeds from refinancing the 1994 bonds and the close-out of old capital projects make up the balance of this increase.

## DEBT

The City's long-term debt and short-term debt are described in detail in Notes 12-14.

### Long-Term Debt

At the end of 2003, the City's long-term debt totaled \$92,289,811, which consists of the City of Albany's long term debt, as well as bonds, loans, and notes of the Albany Community Development Corporation (ACDA). This is an increase from 2002 of \$14,439,490 (see Note 13). All outstanding debt is backed by insurance policies from municipal insurance companies except issues secured through the New York State Environmental Facilities Corporation (EFC). These EFC issues have the following rating: Moody's Investors Service, Aaa, Standard & Poor's, AAA, and FITCH Ratings, AAA.

### Short-Term Debt

The City's short-term debt totaled \$16,224,000. This total includes \$6,224,000 in Bond Anticipation Notes which is largely used for State and Federal funded transportation projects. The balance consists of \$10 million in Revenue Anticipation Notes, which were paid off in their entirety in January 2004.

Of the outstanding indebtedness, approximately \$107,415,000 million of the total was subject to the statutory debt limit, using approximately 46.8% of the City's statutory debt limit.

## CREDIT RATINGS AND BOND INSURANCE

During 2003 the City's credit rating was re-evaluated and reaffirmed by each of the three major rating agencies: Moody's Investors Services, A3, Fitch Ratings, A, and Standard & Poor's, A.

## CAPITAL ACQUISITION AND CONSTRUCTION ACTIVITIES

During 2003 the City spent \$19.1 million on capital projects. This includes Federal and State funds for transportation infrastructure projects, funds secured through General Obligation Bonds and Bond Anticipation Notes, and appropriations from the City's General Fund. The following are some of the major sources of capital expenditures:

Capital Construction	
Reconstruction Pearl Street	\$7.3 million
Palace Theatre Renovation	\$1.9 million
Lark Street Reconstruction	\$1.7 million
Other Streets and Sidewalks	\$1.2 million
Court Renovation	\$.9 million
C-1 Commercial Neighborhood	\$.4 million

This Annual Financial Report is intended to provide information on the City of Albany's operations and is available to all with an interest in the financial matters related to the City of Albany, New York. Questions concerning any of the information provided in this report or any request for additional information should be addressed to the Comptroller either in writing or by e-mail.

Thomas P. Nitido  
Comptroller  
Nitidot@ci.albany.ny.us

# City of Albany, New York

## Statement of Net Assets December 31, 2003

	Primary Government	Component Units
<b>ASSETS</b>		
Cash and cash equivalents	\$ 19,169,326	\$ 12,030,841
Cash and cash equivalents - restricted	8,537,188	416,947
Investments, restricted	-	20,205,056
Taxes receivable	3,086,743	-
Accounts receivable, net	2,614,516	12,377,797
Mortgage loans receivable	18,956,947	4,124,819
Due from other governments	14,920,992	-
Due from other funds	700,114	-
Due from component units	7,724,208	-
Due from primary government	-	443,008
Intangible assets, net	-	4,939,195
Prepaid and other assets	128,638	4,541,202
Property held for investment and lease	-	5,990,531
Capital assets, net	150,089,002	83,524,753
Total assets	\$ 225,927,674	\$ 148,594,149
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 15,110,078	\$ 3,382,507
Capital lease obligations	2,725,000	195,620
Bonds and loans payable	92,289,811	118,599,582
Bond and revenue anticipation notes payable	16,224,000	-
Accrued interest payable	2,422,482	3,058,274
Deferred revenue	16,903,186	3,072,319
Due to other governments	10,351,742	-
Due to component units	453,252	-
Due to primary government	-	6,488,687
Compensated absences	11,830,161	-
NYS retirement obligation	879,900	-
Landfill post-closure costs	2,119,489	-
Judgment and claims	7,440,561	-
Other liabilities	1,719,243	793,179
Total liabilities	180,468,905	135,590,168
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt (deficiency)	49,650,190	(26,232,538)
Restricted for:		
Debt service	2,863,376	294,532
Program specific activities	-	5,240,552
Unrestricted net assets (deficiency)	(7,054,797)	33,701,435
Total net assets	45,458,769	13,003,981
Total liabilities and net assets	\$ 225,927,674	\$ 148,594,149

*See Notes to Financial Statements.*

# City of Albany, New York

## Statement of Activities For the Year Ended December 31, 2003

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets	
					Primary Government	Component Units
Primary Government:						
Public safety and regulation	\$ 66,049,822	\$ 7,140,249	\$ 1,595,028	\$ -	\$ (57,314,545)	
General government	26,715,323	3,313,962	-	-	(23,401,361)	
Highways and streets	7,512,997	53,848	-	9,501,882	2,042,733	
Recreation and culture	5,781,676	1,628,160	-	-	(4,153,516)	
Community service	15,911,867	13,361,484	2,489,983	-	(60,400)	
Economic development and assistance	3,423,087	122,119	2,886,887	-	(414,081)	
Employee benefits	7,487,600	-	-	-	(7,487,600)	
Interest on long-term debt	3,853,620	-	-	-	(3,853,620)	
Total governmental activities	136,735,992	25,619,822	6,971,898	9,501,882	(94,642,390)	
Component Units:						
Albany Water Board and Municipal Water Finance Authority	24,082,583	19,491,324	-	-	(4,591,259)	
Albany Parking Authority	4,651,944	4,818,891	-	-	166,947	
Albany Industrial Development Agency	799,717	177,708	-	-	(622,009)	
Albany Port District Commission	4,694,315	3,227,129	2,120,452	-	653,266	
Albany Local Development Corporation	1,579,368	1,690,569	-	-	111,201	
Other component units	1,423,350	1,426,792	-	-	3,442	
Total component units	37,231,277	30,832,413	2,120,452	-	(4,278,412)	
General Revenues:						
Property tax					39,117,190	-
Sales tax					26,068,741	-
Other tax					3,368,788	-
Payments in lieu of taxes					11,696,914	-
Grants and entitlements not restricted to specific programs					8,059,081	-
Intergovernmental revenue not program-restricted					10,303,230	-
Gain on sale of capital assets					1,720,318	14,982
Unrestricted investment earnings					250,251	560,378
Total general revenues					100,584,513	575,360
Change in net assets					5,942,123	(3,703,052)
Net assets, beginning of year					39,516,646	16,707,033
Net assets, end of year					\$ 45,458,769	\$ 13,003,981

*See Notes to Financial Statements.*

# City of Albany, New York

## Balance Sheet - Governmental Funds December 31, 2003

	General	Special Revenue	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 3,661,106	\$ 714,488	\$ 13,098,455	\$ 1,695,277	\$ 19,169,326
Cash and cash equivalents-restricted	8,537,188	-	-	-	8,537,188
Taxes receivable	3,086,743	-	-	-	3,086,743
Accounts receivable	1,186,600	-	-	-	1,186,600
Landfill receivable, net	1,427,916	-	-	-	1,427,916
Mortgage loans receivable	-	-	-	18,956,947	18,956,947
Due from other funds	5,565,687	18,223	347,787	800,000	6,731,697
Due from component units	6,324,209	-	-	-	6,324,209
Due from federal and state governments	733,520	143,433	4,454,508	-	5,331,461
Due from other governments	7,634,893	-	1,954,638	-	9,589,531
Other assets	113,638	-	-	15,000	128,638
	<b>\$ 38,271,500</b>	<b>\$ 876,144</b>	<b>\$ 19,855,388</b>	<b>\$ 21,467,224</b>	<b>\$ 80,470,256</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities					
BANS and RANS payable	\$ 10,000,000	\$ -	\$ 6,224,000	\$ -	\$ 16,224,000
Accounts payable and accrued expenses	10,469,528	163,307	4,119,293	357,950	15,110,078
Retainage payable	-	-	1,154,005	-	1,154,005
Due to other funds	980,923	272,493	3,396,451	1,381,716	6,031,583
Due to component units	453,252	-	-	-	453,252
Due to other governments	8,387,896	-	-	1,963,846	10,351,742
Deferred revenues	-	-	-	16,903,186	16,903,186
Accrued interest	1,098,589	-	-	-	1,098,589
Other liabilities	95,413	428,201	-	41,624	565,238
Total liabilities	31,485,601	864,001	14,893,749	20,648,322	67,891,673
Fund Balances:					
Reserved for:					
Encumbrances	428,117	-	1,183,112	-	1,611,229
Debt Service	2,863,376	-	-	-	2,863,376
Grant programs	-	-	-	-	-
Downpayment Assistance Program	-	-	-	100,000	100,000
Unreserved:					
Undesignated, reported in:					
General fund	3,494,406	-	-	-	3,494,406
Special revenue funds	-	12,143	-	718,902	731,045
Capital projects fund	-	-	3,778,527	-	3,778,527
Total fund balances	6,785,899	12,143	4,961,639	818,902	12,578,583
Total liabilities and fund balances	<b>\$ 38,271,500</b>	<b>\$ 876,144</b>	<b>\$ 19,855,388</b>	<b>\$ 21,467,224</b>	<b>\$ 80,470,256</b>

*See Notes to Financial Statements.*

# City of Albany, New York

## Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds For the Year Ended December 31, 2003

