

CITY OF MECHANICVILLE, NEW YORK

FINANCIAL STATEMENTS

DECEMBER 31, 2019

CITY OF MECHANICVILLE, NEW YORK

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council
City of Mechanicville, New York

We have audited the accompanying financial statements of the general fund, special grant fund, water fund, sewer fund, capital projects fund and fiduciary fund of the City of Mechanicville, New York (the "City") as of and for the year ended December 31, 2019, and the related notes to the financial statements, as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the general fund, special grant fund, water fund, sewer fund, capital projects fund and fiduciary fund for the City of Mechanicville, New York, as of December 31, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the general fund, special grant fund, water fund, sewer fund, capital projects fund and fiduciary fund and do not purport to, and do not present fairly, the financial position of the City as of December 31, 2019, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Long-term debt are presented as unaudited in Notes 5 and 7 as we were not engaged to perform an audit of these items. Our opinion is not modified with respect to this matter.

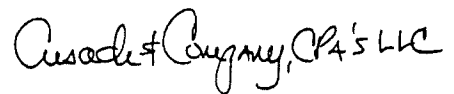
Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, page 25, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Auditing Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in a appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2021, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



CUSACK & COMPANY, CPA'S LLC

Latham, New York
March 10, 2021

CITY OF MECHANICVILLE, NEW YORK
BALANCE SHEETS - ALL GOVERNMENTAL FUND TYPES
DECEMBER 31, 2019

	Special Revenue Funds				
	General	Special Grant	Water	Sewer	Capital Projects
Assets:					
Cash	\$ 839,775	\$ 245,355	\$ 498,858	\$ 425,646	\$ 8,850
Taxes receivable, net	661,671	-	-	-	-
Accounts receivable, net	106,337	-	103,334	24,342	-
State and federal receivables	325,229	-	-	26,700	594,838
Loans receivable, net	-	15,121	-	-	-
Due from other funds	746,783	-	-	-	167,745
Due from other governments	272,235	-	-	-	-
Prepaid expenses	126,745	-	-	-	-
Total assets	<u>\$ 3,078,775</u>	<u>\$ 260,476</u>	<u>\$ 602,192</u>	<u>\$ 476,688</u>	<u>\$ 771,433</u>
Liabilities:					
Accounts payable	\$ 178,094	\$ 5,399	\$ 49,252	\$ 826	\$ 68,468
Accrued liabilities	21,927	-	3,581	1,387	-
Due to other funds	-	175,805	-	-	737,223
Due to other governments	361,867	-	-	-	-
Total liabilities	<u>561,888</u>	<u>181,204</u>	<u>52,833</u>	<u>2,213</u>	<u>805,691</u>
Deferred inflows of resources	<u>384,683</u>	<u>15,121</u>	<u>68,671</u>	<u>19,462</u>	<u>571,121</u>
Fund balances (deficit):					
Non-spendable	126,745	-	-	-	-
Assigned - appropriated	262,000	-	83,527	10,867	-
Assigned - unappropriated	-	64,151	397,161	444,146	-
Unassigned (deficit)	1,743,459	-	-	-	(605,379)
Total fund balances (deficit)	<u>2,132,204</u>	<u>64,151</u>	<u>480,688</u>	<u>455,013</u>	<u>(605,379)</u>
Total, liabilities, deferred inflows of resources and fund balances (deficit)	<u>\$ 3,078,775</u>	<u>\$ 260,476</u>	<u>\$ 602,192</u>	<u>\$ 476,688</u>	<u>\$ 771,433</u>