	General	Special Revenue	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Real property taxes	\$ 39,117,193	\$ -	\$ -	\$ -	\$39,117,193
Sales and use taxes	26,068,741	-	-	-	26,068,741
Other taxes	3,368,788	-	-	-	3,368,788
Payments in lieu of taxes	11,696,914	-	-	-	11,696,914
Intergovernmental revenue	15,885,911	2,886,889	9,495,817	8,679,368	36,947,985
Charges for services	13,064,917	-	-	920,108	13,985,025
Fines, interest and penalties	3,786,331	-	-	-	3,786,331
Uses of money and properties	384,298	-	-	-	384,298
License and permits	1,335,653	-	-	-	1,335,653
Other revenues	4,265,151	110	971	-	4,266,232
Total revenues	118,973,897	2,886,999	9,496,788	9,599,476	140,957,160
<b>EXPENDITURES</b>					
Public safety and regulation	62,393,471	-	2,039,990	-	64,433,461
General government	18,261,769	-	730,931	-	18,992,700
Highways and streets	7,106,268	-	12,673,258	-	19,779,526
Recreation and culture	5,701,337	-	601,483	-	6,302,820
Community service	6,614,829	-	545,417	9,619,641	16,779,887
Economic development and assistance	-	2,691,019	2,558,784	-	5,249,803
Employee benefits	10,416,886	-	-	-	10,416,886
Debt service:					
Principal	8,292,728	-	-	-	8,292,728
Interest	3,914,768	-	-	-	3,914,768
Total expenditures	122,702,056	2,691,019	19,149,863	9,619,641	154,162,579
Excess (deficiency) of revenues over (under) expenditures	(3,728,159)	195,980	(9,653,075)	(20,165)	(13,205,419)
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from general obligation bonds and long-term notes payable	124,957	-	21,908,218	500,000	22,533,175
Transfers in	286,595	-	1,609,545	-	1,896,140
Transfers out	(1,625,695)	-	(286,595)	-	(1,912,290)
Proceeds from sale of property	4,601,702	-	-	-	4,601,702
Total other financing sources	3,387,559	-	23,231,168	500,000	27,118,727
Excess (deficiency) of revenues over expenditures and other financing sources	(340,600)	195,980	13,578,093	479,835	13,913,308
FUND BALANCES (DEFICIT), beginning	7,126,499	(183,837)	(8,616,454)	339,067	(1,334,725)
FUND BALANCES, ending	\$ 6,785,899	\$ 12,143	\$ 4,961,639	\$ 818,902	\$12,578,583

*See Notes to Financial Statements.*

# City of Albany, New York

## Reconciliation of the Balance Sheet - Governmental Funds With the Statement of Net Assets December 31, 2003

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Amounts reported in the statement of net assets are different because:

Total fund balance - governmental funds \$ 12,578,583

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

The cost of capital assets is	287,382,984	
Accumulated depreciation is	<u>(137,293,982)</u>	150,089,002

Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported as assets in the funds. Long-term assets at year end consist of:

Property transaction receivable		1,400,000
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Proceeds collected in advance and reported as revenue in the government funds but do not meet criteria for recognition in the statement of activities.

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Bonds and loans payable	(92,289,811)	
Accrued interest on the bonds	(1,323,894)	
Compensated absences (vacations and sick)	(11,830,161)	
NYS retirement obligation	(879,900)	
Landfill closure and postclosure obligation	(2,119,489)	
Capital lease obligation	(2,725,000)	
Judgments and claims	(7,440,561)	(118,608,816)

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Net assets of governmental activities		\$ 45,458,769
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*See Notes to Financial Statements.*

# City of Albany, New York

## Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds With the Statement of Activities For the Year Ended December 31, 2003

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Total net change in fund balances - governmental funds	\$13,913,308
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.

Capital outlays	18,873,206	
Depreciation expense	(8,963,752)	
Loss on disposal of property	(262,764)	
Sales of property already recognized in government wide financial statements	<u>(2,600,000)</u>	7,046,690

In the statement of activities, certain operating expenses - compensated absences (vacations) and employee retirement benefits - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Thus, the change in net assets differs from the change in fund balance as follows:

Employee retirement expense	387,606	
Compensated absences	134,927	
Landfill closure and postclosure costs	236,707	
Judgment and claims	<u>(1,681,981)</u>	(922,741)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to government funds, while the repayment of the principal of long-term debt consumes the current financial resources of government funds. Neither transaction, however, has any effect on net assets.

Debt issued	(22,533,175)	
Principal repaid	<u>8,378,728</u>	(14,154,447)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

59,313

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Change in net assets of governmental activities	\$ 5,942,123
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*See Notes to Financial Statements.*

**City of Albany**  
**Combining Balance Sheet –**  
**Discretely Presented Component Units**  
**December 31, 2003**

	Albany Water Board and Municipal Water Finance Authority	Albany Parking Authority	City of Albany Industrial Development Agency	Albany Port District Commission	Albany Local Development Corporation	Other Component Units*	Totals
<b>ASSETS</b>							
Cash and cash equivalents	\$ 6,392,574	\$ 1,394,953	\$ 837,987	\$ -	\$ 2,940,924	\$ 464,403	\$ 12,030,841
Cash and cash equivalents, restricted	-	353,980	-	62,967	-	-	416,947
Investments, restricted	12,967,209	3,579,031	-	1,749,796	1,909,020	-	20,205,056
Receivables:							
Accounts	11,442,491	16,330	-	532,679	-	-	11,991,500
Other	-	19,950	-	-	347,637	18,710	386,297
Mortgage loans and notes receivable	-	-	224,438	-	3,900,381	-	4,124,819
Due from primary government	-	-	-	-	-	443,008	443,008
Prepaid and other assets	740,414	45,488	2,091	191,077	3,543,667	18,465	4,541,202
Property held for investment and lease	-	-	-	-	5,990,531	-	5,990,531
Intangible assets, net	3,808,678	1,130,517	-	-	-	-	4,939,195
Capital assets, net	40,535,497	20,541,833	36,449	21,868,845	319,225	222,904	83,524,753
<b>Total assets</b>	<b>75,886,863</b>	<b>27,082,082</b>	<b>1,100,965</b>	<b>24,405,364</b>	<b>18,951,385</b>	<b>1,167,490</b>	<b>148,594,149</b>
<b>LIABILITIES</b>							
Accounts payable and accrued expenses	2,009,863	22,199	-	940,441	281,992	128,012	3,382,507
Current maturities of long-term debt	666,876	715,706	-	301,821	289,920	2,752	1,977,075
Accrued interest payable	-	596,206	30,157	-	-	5,605	631,968
Due to primary government	4,927,815	-	191,394	1,000,000	369,478	-	6,488,687
Deferred revenues	1,484,384	-	-	-	1,587,935	-	3,072,319
Revolving loan fund	-	-	-	-	632,243	-	632,243
Other liabilities	-	-	155,592	-	-	5,344	160,936
Accrued interest on capital appreciation bonds	-	2,426,306	-	-	-	-	2,426,306
Capital lease obligations	-	-	-	-	-	195,620	195,620
Bonds and notes payable	77,462,286	27,463,995	646,240	3,734,302	7,311,800	3,884	116,622,507
<b>Total liabilities</b>	<b>86,551,224</b>	<b>31,224,412</b>	<b>1,023,383</b>	<b>5,976,564</b>	<b>10,473,368</b>	<b>341,217</b>	<b>135,590,168</b>
<b>FUND BALANCE (DEFICIT) AND OTHER CREDITS</b>							
Contributed capital	-	-	122,893	-	-	-	122,893
Accumulated deficit	-	-	-	-	-	-	-
Fund balances (deficits)	-	-	(45,311)	-	-	-	(45,311)
Reserved for							
Program Specific Activities	-	3,933,011	-	-	1,307,541	-	5,240,552
Debt Service	-	-	-	125,000	169,532	-	294,532
Endowment	-	-	-	-	-	-	-
Future capital projects	-	-	-	-	-	-	-
Invested in capital assets, net of related debt	(38,993,665)	(7,637,868)	-	17,832,722	2,566,273	-	(26,232,538)
Unreserved	28,329,304	(437,473)	-	471,078	4,434,671	826,273	33,623,853
<b>Total fund balance(deficit)     and other credits</b>	<b>(10,664,361)</b>	<b>(4,142,330)</b>	<b>77,582</b>	<b>18,428,800</b>	<b>8,478,017</b>	<b>826,273</b>	<b>13,003,981</b>
<b>Total liabilities and fund balance</b>	<b>\$ 75,886,863</b>	<b>\$ 27,082,082</b>	<b>\$ 1,100,965</b>	<b>\$ 24,405,364</b>	<b>\$ 18,951,385</b>	<b>\$ 1,167,490</b>	<b>\$ 148,594,149</b>

\* Other component units include the accounts of BID, the Association and CBID.

*See Notes to Financial Statements.*

City of Albany

Combining Statement of Revenues, Expenditures and Changes in Fund Balances –  
Discretely Presented Component Units  
December 31, 2003

	Albany Water Board and Municipal Water Finance Authority	Albany Parking Authority	Albany Industrial Development Agency	Albany Port District Commission	Albany Local Development Corporation	Other Component Units*	Totals
Operating revenue	\$ 19,491,324	\$ 4,818,891	\$ 177,708	\$ 3,227,129	\$ 1,690,569	\$ 1,426,792	\$ 30,832,413
Operating expenses							
Costs of services	-	1,150,552	124,199	1,011,522	1,161,599	1,044,965	4,492,837
Source of supply and purification	2,980,049	-	-	-	-	-	2,980,049
Transmission and distribution	3,164,199	-	-	-	-	-	3,164,199
General and administrative	1,719,051	725,933	-	1,179,816	(62,123)	183,666	3,746,343
Real estate taxes paid to other governments	1,926,372	-	-	-	-	-	1,926,372
Occupancy	-	-	-	-	-	-	-
Sewer contract	6,918,815	-	-	-	-	-	6,918,815
Depreciation and amortization	3,195,860	731,734	10,273	1,370,745	198,988	-	5,507,600
Interest	-	-	-	-	-	-	-
Grants	-	-	593,809	-	-	50,000	643,809
Street Services	-	-	-	-	-	38,512	38,512
Business promotion and development	-	-	-	-	-	103,507	103,507
Miscellaneous	-	100,592	-	-	49,070	-	149,662
Total operating expenses	19,904,346	2,708,811	728,281	3,562,083	1,347,534	1,420,650	29,671,705
Excess (deficiency) of operating revenue over (under) expenses before nonoperating revenue (expenses)	(413,022)	2,110,080	(550,573)	(334,954)	343,035	6,142	1,160,708
Nonoperating revenue (expenses)							
Letter-of-credit fees	-	(24,196)	-	-	-	-	(24,196)
Amortization of bond issue costs	-	(77,606)	-	-	-	-	(77,606)
Increase in fair value of investments	-	(33,264)	-	-	-	-	(33,264)
Interest income	297,478	152,722	25,354	61,740	-	23,084	560,378
Interest expense	(3,227,314)	(1,779,124)	(71,436)	(269,647)	(231,834)	-	(5,579,355)
Archeological excavation costs	-	(28,943)	-	-	-	-	(28,943)
Dining and nightlife guide	-	-	-	-	-	(2,700)	(2,700)
Leasing and marketing strategy	-	-	-	-	-	-	-
Impairment write-down of property held for lease and other	-	-	-	-	-	-	-
Gain on sale of property and equipment	-	-	-	14,982	-	-	14,982
Write-off of unamortized financing costs on refunded bonds	(950,923)	-	-	-	-	-	(950,923)
Waterfront development expenses	-	-	-	(862,585)	-	-	(862,585)
Net nonoperating expenses	(3,880,759)	(1,790,411)	(46,082)	(1,055,510)	(231,834)	20,384	(6,984,212)
Excess (deficiency) of revenue over (under) expenses before transfers	(4,293,781)	319,669	(596,655)	(1,390,464)	111,201	26,526	(5,823,504)
Grant funding	-	-	-	2,120,452	-	-	2,120,452
Excess (deficiency) of revenue over (under) expenses	(4,293,781)	319,669	(596,655)	729,988	111,201	26,526	(3,703,052)
FUND BALANCE (DEFICIT) AND OTHER CREDITS, beginning of year	(6,370,580)	(4,461,999)	674,237	17,698,812	8,366,816	799,747	16,707,033
Contributed capital	-	-	-	-	-	-	-
FUND BALANCE (DEFICIT) AND OTHER CREDITS, end of year	\$ (10,664,361)	\$ (4,142,330)	\$ 77,582	\$ 18,428,800	\$ 8,478,017	\$ 826,273	\$ 13,003,981

\* Other component units include the activities of BID, the Association and CBID.

See Notes to Financial Statements.

# City of Albany

## Combining Statement of Cash Flows – Discretely Presented Component Units December 31, 2003

	Albany Water Board and Municipal Water Finance Authority	Albany Parking Authority	Albany Industrial Development Agency	Albany Port District Commission	Albany Local Development Corporation	Other Component Units*	Totals
<b>CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES</b>							
Excess of operating expenses over revenue	\$ (413,022)	\$ 2,110,080	\$ (550,573)	\$ (334,954)	\$ 343,035	\$ 6,142	\$ 1,160,708
Adjustments to reconcile excess of operating expenses over revenue to net cash provided (used) by operating activities:							
Depreciation and amortization	3,195,860	731,734	10,273	1,370,745	198,988	34,837	5,542,437
Change in allowance for reduced assessments	-	-	-	-	-	5,000	5,000
Unrealized loss on investments	-	-	-	-	13,328	-	13,328
Realized gain on sale of investments	-	-	-	-	9,311	-	9,311
Provision for losses on mortgage costs, accrued interest, and other receivables	-	-	-	-	(62,123)	-	(62,123)
Impairment write-down of property held for investment	-	-	-	-	-	-	-
Interest Income on cash and cash equivalents and investments	-	-	-	-	(77,271)	-	(77,271)
Deferred program support recognized as program income	-	-	-	-	(161,277)	-	(161,277)
Waterfront development costs	-	-	-	(436,789)	-	-	(436,789)
Security Deposit	-	-	-	19,773	-	-	19,773
Changes in							
Receivables - charges for services	-	180	-	-	-	-	180
Accounts receivable	(2,847,295)	-	2,745	(437,726)	59,122	(2,108)	(3,225,262)
Due from primary government	-	-	-	-	-	(26,252)	(26,252)
Other receivables	-	(3,880)	-	-	-	(12,085)	(15,965)
Prepaid expenses and other assets	(31,274)	(8,953)	-	(20,229)	-	7,178	(53,278)
Accounts payable and accrued expenses	123,314	(51,846)	-	503,235	115,731	19,889	710,323
Due to City of Albany	-	-	-	-	(1,726)	-	(1,726)
Other liabilities	-	-	104,341	-	(27,052)	250	77,539
Deferred revenue	-	-	-	-	76,753	-	76,753
Net cash provided by (used in) operating activities	27,583	2,777,315	(433,214)	664,055	486,819	32,851	3,555,409
<b>CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>							
Proceeds from long-term debt	297,478	-	-	-	-	6,636	304,114
Principal payments on long-term debt	(363,629)	(710,638)	(459,624)	(797,424)	(242,720)	-	(2,574,035)
Interest payments on long-term debt	(3,227,314)	(1,889,737)	(71,436)	(269,947)	(205,784)	-	(5,664,218)
Principal payments under capital lease obligations	-	-	-	-	-	-	-
Borrowings/refinancing capital lease obligation	-	-	-	-	-	15,168	15,168
Acquisition and construction of capital assets	-	-	-	-	-	-	-
Letter-of-credit fee	-	(19,062)	-	-	-	-	(19,062)
Sale of assets	-	-	-	15,200	-	-	15,200
(Repayment) issuance of Bond Anticipation Notes	(2,710,000)	-	-	-	-	-	(2,710,000)
Net proceeds from issuance of bonds and notes	22,692,533	-	-	-	-	-	22,692,533
Archeological excavation costs paid	-	(28,943)	-	-	-	-	(28,943)
Advances from cash reserve credit	-	-	-	-	-	45	45
Payments on cash reserve credit	-	-	-	-	-	(45)	(45)
(Payments to) advances from City of Albany	(6,525,763)	-	-	-	-	-	(6,525,763)
Grant funding	-	-	-	2,120,452	-	-	2,120,452
Net cash provided by (used in) capital and related financing activities	10,163,305	(2,648,380)	(531,060)	1,068,281	(448,504)	21,804	7,625,446

Continued...

# City of Albany

## Combining Statement of Cash Flows – Discretely Presented Component Units, Continued December 31, 2003

	Albany Water Board and Municipal Water Finance Authority	Albany Parking Authority	Albany Industrial Development Agency	Albany Port District Commission	Albany Local Development Corporation	Other Component Units*	Totals
<b>CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES</b>							
Purchase of property, plant, and equipment	(2,600,794)	(314,414)	-	(1,236,644)	(1,036,072)	(37,238)	(5,225,162)
Issuance of mortgage notes	-	-	-	-	(320,000)	-	(320,000)
(Purchase) sale of investments	(1,814,943)	(16,458)	-	(909,154)	(1,457,555)	-	(4,198,110)
Repayments received on mortgage loans	-	-	125,838	-	1,345,190	-	1,471,028
Receipts from City agencies	-	-	-	-	-	-	-
Proceeds from maturities of investments	-	-	-	-	1,600,000	-	1,600,000
Interest on investments	-	152,722	25,354	56,612	85,165	23,084	342,937
Contributed capital	-	-	-	-	-	-	-
Principal payments received under direct financing leases	-	-	-	-	109,064	-	109,064
Advances to Component Unit	-	-	-	-	-	-	-
Repayment from (advances to) City agencies net	-	-	-	-	69,358	-	69,358
Proceeds from sale of property held for investment and lease	-	-	-	-	-	-	-
Other	-	-	-	-	(3,300)	(2,700)	(6,000)
<b>Net cash provided by (used in) investing activities</b>	<b>(4,415,737)</b>	<b>(178,150)</b>	<b>151,192</b>	<b>(2,089,186)</b>	<b>391,850</b>	<b>(16,854)</b>	<b>(6,156,885)</b>
Net increase (decrease) in cash and cash equivalents	5,775,151	(49,215)	(813,082)	(356,850)	430,165	37,801	5,023,970
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>617,423</b>	<b>1,798,148</b>	<b>1,651,069</b>	<b>419,817</b>	<b>2,510,759</b>	<b>426,602</b>	<b>7,423,818</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 6,392,574</b>	<b>\$ 1,748,933</b>	<b>\$ 837,987</b>	<b>\$ 62,967</b>	<b>\$ 2,940,924</b>	<b>\$ 464,403</b>	<b>\$ 12,447,788</b>
<b>Supplemental Disclosure of Cash Flow Information</b>							
Cash payments for interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 276	\$ 276
Unrelated business taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 250	\$ 250
<b>Non-Cash Investing Activities</b>							
Increase in direct financing lease recognized as deferred revenue	\$ -	\$ -	\$ -	\$ -	\$ 11,868	\$ -	\$ 11,868
Deferred program support converted to allowance for losses	\$ -	\$ -	\$ -	\$ -	\$ (55,532)	\$ -	\$ (55,532)
<b>Non-Cash Financing Activities</b>							
Accounts payable and accrued expenses incurred for purchase of capital assets	\$ -	\$ -	\$ -	\$ 46,366	\$ -	\$ -	\$ 46,366

\* Other component units include the cash flows of BID, the Association and CBID.

*See Notes to Financial Statements.*

# City of Albany, New York

## Statement of Fiduciary Net Assets - Fiduciary Funds December 31, 2003

	Expendable Trust	Agency
<b>ASSETS</b>		
Cash and equivalents	\$ 11,164	\$ 1,502,773
Cash and equivalents - restricted	-	22,702
Due from other funds	-	1,286
Total assets	\$ 11,164	\$ 1,526,761
<b>LIABILITIES</b>		
Accounts payable	\$ -	\$ -
Seized forfeitures	-	22,702
Due to other funds	-	701,399
Other liabilities	-	802,660
Total liabilities	-	1,526,761
<b>NET ASSETS</b>	\$ 11,164	

*See Notes to Financial Statements.*

## City of Albany, New York

### Statement of Changes in Fiduciary Net Assets - Fiduciary Funds For the Year Ended December 31, 2003

	Expendable Trust
<b>Additions</b>	
Contributions	\$ 546,467
Other	505
Total additions	546,972
<b>Deductions</b>	
Police retirement, hospital and medical insurance	16,049
Fire retirement	545,488
Total deductions	561,537
Change in net assets before transfers	(14,565)
Transfers	16,048
Change in net assets	1,483
Net assets, beginning of year	9,681
Net assets, end of year	\$ 11,164

*See Notes to Financial Statements.*

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The City of Albany, New York (City) was established in 1614, chartered in 1686, and is governed by a Mayor and City Council. The City, as the primary government, performs local governmental functions within its jurisdiction, including general governmental support, public safety, culture and recreation, transportation, health, and economic assistance and opportunity.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), promulgated by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

In preparing financial statements in conformity with GAAP, management is required to make certain 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 revenue and expenditures during the reporting period. Actual results could differ from those estimates.