CITY OF MECHANICVILLE, NEW YORK
STATEMENTS OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Special Revenue Funds</u>				
	<u>General</u>	<u>Special Grant</u>	<u>Water</u>	<u>Sewer</u>	<u>Capital Projects</u>
Revenue:					
Real property taxes	\$ 2,564,305	\$ -	\$ -	\$ -	\$ -
Real property tax items	98,048	-	-	-	-
Nonproperty tax items	1,409,036	-	-	-	-
Departmental income	23,376	-	824,304	927,656	-
Intergovernmental	95,532	-	-	-	-
Use of money and property	8,790	213	-	-	-
Licenses and permits	91,227	-	4,500	-	-
Fine and forfeitures	44,774	-	-	-	-
Sale of property and compensation for loss	25,959	-	-	-	-
Miscellaneous local sources	8,844	14,699	-	-	167,745
State aid	993,777	-	-	-	88,684
Federal aid	-	10,895	-	26,700	-
Total revenue	<u>5,363,668</u>	<u>25,807</u>	<u>828,804</u>	<u>954,356</u>	<u>256,429</u>
Expenditures:					
General governmental support	670,193	380	-	-	65,898
Public safety	1,570,467	-	-	-	-
Health	10,000	-	-	-	-
Transportation	844,598	-	-	-	440,197
Economic assistance and opportunity	145,787	13,459	-	-	-
Culture and recreation	79,063	-	-	-	-
Home and community services	405,280	-	585,760	842,080	113,871
Employee benefits	1,165,342	-	78,938	51,014	-
Debt service	170,563	-	180,000	51,128	-
Total expenditures	<u>5,061,293</u>	<u>13,839</u>	<u>844,698</u>	<u>944,222</u>	<u>619,966</u>
Excess (deficiency) of revenue over expenditures	302,375	11,968	(15,894)	10,134	(363,537)
Operating transfers - in	-	-	125,000	-	-
Operating transfers - out	(125,000)	-	-	-	-
Proceeds from note issuance	-	-	-	-	86,711
Net change in fund balances	177,375	11,968	109,106	10,134	(276,826)
Fund balance (deficit), beginning of year	<u>1,954,829</u>	<u>52,183</u>	<u>371,582</u>	<u>444,879</u>	<u>(328,553)</u>
Fund balances (deficit), end of year	<u>\$ 2,132,204</u>	<u>\$ 64,151</u>	<u>\$ 480,688</u>	<u>\$ 455,013</u>	<u>\$ (605,379)</u>

CITY OF MECHANICVILLE, NEW YORK
STATEMENT OF NET POSITION
FIDUCIARY FUND
DECEMBER 31, 2019

	<u>Service Award Program</u>	<u>Agency</u>
Assets:		
Cash	\$ -	\$ 13,199
Service award program assets	<u>600,539</u>	<u>-</u>
Total assets	<u>600,539</u>	<u>13,199</u>
Liabilities:		
Service award program liabilities	\$ 600,539	\$ -
Other liabilities	-	11,699
Due to other funds	<u>-</u>	<u>1,500</u>
Total liabilities	<u>600,539</u>	<u>13,199</u>
Net position	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Mechanicville, New York (the City) has prepared its general, special grant, water, sewer, capital projects and fiduciary funds financial statements in accordance with accounting principles generally accepted in the United States of America as applied to government units (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing GAAP for state and local governments through its pronouncements (Standards and Interpretation).

The City does not comply with GASB Statement No. 34, which requires the City to present the government-wide financial statements on a full accrual government-wide basis as well as the fund basis. The financial statements present only the general, special grant, water, sewer, capital projects and fiduciary funds, and do not purport to, and do not present fairly the financial position or changes in financial position of the City.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying governmental funds financial statements follows.

A. Financial Reporting Entity

The City was incorporated in 1915 and operates under an elected Common Council which includes the Mayor and four other persons, and provides service to approximately 5,200 residents in areas including general government services, public works, public safety and community enrichment programs.

GASB Statement No. 61 defines the financial reporting entity for the City to include all funds, account groups, agencies, boards, commissions and authorities where the elected officials (the Mayor and/or the council, respectively) are financially accountable and for which a financial benefit or burden relationship exists. The following terms are used to describe the components of a reporting entity:

- Primary Government

A legally separate state, general purpose local or special purpose government with a separately elected governing body. It must be fiscally independent of other primary governments.

- Component Unit

A legally separate organization for which the elected officials are financially accountable. Also the primary government is able to impose its will on the component unit or there is a potential for the component unit to provide a financial benefit or incur a financial burden on the primary government.

In accordance with accounting principles generally accepted in the United States of America, only the primary government is presented in these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

Excluded from the Financial Reporting Entity

The City of Mechanicville/Town of Stillwater Industrial Development Agency (the “Agency”) was created for the purpose of encouraging economic growth in the City and the Town. The Mayor and Town appoints the agency’s governing board. A separate audit report is available for the agency’s December 31, 2019 financial statements.