As required by GAAP, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and accordingly data from these units are combined with the data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the City.

The decision to include a component unit in the City's reporting entity is based on several criteria, including legal standing, fiscal dependency, financial accountability, selection of governing authority and ability to significantly influence operations. Based on the application of these criteria, the following is a brief review of significant entities considered in determining the City's reporting entity. Complete financial statements of the individual component units can be obtained from their respective administrative offices.

*Blended Component Unit*

Albany Community Development Agency (ACDA) is a public benefit corporation, established by State law and governed by a seven member Board of Directors who are City officials. The objectives of ACDA are to provide a suitable living environment and to expand economic opportunities for persons of low and moderate income within the City. It has been designated by the City to undertake community development programs on behalf of the City and to administer federal community development block grant programs.

The City has the ability to significantly influence operations, select the governing board and participate in fiscal management, accordingly, ACDA is treated as a blended component unit of the City and its activities are included as a special revenue fund of the primary government and reported separately as an other governmental fund in the governmental fund statements.

**Note 1. Summary of Significant Accounting Policies, Continued**

**A. Reporting Entity, Continued**

*Discretely Presented Component Units*

The following discretely presented component units are reported in a separate column to emphasize that they are legally separate from the City:

*Albany Water Board and Albany Municipal Water Finance Authority*

The City of Albany Water and Sewer System (the System) provides water supply and distribution, and the collection and disposal of sewage for the City. The System began operations in February 1988, and consists of two legally separate and independent entities, the Albany Municipal Water Finance Authority (the Authority) and the Albany Water Board (the Board).

The Authority, a public benefit corporation, was established in 1986 for the purpose of issuing revenue bonds to pay for the purchase, future improvement, and construction of the System. Among its powers, the Authority may borrow money, issue debt, and require that the Board charge and collect sufficient rates to pay the costs of operating and financing the System. The Authority consists of seven members, two members of which are appointed by the Governor of New York State and five members of which are appointed by the Mayor of the City.

The Board, a corporate municipal instrumentality, was established in 1986 with the power to set and collect water and sewer fees in the amounts sufficient to pay the debt service on the bonds of the Authority, as well as to provide for the costs of the operation and maintenance of the System. The primary responsibility of the Board is to charge, collect, and enforce rates and other charges for the System. The Board consists of five members who are appointed by the Mayor of the City.

*Albany Parking Authority*

The Albany Parking Authority (the Parking Authority) was established in 1982 as a public benefit corporation of the State of New York. The Authority's existence is for a period of fifteen years, and thereafter until all of its liabilities have been met, and its bonds have been discharged. All rights and properties shall pass to the City upon the cessation of the Authority's existence. The Parking Authority is authorized to construct, operate and maintain areas or places in the City for the parking or storing of motor vehicles and is governed by a Board of Directors, which consists of five members appointed by the Mayor of the City with the advice and consent of Common Council.

*City of Albany Industrial Development Agency*

The City of Albany Industrial Development Agency (IDA) is a public benefit corporation established July 1, 1983 under the mandate of Article 18-A, "New York State Industrial Development Agency Act," of New York State general municipal law. The IDA was established to promote and assist in acquiring or constructing various business and recreational facilities and, in the process, advance the job opportunities, health, general prosperity and economic welfare of the people of the City of Albany. A function of the IDA is to authorize the issuance of industrial revenue bonds for industrial development projects. The IDA reviews and determines whether to recommend approval of those applicants wishing to

**Note 1. Summary of Significant Accounting Policies, Continued**

**A. Reporting Entity, Continued**

*City of Albany Industrial Development Agency, Continued*

obtain financing. The IDA receives application fees from applicants and closing fees from those accepted for industrial revenue financing. The five-member board is appointed by the common council of the City of Albany.

*Albany Port District Commission*

The Albany Port District Commission (the Commission) was established in 1925 by Chapter 192 of the Laws of the State of New York (the State). The law, as amended through December 31, 1986, grants the Commission regulatory powers over the development and operations of the port facilities of the Albany Port District (the Port). The Commission is a public corporation with perpetual existence and has the right of eminent domain, with the power to construct, develop and operate Port facilities including a terminal railroad; to fix fees, rates, rentals and other charges for its facilities; to regulate and supervise the construction and operations of Port facilities by private enterprise; to issue bonds and notes and to do all things necessary to make the Port useful and productive.

The Laws of 1925 provide that the municipalities of Albany and Rensselaer be assessed for the Commission's deficit, if any, from operations and financing. A reapportionment determination made April 1, 1932 established the rates of 87.89 percent for Albany and 12.11 percent for Rensselaer. These rates are still in effect.

*Albany Local Development Corporation*

Albany Local Development Corporation (ALDC), which commenced business on October 1, 1979 was formed under the Not-for-Profit Corporation Laws of the State of New York for the purposes of reducing adult unemployment and promoting the training of individuals to improve or develop job opportunities within certain areas of the City. ALDC's mission is accomplished by encouraging the development and/or retention of business and industry primarily through the loaning of money to enterprises at below market interest rates. Additionally, ALDC has invested in certain real estate, and leased such real estate to businesses, in order to further develop job opportunities and aid the City.

*Other Component Units*

*Downtown Albany Restoration Program, Inc.*

Downtown Albany Restoration Program, Inc. d/b/a Downtown Albany Business Improvement District, Inc. (BID) is a tax-exempt organization organized in 1996 under the Not-for-Profit Corporation Law of New York State. BID was created to execute the responsibility of a comprehensive business improvement district. These responsibilities include but are not limited to administration, project development, public relations and public improvements in the downtown business improvement district. The BID may be dissolved by legislative body with all the assets reverting back to the City.

**Note 1. Summary of Significant Accounting Policies, Continued**

**A. Reporting Entity, Continued**

*Lark Street Area District Management Association, Inc.*

Lark Street Area District Management Association, Inc. (Association) is a tax exempt organization organized in 1996 under the Not-for-Profit Corporation Laws of New York State. The Association was created to execute responsibilities of a Comprehensive Business Improvement District. These responsibilities include but are not limited to administration, project development, public relations and public improvements in the Lark Street business improvement district. The Association may be dissolved by legislative body with all the assets reverting back to the City.

*Central District Management Association, Inc.*

The Central District Management Association, Inc. doing business as the Central Business Improvement District, Inc. (CBID) is a non-profit organization formed in January 1998 under the Not-for-Profit Corporation Law of New York State. The primary purpose of the CBID is to promote the preservation and development of the Central Avenue business corridor of the capital City of Albany and to make the area more attractive and accessible. To this end the CBID will work to enhance the public perception of the Central Avenue business corridor through overseeing and managing the appearance, security and cleanliness of the business improvement district. The CBID may be dissolved by legislative body with all the assets reverting back to the City.

The BID, Association, and CBID have been combined for financial statement reporting purposes and are reported as "other component units" in the combining balance sheet, combining statement of revenues, expenditures and changes in equity and in the combining statement of cash flows.

Entities excluded from the reporting entity:

*Albany Housing Authority*

The Albany Housing Authority (Housing Authority) was established by state statute. The Mayor of the City of Albany appoints the Board of Directors of the Housing Authority; however, the City is not financially accountable for the Housing Authority as the City cannot significantly influence the activities of the Housing Authority and the Housing Authority does not provide specific financial benefits to or impose specific financial burdens on the City.

*Albany City School District*

The Albany City School District (the School District) operates the elementary and high schools in the City. The City is not accountable for the School District as the School District has the authority to levy taxes and School District Board members are elected officials.

**Note 1. Summary of Significant Accounting Policies, Continued**

***B. Government-Wide and Fund Financial Statements***

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City and its component units. The effect of interfund, but not interprimary government and component unit, transactions have generally been eliminated from these financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support. The City's activities are all classified as governmental activities. The primary government is reported separately from certain legally separate component units for which the City is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or activity are offset with program revenues. Direct expenses are those which are clearly identifiable with a specific function or activity. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or activity and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements.

Major individual governmental funds are reported in separate columns in the fund financial statements.

The City adopted the requirements of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB 34) in the year ended December 31, 2002. The requirements of GASB 34 included revising financial statement reporting formats providing for government-wide financial statements in addition to fund financial statements, capitalization and depreciation of fixed assets and other changes in accounting principles which primarily affect the presentation of the government-wide financial statements.

***C. Measurement Focus, Basis of Accounting and Basis of Presentation***

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the grantor have been satisfied.

**Note 1. Summary of Significant Accounting Policies, Continued**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation, Continued**

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within one year. Expenditures are generally recorded when a liability is incurred, in the same manner as accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments and similar long-term liabilities are recorded only when payment is due.

Property taxes, sales taxes, licenses and other fees are all recognized as revenues of the current period. Special assessments are recorded as receivable and deferred revenue at the time the related project is completed and levied. Revenue is recognized as assessments become measurable and available, normally as received.

The City reports the following major governmental funds:

*Governmental fund types*

General Fund – The General Fund is the principal fund of the City. All financial transactions related to revenue and expenditures for delivery of those services traditionally provided by a municipal government, which are not accounted for in other funds, are accounted for in the General Fund.

Special Revenue Funds – These funds account for the proceeds of specific revenue sources (other than major capital projects that are legally restricted to expenditures for specified purposes). The following Special Revenue Funds operate within financial limits of an annual budget adopted by the City Council. Special Revenue Funds of the City include the following:

Special Grant Fund – Used to account for the use of state and federal monies received under the Workforce Investment Act.

Miscellaneous Special Revenue Fund – Principally used to account for the use of state and federal monies received under the Corporation for National and Community Services program as well as Department of Justice and other youth and recreational funds.

Capital Projects Fund – Resources used to construct or acquire capital improvements, and general fixed assets are accounted for in this fund. Resources are derived principally from proceeds of long-term debt and Federal and State aid.

**Note 1. Summary of Significant Accounting Policies, Continued**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation, Continued**

Other governmental funds

Albany Community Development Agency (ACDA) is a public benefit corporation, which has been designated by the City to undertake community development programs on behalf of the City and to administer federal community development block grant programs. As previously discussed, it is accounted for as a blended component unit of the City.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Albany's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of GASB.

Amounts reported as program revenues include charges to customers or applicants for goods, services or privileges provided, operating grants and contributions, and capital grants and charges, including special assessments. Internally dedicated resources are reported as general revenues, which includes all taxes.

**D. Assets, Liabilities and Net Assets**

Cash and investments

The City's investment policies must comply with State statutes as well as their own written investment policy. City monies must be deposited into Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the State. The City is authorized to use money market 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.

Deposits in excess of the FDIC are required to be fully collateralized by obligations of New York State or Federal agencies, the principal and interest of which are guaranteed by the United States or obligations of New York State local governments.

The City considers highly liquid investments (including restricted assets) with an original maturity date of three months or less to be cash equivalents.

Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either due to/from other funds or advances to/from other funds.

All landfill and other accounts receivable are shown net of an appropriate allowance for uncollectible accounts, where such a provision is required.

**Note 1. Summary of Significant Accounting Policies, Continued**

***D. Assets, Liabilities and Net Assets, Continued***

*Inventories and Prepaid Items*

The City does not maintain inventories of supplies and records expenditures when purchased rather than when consumed. Likewise, it records payments to vendors for prepaid expenses as expenditures when paid.

*Restricted Assets*

Restricted assets, which consist principally of cash and cash equivalents, are assets to be used for the reduction of future debt service payments and to provide resources to offset the costs of future capital improvements.

*Capital Assets*

Capital assets, which include property, plant, equipment and infrastructure assets (including roads, bridges, sidewalks and similar items) are reported in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of \$5,000 or more and an estimated life of three years or more. These assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Normal maintenance and repair costs that do not add to the value of the asset or materially extend their lives are not capitalized.

Major classes of capital assets are depreciated using the straight-line method over various useful lives. Useful lives for the major classes of capital assets are summarized as follows:

Buildings, capital leases and improvements	20 - 50 years
Machinery and equipment	3 - 20 years
Infrastructure	30 years

*Compensated Absences*

Employees earn vacation and sick leave as they provide service. Pursuant to collective bargaining agreements, they may accumulate (subject to certain limitations) unused time earned and, upon retirement, termination or death, may be compensated for such accumulated time. In addition, certain employees may accumulate unused sick time earned and upon retirement, termination, or death, may be compensated for such accumulated time. The cost of accumulated vacation pay and sick time expected to be paid from future expendable resources for the Governmental Funds are accounted for as a liability in the General Long-Term Debt Account Group and recognized in the respective Governmental Funds when the expenditures are paid.

Accumulated leave of governmental funds that is expected to be liquidated with expendable available financial resources is reported as an expenditure in the fund financial statements. All accumulated leave, including that which is not expected to be liquidated with expendable available financial resources, is reported in the government-wide financial statements.

**Note 1. Summary of Significant Accounting Policies, Continued**

***D. Assets, Liabilities and Net Assets, Continued***

*Judgments and Claims*

The liability for claims in process represents estimates for all known workers' compensation claims and legal settlements at December 31, 2003.

*Deferred Revenue*

When loan payments are received, revenue is recognized to the extent of principal received. When grant funds are reloaned, a corresponding expenditure is recorded. When the allowance for loan losses is increased, a corresponding decrease in the amount of deferred revenue is made in the same period, the effect of which is to reduce the overall amount of funds available for future loans.

*Long-Term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are recognized as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

In the fund financial statements, bond premiums and discounts, as well as bond issuance costs are reported in the current period. The face amount of debt issued is reported as other financing sources. Payments on such debt are recognized as expenditures in the period made. Premiums and discounts are reported as other financing sources or use and issuance costs are reported as debt service expenditures.

**Note 2. Explanation of Certain Differences Between Government-Wide Statements and Governmental Fund Financial Statements**

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the government-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic focus of the statement of activities, compared with the current financial resources focus of the governmental funds.

**A. Total Fund Balances of Governmental Funds vs. Net Assets of Governmental Activities**

Total fund balances of the City's governmental funds differs from "net assets" of governmental activities reported in the statement of net assets. This difference primarily results from the additional long-term economic focus of the statement of net assets versus the solely current financial resources focus of the governmental fund balance sheets.

**Note 2. Explanation of Certain Differences Between Government-Wide Statements and Governmental Fund Financial Statements, Continued**

**B. Statement of Revenues, Expenditures and Changes in Fund Balance vs. Statement of Activities**

Differences between the governmental funds statement of revenues, expenditures and changes in fund balance and the statement of activities fall into one of three broad categories. The amounts shown below represent:

i) Long-term revenue and expense differences:

Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the statement of activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the statement of activities.

ii) Capital related differences:

Capital related differences include the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the statement of activities, and the difference between recording an expenditure for the purchase of capital items in the governmental fund statements and depreciation expense on those items as recorded in the statement of activities.

iii) Long-term debt transaction differences:

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental fund statements, whereas interest payments are recorded in the statement of activities as incurred, and principal payments are recorded as a reduction of liabilities in the statement of net assets.

**Note 3. Stewardship, Compliance and Accountability**

*Budgetary Information*

Pursuant to Article 6 of the Second Class Cities Law of the State of New York and its own charter, the City legally adopts calendar year budgets for the General and Special Revenue Funds. Any amendments to the original budget during the year require the approval of the Board of Estimate and Apportionment.

The appropriated budget is prepared by fund, function and department, Encumbrance accounting is employed in governmental funds. Encumbrances (such as purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

**Note 4. Cash and Cash Equivalents and Cash and Cash Equivalents-Restricted**

At December 31, 2003, cash and cash equivalents and cash and cash equivalents - restricted are comprised of interest bearing and non-interest bearing deposits in various financial institutions. The City considers all certificates of deposit, with original maturities of three months or less, and money market accounts to be cash equivalents.

It is the City's policy for all deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of Federal Deposit Insurance Corporation (FDIC) insurance. At December 31, 2003, all cash and cash equivalents, as well as restricted cash and restricted cash equivalents in excess of FDIC insurance, were fully collateralized.

The City has approximately \$2,629,000 and \$724,300 in cash equivalents that have been restricted for future debt services payments and landfill post closure costs, respectively.

Statutes authorize the City to invest in obligations of New York State, the United States Government and its agencies, and repurchase agreements collateralized by U.S. obligations.

**Note 5. Landfill Receivable**

The City currently has one landfill accepting waste from various public and private entities. These entities are billed monthly based on the tonnage deposited at the landfill for the previous month. At December 31, 2003, the City had outstanding landfill receivables of approximately \$1,868,000. Management has created an allowance for doubtful accounts for this receivable balance of approximately \$441,000 which is netted against the receivable balance in the financial statements at year end. This net receivable is reported in the statement of net assets as part of accounts receivable, net at December 31, 2003.

**Note 6. Property Taxes**

Property taxes are levied and payable in January. Any property taxes not paid by the following December 31 are purchased without recourse by the County of Albany. Accordingly, the total levy is considered measurable and available, and there is no allowance for uncollectible property taxes at December 31, 2003.

The taxable assessed value of real property, as adjusted by New York State, included in the tax levy of 2002 (amount to be received in 2003), was \$3,124,299,923. The effective tax rate on this value is \$11.19 per thousand for residential and \$14.13 per thousand for non-residential properties. The constitutional tax limit is 2% of the 5-year average of the equalized assessment. The 2002 levy represents approximately 48% of the constitutional tax limit.

**Note 7. Capital Assets**

Property and equipment is comprised of the following:

	Balance December 31, 2002	Additions	Deletions	Balance December 31, 2003
Capital assets not being depreciated:				
Land	\$ 1,360,032	\$ 12,001	\$ (91,200)	\$ 1,280,833
Construction in process	30,880,885	13,266,027	(10,354,096)	33,792,816
	32,240,917	13,278,028	(10,445,296)	35,073,649
Capital assets being depreciated:				
Buildings, capital leases and improvements	40,862,701	746,147	(238,372)	41,370,476
Machinery and equipment	29,750,746	2,904,341	(276,913)	32,378,174
Infrastructure	166,261,898	12,298,787	-	178,560,685
	269,116,262	29,227,303	(10,960,581)	287,382,984
Less accumulated depreciation for:				
Buildings, capital leases and improvements	18,559,821	1,068,611	(90,794)	19,537,638
Machinery and equipment	20,459,608	2,160,231	(232,977)	22,386,862
Infrastructure	89,634,573	5,734,909	-	95,369,482
<b>Total capital assets, net</b>	<b>\$ 140,462,260</b>	<b>\$ 20,263,552</b>	<b>\$ (10,636,810)</b>	<b>\$ 150,089,002</b>

Depreciation expense was approximately \$8,845,000 for the period ending December 31, 2003.

**Note 8. Mortgage Loans Receivable and Deferred Revenues**

The City, through ACDA, lends monies received through Federal grants (principally from Housing and Urban Development Community Development Block Grants (CDBG) to individuals, businesses, and non-profit agencies at low interest rates to fund the acquisition and rehabilitation of low income housing and other community development projects in the City. Loan disbursements are recorded as grant expenditures and loan repayments are recorded as program income. Mortgage loans receivable and the related deferred revenue account consist of principal to be collected in future periods.

Interest rates and loan periods are determined using criteria established by the granting agency. Interest rates on these loans range between 0% and 8% and loan periods are either for a period of up to 15 years or deferred as long as the beneficiary is in compliance with the loan agreement.