The Mechanicville Housing Authority (the “Authority”) was organized pursuant to the Housing Statutes of the State of New York and was created to provide low-income housing. The Governing Board of the Authority is appointed by the Mayor. The City provides no subsidy to the Authority, nor is it responsible for the debt or operating deficits of the Authority. The Authority’s debt is essentially supported by operating revenues of the Authority and is not guaranteed by the City. The City does not approve the Authority’s budget, contracts or hiring of staff. The City has no oversight responsibility for the funds of the Authority. A separate audit report is available for the Authority’s December 31, 2019 financial statement.

B. Basis of Presentation - Fund Accounting

The accounts of the City are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures or expenses. Governmental resources are allocated to and accounted for in individual funds based upon the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions and limitations.

The various funds are grouped in the financial statements in the following fund types and account group:

Governmental Fund Types

Governmental funds are those in which most governmental functions of the City are reported. The acquisition, use and balances of the City’s expendable financial resources and the related liabilities are accounted for through the governmental funds. The measurement focus is upon determination of financial position, rather than upon determination of net income. The following are the City’s governmental fund types:

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation - Fund Accounting (Continued)

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The special revenue funds include the following:

- Special Grant Fund - established to account for revenues and expenditures relating to special grants, primarily from the Department of Housing and Urban Development.
- Water Fund - established by law to account for revenues and expenditures for the purpose of providing water to the City.
- Sewer Fund - established by law to account for revenues and expenditures for the purpose of providing sewage services to the City.

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

Fiduciary Fund Types

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

Account Groups

Account groups are used to establish accounting control and accountability for general fixed assets and general long-term debt. The two account groups are not “funds.” They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations.

The Non-Current Governmental Assets Account Group - This account group is used to account for land, buildings, improvements other than buildings, and equipment utilized for general government purposes and deferred outflows of resources for pension. The City does not report the non-current governmental assets account group as historical records of fixed assets have not been maintained.

The Non-Current Governmental Liabilities Account Group - This account group is used to record all long-term obligations of the City, such as bonds, compensated absences and other long-term debt. As the City has not recorded in the general long-term debt account group, liabilities for postemployment benefits other than pensions and for pensions and related liabilities that are not within the scope of GASB 68, as they are unknown, the non-current governmental liabilities account group has been footnoted as “unaudited.”

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when they are susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Expenditures are recorded when the liability is incurred, if measurable, except that:

- Interest on long-term debt is not recognized as an expenditure until paid.
- Compensated absences, which vests or accumulates, is charged as an expenditure when paid.

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

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

The accrual basis of accounting is followed by the fiduciary funds.

D. Budgetary Data

Budgets are adopted annually on a basis consistent with generally accepted accounting principles. The City employs the following budgetary procedures:

- No later than October 31, the Commissioner of Finance submits a tentative budget to the Mayor and Commissioner's for their departments for the fiscal year commencing that January 1. The tentative budget includes proposed expenditures and the proposed means of financing for all funds.
- After public hearings are conducted, no later than November 30, the City Council adopts the City Budget.
- All revisions that alter appropriations of any department by fund must be approved by the City Council.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Property Taxes

City real property taxes are levied annually no later than February 20 and foreclosure procedures begin for unpaid balances that exceed two years.

F. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriations, is employed in the governmental funds. Open encumbrances at year end are reported as reservations of fund balances since the commitments do not constitute expenditures nor liabilities.

G. General Fixed Assets

Acquisitions of equipment and capital facilities are appropriately recorded as expenditures in the various governmental funds of the City.

H. Compensated Absences

City employees are granted vacation and sick leave in varying amounts. In the event of termination or upon retirement, an employee is entitled to payment for accumulated vacation and sick leave at various rates subject to certain maximum limitations. The liability for accumulated vacation and related benefits has been recorded in the respective governmental fund type in accordance with GASB 16. Payment of accumulated sick leave and related benefits is reflected in the non-current government liabilities account group since it is anticipated that none of the liability will be liquidated with expendable financial resources. However, management believes that sufficient resources will be made available for payment of accumulated sick leave and related benefits when such payments become due.