Funds received from the New York Housing Trust Fund Corporation (NYSHTFC) were used to establish loans with various not-for-profit organizations, for use in the acquisition and rehabilitation of low income housing. In accordance with applicable grant provisions, loan disbursements are reflected as Due to NYSHTFC. Funds disbursed to participants generally do not bear interest and are repayable over a period of 15 to 25 years. In accordance with loan agreements, annually, on the anniversary date of completion of the project, one fifteenth or twenty-fifth of the loan is forgiven as long as the beneficiary is in compliance with the loan agreement.

Notes to Financial Statements  
December 31, 2003

**Note 8. Mortgage Loans Receivable and Deferred Revenues, Continued**

The balance of mortgage loans receivable is comprised of the following at December 31, 2003:

<b>Program</b>	<b>Balance</b>
HUD CDBG	\$ 17,223,429
NYSHTFC	1,733,518
	<b>\$ 18,956,947</b>

**Note 9. Interfund Receivables and Payables**

A summary of interfund receivables and payables at December 31, 2003 is as follows:

<b>Fund</b>	<b>Due From Other Funds</b>	<b>Due To Other Funds</b>
General	\$ 5,565,687	\$ 980,923
Special Revenue	18,223	272,493
Capital Projects	347,787	3,396,451
Albany Community Development Agency	800,000	1,381,716
	6,731,697	6,031,583
Fiduciary Fund	1,285	701,399
	<b>\$ 6,732,982</b>	<b>\$ 6,732,982</b>

Fiduciary fund balances are not reported in the government wide financial statements or fund financial statements. Rather, they are reported separately in the statement of fiduciary net assets – fiduciary funds.

**Note 10. Due From/To Component Units**

The City has reported approximately \$7,724,208 and \$453,252 as the amount due from and due to the Component Units at December 31, 2003. The Component Units reported approximately \$443,000 and \$6,489,000 as the amount due from and due to the primary government. The net difference as reported by the City and its Component Units is approximately \$1,225,000. Activity giving rise to amounts due between the City and the Component Units principally relates to payroll, benefits, certain property transactions and other administrative costs paid for by the City and reimbursed to the City by the Component Units. This reporting variance is attributable to timing differences of recording the underlying transactions.

During 2003, the City sold real property to component units resulting in a gain of approximately \$2.0 million. Included in the gain is \$1.5 million from the sale of property to the Port of Albany and \$500,000 from the sale of property to the Albany Local Development Corporation. During 2002, the City sold real property to the Albany Water Board for approximately \$7.7 million. At December 31, 2003, \$1.4 million and \$1.0 million remains due from the Albany Water Board and the Port of Albany, respectively, and is included as amounts due from component units in the statement of net assets.

**Note 11. Employee Benefit Plans**

**(a) Pension plans**

The City of Albany participates in the New York State and Local Employees' Retirement System (ERS), the New York State and Local Police and Fire Retirement System (PFRS) and the Public Employees' Group Life Insurance Plan (collectively, the Systems). These are cost-sharing multi-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 supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, NYS Comptroller State Office Building, 110 State Street, Albany, NY 12207.

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 service. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The City of Albany is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were:

	ERS	PFRS
2003	\$1,674,607	\$2,728,828
2002	\$ 661,672	\$ 337,290
2001	\$ 478,346	\$ 333,950

The City of Albany's contributions made to the Systems were equal to 100 percent of the contributions required for each year.

Since 1989, the System's billings have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the System's fiscal years ending March 31, 1988 and 1989 (which otherwise were to have been paid on June 30, 1989 and 1990, respectively) over a 17-year period, with an 8.75% interest factor added. Local governments were given the option to prepay this liability. The total unpaid liability at the end of the fiscal year was approximately \$880,000.

**Note 11. Employee Benefit Plans, Continued**

***(b) Health insurance benefits***

In addition to providing pension benefits, the City provides health insurance benefits, in accordance with its union contracts, to retired employees and their families. Substantially all of the City's employees may become eligible for these benefits, which vary by length of service and type of coverage, if they reach retirement age while working for the City. The cost to the City of providing health care benefits to retirees during 2003 was approximately \$7,088,000. At December 31, 2003, the number of retired participants eligible to receive benefits was 1,023, the majority of whom chose to receive the benefits.

**Note 12. Notes Payable**

**(a) Bond Anticipation Notes**

The City may issue Bond Anticipation Notes (BANS), in anticipation of proceeds from the subsequent sale of bonds. These notes are recorded as current liabilities of the funds that will actually receive the proceeds from the issuance of bonds. State law requires that BANS issued for capital purposes be converted to long-term financing within five years.

During 2003, the City renewed \$6,224,000 in BANS with an interest rate of 1.75% and priced to yield 1.07%. The notes were due and paid off in their entirety on June 10, 2004.

**(b) Revenue Anticipation Notes**

The City may also issue Revenue Anticipation Notes (RANS), in anticipation of proceeds from the subsequent receipt of anticipated revenues other than property taxes. These notes are recorded as current liabilities of the funds that will actually receive non-tax proceeds.

In August 2003, the City issued \$10,000,000 in RANS in anticipation of later than usual receipt of state aid and county sales tax revenue. The RANS had an interest rate of 1.75% and were priced to yield 1.0%. The RANS were paid off in their entirety on January 30, 2004.

Interest expense on both BANS and RANS was approximately \$40,000 and \$64,000, respectively, for the period ending December 31, 2003.

**Note 13. Indebtedness**

Indebtedness of the City include loans, certain accruals, and serial and Environmental Facilities Corporation (EFC) bonds. Bonds are guaranteed by the full faith and credit of the City.

The following is a summary of certain long-term liability transactions of the City for the year ended December 31, 2003:

	Balance	New Issues/	Debt	Balance
	January 1,	Increase in	Retirement	December 31,
	2003	Estimates	Decrease in	2003
			Estimates	
NYS retirement system	\$ 1,267,506	\$ -	\$ (387,606)	\$ 879,900
Judgments and claims	5,758,580	1,681,981	-	7,440,561
Vacation/sick pay obligations	11,965,088	1,306,629	(1,441,556)	11,830,161
Landfill closure and postclosure care costs	2,356,196	-	(236,707)	2,119,489
Capital lease obligations	2,890,000	-	(165,000)	2,725,000
Accrued interest	2,226,441	196,041	-	2,422,482
New York State loan	255,000	-	(255,000)	-
Bonds	77,435,321	22,444,267	(7,988,776)	91,890,812
Loans payable	415,000	-	(16,000)	399,000
Total	\$ 104,569,132	\$ 25,628,918	\$ (10,490,645)	\$ 119,707,405

**(a) Bonds**

During 1993, the City issued \$39,847,849 in General Obligation Refunding Bonds with an average interest rate of 4.35% to advance refund \$2,030,000 of outstanding 1986 General Obligation Bonds with an average interest rate of 7.5%, \$3,910,000 of outstanding 1986 General Obligation Refunding Bonds with an average interest rate of 6.5%, \$7,300,000 of outstanding 1987 Public Improvement Bonds with an average interest rate of 6% and \$22,240,000 of outstanding 1990 General Obligation Serial Bonds with an average interest rate of 7% (the 1986, 1987 and 1990 bonds). The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the aforementioned bonds. As a result, the 1986, 1987 and 1990 bonds are considered to be defeased. The amount of the defeased bonds outstanding at December 31, 2003 is \$595,000, none, and none, for the 1986, 1987 and 1990 bonds, respectively.

During September 2001, the City issued \$6,675,000 in General Obligation Refunding Bonds with an average interest rate of 4.45% to advance refund \$6,210,000 of outstanding 1994 General Obligation Bonds with an average interest rate of 6.10%. The net proceeds were deposited in an irrevocable trust with an escrow agent. The escrow agent subsequently purchased non-callable direct obligations of the United States of America ("Governmental Obligations"). The principal of and investment income on the portfolio of Government Obligations together with other available cash on deposit in the irrevocable trust are expected to provide for all future debt service payments on the aforementioned bonds. As a result, the 1994 bonds are considered to be defeased. The amount of the defeased bonds outstanding at December 31, 2003 for the 1994 bonds is approximately \$5,105,000.

**Note 13. Indebtedness, Continued**

**(a) Bonds, Continued**

During 2002, the City issued \$10,085,000 in General Obligation Refunding Bonds with an average interest rate of 3.75% to advance refund \$9,660,000 of outstanding 1993 General Obligation Bonds with an average interest rate of 5.08%. The net proceeds were deposited in an irrevocable trust with an escrow agent. The escrow agent subsequently purchased non-callable direct obligations of the United States of America ("Government Obligations"). The principal of and the investment income on the portfolio of the Government Obligations together with other available cash on deposit in the irrevocable trust are expected to provide for all future debt service payments on the aforementioned bonds. As a result, the 1993 bonds are considered to be defeased. The principal and interest obligation were paid in full using escrow funds during 2003.

During July 2003, the City issued \$21,908,218 in General Obligation Bonds with interest rates from 2.75% to 4.25% and priced to yield from .94% to 4.25%. The bonds carry an average interest rate of 3.94% and the average life of the bonds is 8.75 years. The issue matures on August 1, 2018 with annual payments ranging from \$1,956,165 to \$1,961,806. Proceeds are being used for ongoing and additional capital projects.

During 2003 and 2002, ACDA issued \$500,000 and \$200,000, respectively, in General Obligation Bonds with an interest rate of 6.14%. The bond has a maturity date of October 2013. Bond proceeds will fund loans granted through the Albany Down Payment Assistance Program. Principal payments are required to be paid in conjunction with payments received from loan beneficiaries. As of December 31, 2003, there were no scheduled payments. ACDA was authorized to issue an aggregate total of \$700,000 through September 1, 2003.

During 2002, the City received additional bond proceeds in the amount of \$4,641,106 from NYS EFC with an average interest rate of 4.22%, maturing on October 15, 2022, with annual payments ranging from \$10,000 to \$285,000. The proceeds are to be used for the expansion and improvement of the City's landfill and the purchase of a street sweeping vehicle.