I. Other Post Employment Benefits

In addition to the retirement benefits described in Note 7, the City provides postemployment health insurance coverage to its retired employees and their survivors in accordance with the provisions of the employment contracts negotiated between the City and its employee groups. Substantially all of these employees may become eligible for these benefits if they reach normal retirement age while working for the City. The City recognized the cost of providing benefits for the year ended December 31, 2019 by recording its costs for the benefits for approximately 54 currently enrolled retirees and family members as an expenditure in 2019, which totaled approximately \$416,000.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Subsequent Events

Management has evaluated subsequent events or transactions as to potential material impact on operations or financial position occurring through March 10, 2021, the date the financial statements were available to be issued. No such events or transactions were noted.

2. STEWARDSHIP, COMPLIANCE, ACCOUNTABILITY

Deficit Fund Balance

The capital projects fund has deficits totaling \$605,379 at December 31, 2019. This deficit is caused by allowing contracts for projects funded by special revenue fund operating transfers. The deficit will be eliminated when general fund operating transfers are made.

3. CASH AND INVESTMENTS

The City's investment policy was adopted by the City Council and is governed by State statutes. The City's monies must be deposited in FDIC-insured commercial banks or trust companies located within the State. The Commissioner of Finance is authorized to use demand accounts, certificates of deposit, obligations of the United States of America, New York State and local municipalities and school districts, certificates of participation and repurchase agreements with certain restrictions.

Collateral is required for demand deposits and certificates of deposit at 100 percent of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of any state and its municipalities and school districts.

During 2019, cash and investments were either insured by Federal Depository Insurance or collateralized by assets of the City's agent in the City's name.

CITY OF MECHANICVILLE, NEW YORK
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

4. INTERFUND TRANSACTIONS

During the course of operations, the City has numerous transactions between funds, including expenditures and transfers of revenue to provide services and construct assets. As of and for the year ended December 31, 2019, interfund balances and revenues and expense arising from these transactions were as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>	<u>Interfund Revenues</u>	<u>Interfund Expense</u>
General Fund	\$ 746,783	\$ -	\$ -	\$ 125,000
Water Fund	-	-	125,000	-
Special Grant Fund	-	175,805	-	-
Capital Projects Fund	167,745	737,223	-	-
Fiduciary Fund	-	1,500	-	-
	<u>\$ 914,528</u>	<u>\$ 914,528</u>	<u>\$ 125,000</u>	<u>\$ 125,000</u>

5. LONG-TERM INDEBTEDNESS (UNAUDITED)

The changes in the City's long-term indebtedness during the year are summarized as follows:

	<u>January 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2019</u>
Serial Bonds Payable	\$ 5,027,500	\$ -	\$ 313,500	\$ 4,714,000
Installment Debt Payable	335,822	-	50,263	285,559
EFC Note Payable	320,025	86,711	-	406,736
Compensated Absences	67,477	30,702	-	98,179
Net Pension Liability (Note 7)	396,983	409,763	-	806,746
	<u>\$ 6,147,807</u>	<u>\$ 527,176</u>	<u>\$ 363,763</u>	<u>\$ 6,311,220</u>

Serial bonds payable consist of the following:

<u>Purpose</u>	<u>Year of Issue/ Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>December 31, 2019</u>
Highway Vehicle	2011/2020	\$1.30-4.70%	\$ 360,000	\$ 45,000
Water Plant Construction				
- EFC	2007/2037	0.00%	5,673,707	3,665,000
Sewer - EFC	2006/2033	0.00%	765,000	329,000
Fire Truck	2016/2031	2.375%	380,000	320,000
Bridges	2017/2026	1.0%-4.4%	478,920	355,000
Total Serial Bonds			<u>\$ 7,657,627</u>	<u>\$ 4,714,000</u>

5. LONG-TERM INDEBTEDNESS (UNAUDITED) (CONTINUED)

The annual maturities of serial bonds are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 323,500	\$ 18,360
2021	288,500	15,088
2022	288,500	13,746
2023	288,500	12,276
2024	293,500	10,683
2025-2029	1,357,500	24,728
2030-2034	1,209,000	2,137
2035-2037	665,000	-
	<u>\$ 4,714,000</u>	<u>\$ 97,018</u>

Installment debt payable consists of a capital lease for a fire truck acquired in February 2010, with annual payments of \$67,015, including interest at 4.975%, through February 2024.