Serial and EFC bonds, the proceeds of which have been used primarily to provide funds for various capital projects, consists of the following at December 31, 2003:

Interest Rate	Date Issued	Maturity Date	Amount of Original Issue	Outstanding December 31, 2003	Annual Principal Installments (Range)	
<b>Serial Bonds</b>						
7.20 - 7.75%	1986	2006	9,640,700	13,638	3,209 - 4,546	
6.90 - 7.00%	1990	2010	29,750,000	150,000	20,000 - 115,000	
2.70 - 5.70%	1993	2010	39,847,849	8,287,849	437,470 - 4,205,000	
4.40 - 5.00%	1998	2017	11,375,000	6,510,000	190,000 - 1,065,000	
4.90 - 5.50%	2000	2025	17,555,000	14,905,000	260,000 - 1,300,000	
3.50 - 5.00%	2001	2014	6,675,000	5,415,000	355,000 - 665,000	
3.50 - 5.00%	2001	2021	14,098,000	12,425,000	625,000 - 863,000	
2.50 - 4.50%	2002	2013	10,085,000	8,150,000	785,000 - 1,160,000	
6.14%	2002	2013	700,000	700,000	-	
2.75 - 4.25%	2003	2018	21,908,218	21,908,218	1,143,218 - 1,880,000	
<b>EFC Bonds</b>						
3.75 - 5.35%	1998	2017	3,788,500	2,775,000	158,500 - 235,000	
3.60 - 4.55%	1998	2007	51,338	20,000	5,000 - 6,338	
4.31 - 5.74%	2000	2020	7,057,467	6,215,000	280,000 - 445,000	
1.21 - 5.00%	2002	2022	4,641,106	4,416,106	280,000 - 445,000	
				<b>\$ 91,890,811</b>		

**Note 13. Indebtedness, Continued**

**(a) Bonds, Continued**

Future maturities of general long-term debt as of December 31, 2003 are as follows:

<b>Year Ending December 31</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2004	\$ 8,402,764	\$ 3,849,053	\$ 12,251,817
2005	8,390,652	3,507,753	11,898,405
2006	7,689,546	3,170,513	10,860,059
2007	7,720,000	2,849,459	10,569,459
2008	6,282,343	3,232,924	9,515,267
2009-2013	28,480,000	10,523,837	39,003,837
2014-2018	19,310,000	3,974,474	23,284,474
2019-2023	5,110,000	735,668	5,845,668
2024-2025	505,000	42,075	547,075
	<b>\$91,890,305</b>	<b>\$31,885,756</b>	<b>\$123,776,061</b>

Interest expense for bonds and loans payable was approximately \$3,707,000 for the period ending December 31, 2003.

Of the total outstanding indebtedness of the City in the sum of approximately \$107,415,000, the total amount was subject to the statutory debt limit and represented approximately 46.77% of the City's \$229,682,055 statutory debt limit.

**(b) Capital leases**

IDA

The City entered into a capital lease with the IDA, whereby the City has agreed to rent the City of Albany Municipal Golf Course clubhouse and related parcel of land (collectively the "property"). The lease payments made under the agreement shall be in an amount equal to the amount payable as principal and interest on the IDA's Revenue Bonds, 1991 Series A and B. The lease payments are due monthly through 2012. The agreement qualifies as a capital lease. The interest portion of the future minimum lease payments is approximately \$511,690 and the net present value at December 31, 2003 is approximately \$1,060,000. Title of the property transfers to the City upon satisfaction of the outstanding debt service.

ACDA

ACDA amended its lease for office space at a facility located at 200 Henry Johnson Boulevard. The amended lease has a sixteen year term and the agreement requires ACDA to remit semi-annual payments to the City of Albany Local Development Corporation ("the ALDC") through 2018. The agreement qualifies as a capital lease. The interest portion of future minimum lease payments is \$819,219 and the net present value at December 31, 2003 is \$1,665,000.

**Note 13. Indebtedness, Continued**

***(b) Capital leases, Continued***

A summary of future minimum lease payments and future minimum maturities of the capital lease obligation as of December 31, 2003 is as follows:

<b>Year Ending December 31</b>	<b>IDA</b>	<b>ACDA</b>	<b>Total</b>
2004	\$ 184,542	\$ 166,509	\$ 351,051
2005	183,483	162,186	345,669
2006	186,189	162,698	348,887
2007	188,126	162,971	351,097
2008-2012	829,350	819,130	1,648,480
2013-2017	-	846,308	846,308
2018-2023	-	164,417	164,417
<b>Total minimum lease payments</b>	<b>\$ 1,571,690</b>	<b>\$ 2,484,219</b>	<b>\$ 4,055,909</b>

***(c) State loan and subsidy contract***

On October 15, 1978, the State loaned the City \$6,375,000 at an interest rate of 6.4% pursuant to a Loan and Subsidy Contract (the Contract) among the State, the City and the Urban Development Corporation (U.D.C.). The proceeds from such loan were paid to the U.D.C. to be used as financing for an urban renewal project. The Contract provided that the State would make annual subsidy payments to the City in amounts equal to the annual installments of principal and interest on the loan due to the State. This loan was paid off in 2003.

***(d) Litigation and contingent liabilities***

***(1) Judgments and Claims***

There are various suits and claims pending against the City. In the opinion of City officials and Corporation Counsel, there are no proceedings against the City in which the likelihood has been deemed possible or probable and could have a material adverse effect on the City's financial position or results of operations. The City has recognized an accrued liability of approximately \$789,000 to allow for future claims on certain matters.

***(2) Self Insurance***

The City self-insures workers' compensation claims. The City and its component units, with the exception of the Downtown Albany Restoration Program, Inc., Lark Street area District Management Association, Inc., and the Central District Management Association, Inc., all participate in the self-insurance program.

Under the program, the City utilizes a program administrator to process claims as they occur. A liability of approximately \$6,651,000 for unpaid claims based upon individual case estimates for claims incurred at December 31, 2003 has been recorded in the caption "Judgments and claims." This liability is the City's best estimate based on available information. Claims incurred in 2002 but not reported until 2003 totaled approximately \$169,000. Changes in the reported liability since December 31, 2002 resulted from the following:

**Note 13. Indebtedness, Continued**

***(d) Litigation and contingent liabilities, Continued***

***(2) Self Insurance, Continued***

	Balance as of December 31, 2002	Current Year Claims and Changes in Estimates	Claim Payments	Balance as of December 31, 2003
Workers' compensation liability	\$ 5,176,000	\$ 3,453,646	\$ (1,978,665)	\$ 6,650,981

***(3) 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 audits of these programs may be conducted, in accordance with grantor requirements, on a periodic basis. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amounts, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City believes, based upon its review of current activity and prior experience, the amount of such disallowances, if any, will be minimal.

***(e) Landfill closure and postclosure care costs***

The City has four landfills, three of which stopped accepting waste prior to December 1993. The fourth, Albany Interim Landfill (AIL), and the expansion added in 1997 are still accepting waste at December 31, 2003.

State and federal laws and regulations require the City to place a final cover on its landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports these closure and postclosure care costs based on landfill capacity used as of each balance sheet date.

Accrued landfill closure and postclosure care costs of approximately \$2,119,000 at December 31, 2003, represent the cumulative amount reported to date based on the use of 100 percent of the estimated capacity of all previously closed landfills and 55 percent of the estimated capacity of the AIL and expansion currently being used as determined by an independent engineer. The estimated remaining life of this landfill is four to ten years. The City will recognize the remaining estimated cost of closure and postclosure care of \$909,000 as the remaining AIL and expansion estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2003. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The City currently has a cash reserve of approximately \$724,300 for the payment of post-closure care costs. The City makes deposits of approximately \$73,000 into the reserve annually.

**Note 13. Indebtedness, Continued**

***(f) Loans payable***

During 2002, ACDA borrowed \$100,000 from the Albany Local Development Corporation (ALDC) to establish a fund for collateral for the Albany Down Payment Assistance Program. The proceeds of this loan are required to be maintained in a segregated bank account until maturity. The term of the loan shall be the length of the City of Albany Down Payment Assistance Program but no longer than August 9, 2013. ACDA will pay interest earned on the secured funds upon repayment of the loan. There are no scheduled monthly payments for this loan.

As part of ACDA's capitalized lease obligation, described above, ACDA executed a loan payable to ALDC to pay for all previously unreimbursed tenant expenses. The note has a sixteen year term and the agreement requires ACDA to remit semi-annual payments to the ALDC through 2018.

**Note 14. Subsequent Events**

Debt

During July 2004, the City issued \$14,262,338 in General Obligation Bonds with interest rates ranging from 3% to 4%. The bonds carry an average interest rate of 3.72% and an average life of 6.44 years. The issue matures on July 15, 2015 with annual payments ranging from \$1,565,352 to \$1,638,000. The proceeds are to be used for ongoing and additional capital projects.

**Note 15. Component Units**

The City's component units (as defined in Note 1) are legally separate entities that are not operating departments of the City. The component units are managed independently, outside the appropriated budget process, and their powers generally are vested in a governing board.

***(a) Financial Information***

Substantially all of the financial data was derived from audited annual financial statements and summarized in the financial statements. The remaining portion of this Note contains additional information about the component units. Other additional information about each of the component units can be obtained from their annual financial statements.

**Note 15. Component Units, Continued**

**(b) Cash and Investments**

The following table presents the investments of the discretely presented component units by type and categorizes the carrying amounts as follows: Category 1 are those which are insured or registered, or held by the component unit or its agent in the component unit's name, and Category 2 are those which are uninsured and unregistered, with securities held by the counterparty's trust department or agent in component unit's name:

	Category		Cost	Market
	1	2		
Water Board and Municipal Water Finance Authority- Government Securities <sup>(A)</sup>	\$ 12,967,209	\$ -	\$ 12,967,209	\$ 12,980,171
Parking Authority- Mortgage-backed Securities	-	3,579,031	3,579,031	3,579,031
Albany Port District Commission- Certificate of Deposit	1,749,796	-	1,749,796	1,749,796
Albany Local Development Corporation- Government Securities	1,909,020	-	1,909,020	1,909,020
<b>Total</b>	<b>\$ 16,626,025</b>	<b>\$ 3,579,031</b>	<b>\$ 20,205,056</b>	<b>\$ 20,218,018</b>

(A) Investments consist of obligations of the United States and its agencies, and are carried at cost, which approximates market.

The carrying amount of the component unit's deposits with financial institutions was \$12,447,788. The corresponding bank balances are categorized as follows:

	Albany Water Board and Municipal Water Finance Authority	Albany Port District Commission	Albany Local Development Corporation	Totals
Amounts insured by Federal Deposit Insurance Corporation	\$ 848,255	\$ 62,767	\$ 500,000	\$ 1,411,022
Amount collateralized with securities held by the component unit or its agent in the component unit's name	-	-	-	-
Amount collateralized with securities held by the pledging financial institution's trust department or agent in the component unit's name	-	-	761,029	761,029
Uncollateralized	-	-	1,730,000	1,730,000
	<b>\$ 848,255</b>	<b>\$ 62,767</b>	<b>\$ 2,991,029</b>	<b>\$ 3,902,051</b>



Note 15. Component Units, Continued

(c) Capital Assets

Property, plant and equipment is generally recorded at cost and are depreciated over their useful lives (5 to 40 years) and are as follows:

	Albany Water Board and Municipal Water Finance Authority	Albany Parking Authority	Albany Industrial Development Agency	Albany Port District Commission	Albany Local Development Corporation	Other Component Units	Totals
Land, garages and improvements	\$ -	\$ 25,243,638	\$ -	\$ -	\$ 49,300	\$ 19,100	\$ 25,312,038
Buildings and improvements	-	-	-	-	297,502	223,082	520,584
Port marine facilities	-	-	-	58,930,726	-	-	58,930,726
Capital improvements, equipment, furniture, and fixtures	43,594,154	1,495,522	-	656,564	58,456	163,048	45,967,744
Water supply, distribution, and collection systems	22,170,389	-	-	-	-	-	22,170,389
Construction in progress	1,429,787	-	-	27,391	-	-	1,457,178
Other	7,210,000	-	154,090	-	-	-	7,364,090
Total	74,404,330	26,739,160	154,090	59,614,681	405,258	405,230	161,722,749
Less accumulated depreciation	(33,868,833)	(6,197,327)	(117,641)	(37,745,836)	(86,033)	(182,326)	(78,197,996)
Total	\$ 40,535,497	\$ 20,541,833	\$ 36,449	\$ 21,868,845	\$ 319,225	\$ 222,904	\$ 83,524,753

Notes to Financial Statements  
December 31, 2003

Note 15. Component Units, Continued

(d) Long-term Debt

Certain component units issue their own serial and revenue bonds or have entered into capital lease or other long-term obligations:

Long-term debt, which has interest rates ranging from 0% to 13.3%, is not a legal obligation of the City. Changes in amounts outstanding were as follows:

	2002	Additions	Amortization of Discount/(Premium) and Accrued Interest on Capital Appreciation Bonds	Payments	2003
<b>Bonds</b>					
Water Board/Municipal Water Finance Authority	\$49,859,715	\$72,860,000	\$ -	\$(44,590,553)	\$ 78,129,162
Albany Parking Authority	28,883,176	-	7,163	(710,638)	28,179,701
Albany Local Development Corporation	7,615,000	-	-	(200,000)	7,415,000
Total bonds	86,357,891	72,860,000	7,163	(45,501,191)	113,723,863
<b>Loan Payable</b>					
Albany Local Development Corporation	192,240	-	-	(42,720)	149,520
Total loan payable	192,240	-	-	(42,720)	149,520
<b>Note Payable</b>					
Water Board/Municipal Water Finance Authority	6,795,000	-	-	(6,795,000)	-
Albany Local Development Corporation	37,200	-	-	-	37,200
Other component units	-	6,636	-	-	6,636
Total note payable	6,832,200	6,636	-	(6,795,000)	43,836
<b>Mortgage Payable</b>					
Albany Industrial Development Agency	1,088,953	-	-	(442,713)	646,240
Total mortgage payable	1,088,953	-	-	(442,713)	646,240
<b>Capital Lease/Advances</b>					
Albany Port District Commission	4,343,553	-	-	(307,430)	4,036,123
Total capital lease/advances	4,343,553	-	-	(307,430)	4,036,123
Total	\$98,814,837	\$72,866,636	\$ 7,163	\$(53,089,054)	\$118,599,582

Debt service requirements for bonds to maturity are:

	Water Board/ Municipal Water Authority	Albany Parking Authority	Albany Local Development Corporation	Totals
2004	\$ 666,876	\$ 715,706	\$ 200,000	\$ 1,582,582
2005	948,817	827,025	220,000	1,995,842
2006	933,803	879,525	230,000	2,043,328
2007	916,966	1,040,000	240,000	2,196,966
2008	900,843	1,080,000	250,000	2,230,843
Thereafter	70,270,455	23,630,282	6,275,000	100,175,737
Total	74,637,760	28,172,538	7,415,000	110,225,298
Plus unaccreted premium	2,371,894	7,163	-	2,379,057
Plus capital appreciation bond interest accrual	1,119,508	-	-	1,119,508
	\$ 78,129,162	\$ 28,179,701	\$ 7,415,000	\$ 113,723,863

**Note 15. Component Units, Continued**

**(d) Long-term Debt, Continued**

Future minimum capital lease/advance payments are as follows:

	<b>Albany Port District Commission</b>
2004	\$ 301,821
2005	341,011
2006	353,733
2007	363,437
2008	406,981
Thereafter	2,269,140
<b>Total</b>	<b>\$ 4,036,123</b>

**(e) Accrued Interest**

Compounded interest on capital appreciation bonds are accrued on a straight-line basis over 25 years, the life of the bonds. This interest will be paid by the Albany Parking Authority during the years 2004 through 2006 and 2013 through 2017. Accrued interest on capital appreciation bonds totaled approximately \$2,420,000 at December 31, 2003.

**(f) Deficit**

The Albany Parking Authority has a deficit of \$4,142,330 at December 31, 2003. In recent years the Authority has implemented a long-term financial plan to reduce this deficit and establish positive retained earnings. This plan includes increasing parking revenues via rate increases and the operation of on-street parking meters (established during April 1998). In addition, the Authority intends to refinance its existing revenue bonds, thereby reducing interest costs. The retained deficit has decreased \$774,882 since December 31, 2002.

## **Required Supplementary Information**

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# City of Albany, New York

## Schedule of Revenues, Expenditures and Modified Budget and Actual – General and Special Revenue Funds For the Year Ended December 31, 2003

	Governmental Fund Types				Special Revenue Funds*			
	Original Budget	Modified Budget	Actual	Actual Over (Under) Modified Budget	Original Budget	Modified Budget	Actual	Actual Over (Under) Original Budget
<b>REVENUES</b>								
Real property taxes	\$ 39,040,000	\$ 39,040,000	\$ 39,117,193	\$ 77,193	\$ -	\$ -	\$ -	\$ -
Sales and use taxes	27,005,000	27,005,000	26,068,741	(936,259)	-	-	-	-
Other taxes	3,015,750	3,350,350	3,368,788	18,438	-	-	-	-
Payments in lieu of taxes	6,740,000	11,542,400	11,696,914	154,514	-	-	-	-
Intergovernmental revenue	13,997,600	15,745,954	15,885,911	139,957	2,825,000	3,064,610	2,886,998	61,998
Charges for services	12,760,900	13,117,900	13,064,917	(52,983)	-	-	-	-
Fines, interest and penalties	3,132,000	3,199,138	3,786,331	587,193	-	-	-	-
Use of money and properties	722,000	902,000	384,298	(517,702)	-	-	-	-
Licenses and permits	1,005,845	1,350,145	1,335,653	(14,492)	-	-	-	-
Other revenues	4,104,226	4,142,880	4,265,151	122,271	-	-	-	-
Total revenues	111,523,321	119,395,767	118,973,897	(421,870)	2,825,000	3,064,610	2,886,998	61,998
<b>EXPENDITURES</b>								
Public safety and regulation	57,406,579	63,161,697	62,393,471	(768,226)	-	-	-	-
General government	18,469,829	18,866,385	18,261,769	(604,616)	-	-	-	-
Highways and streets	6,339,973	7,106,276	7,106,268	(8)	-	-	-	-
Recreation and culture	5,025,833	5,701,432	5,701,337	(95)	-	-	-	-
Community service	6,405,107	6,614,863	6,614,829	(34)	-	-	-	-
Employee benefits	10,063,000	10,526,459	10,416,886	(109,573)	-	-	-	-
Economic development and assistance	-	-	-	-	2,825,000	2,825,000	2,691,019	(133,981)
Debt service	12,068,000	11,657,502	12,207,496	549,994	-	-	-	-
Total expenditures	115,778,321	123,634,614	122,702,056	(932,558)	2,825,000	2,825,000	2,691,019	(133,981)
Excess (deficiency) of revenues and appropriated fund balance over expenditures	(4,255,000)	(4,238,847)	(3,728,159)	510,688	-	239,610	195,979	195,979
<b>OTHER FINANCING SOURCES (USES)</b>								
Proceeds from general obligation bonds and long-term notes payable	-	-	124,957	124,957	-	-	-	-
Transfers, net	-	(16,151)	(1,339,100)	(1,322,949)	-	-	-	-
Proceeds from sale of property	4,255,000	4,255,000	4,601,702	346,702	-	-	-	-
Total other financing sources (uses)	4,255,000	4,238,849	3,387,559	(851,290)	-	-	-	-
Excess (deficiency) of revenues, appropriated fund balance and other financing sources over expenditures and other financing uses	\$ -	\$ 2	\$ (340,600)	\$ (340,602)	\$ -	\$ 239,610	\$ 195,979	\$ 195,979

\* Includes special grant and miscellaneous special revenue funds only.