The annual maturities of installment debt are as follows:

2020	\$ 67,015
2021	67,015
2022	67,015
2023	67,015
2024	<u>67,015</u>
Total	335,075
Amount Representing Interest	<u>(49,516)</u>
Installment Debt Payable	<u>\$ 285,559</u>

EFC note payable consists of a \$406,736 short-term note from Environmental Facilities Corporation that will be converted to long-term at the completion of the project, and as a result is treated as long-term. The City has a \$5,000,000 water project whose funding status is as follows:

	<u>Total Project</u>	<u>Incurred Through December 31, 2020</u>	<u>Unexpended</u>
Grants	\$ 2,376,000	\$ 1,188,000	\$ 1,188,000
EFC Loan	<u>2,624,000</u>	<u>406,736</u>	<u>2,217,264</u>
Total Project	<u>\$ 5,000,000</u>	<u>\$ 1,594,736</u>	<u>\$ 3,405,264</u>

Information to record the liability for post-employment benefits other than pensions (GASB 75) and the liability for pensions and related assets that are not within the scope of GASB 68 and GASB 73 is not available and therefore these liabilities have not been recorded as they are unknown.

6. DEFERRED INFLOWS OF RESOURCES

Certain revenues have been deferred in the fund statements as the revenue is not available to pay liabilities of the current period.

General Fund:

Tax revenue receivable	\$ 318,762
Grant revenue	<u>65,921</u>
	<u>\$ 384,683</u>
Special grant fund - USDA loan payments	<u>\$ 15,121</u>
Water fund - water rents receivable	<u>\$ 68,671</u>
Sewer fund - sewer rents receivable	<u>\$ 19,462</u>
Capital projects fund - grant revenue	<u>\$ 571,121</u>

7. PENSION PLANS (UNAUDITED)

General Information

The City participates in the New York State and Local Employees' Retirement System ("ERS") and New York State and Local Police and Fire Retirement System ("PFRS"). The Systems are cost sharing multiple-employer, public employee retirement systems. The Systems offer a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability.

Plan Description and Benefits Provided

The Systems provide retirement benefits as well as death and disability benefits. The net position of the Systems are held in the New York State Common Retirement Fund, which was established to hold all net assets and record changes in plan net position allocated to the Systems. The Comptroller of the State of New York (the "Comptroller") serves as sole trustee and administrative head of the Systems. System benefits are established under provisions of the New York State Retirement and Social Security Laws ("NYSRSSL"). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. 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 System, 110 State Street, Albany, NY 12244.

7. PENSION PLANS (UNAUDITED) (CONTINUED)

The Systems are noncontributory except for ERS employees who joined the System after July 27, 1976 who contribute 3% of their salary, for the first ten years of membership, and employees who joined on or after January 1, 2010, who generally must contribute 3% of their salary for their entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31.

Contributions for the current year and two preceding years were equal to 100% of the contributions required as follows:

2019	\$ 306,828
2018	\$ 304,778
2017	\$ 315,011

Chapter 260 of the laws of 2014 of the State of New York allows local employers to bond or amortize a portion (limitations established by fiscal year) of their retirement bill up to 10 years for fiscal years ended March 31, 2005 through 2008. Chapter 57 of the laws of 2010 of the State of New York allows local employers to amortize a portion (limitations established by fiscal year) of their retirement bill for 10 years for fiscal years ended March 31, 2011 and forward.

These laws require participating employers to make payments on a current basis, while bonding or amortizing existing unpaid amounts. The City has no bonded or amortized retirement obligations.

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

At December 31, 2019, the City reported a liability of \$260,664 for ERS and \$546,082 for PFRS for its proportionate share of the net pension liability. The net pension liability was measured as of March 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At December 31, 2019, the City's proportion was .0037% ERS and .0226% PFRS.

7. PENSION PLANS (UNAUDITED) (CONTINUED)

At December 31, 2019, the City's deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 183,988	\$ (75,801)
Changes in assumptions	263,926	-
Net difference between projected and actual earnings on pension plan investments	-	(176,268)
Changes in proportion and differences between employer contributions and proportionate share of contributions	73,957	(263,281)
Contributions subsequent to the measurement date	<u>230,115</u>	<u>-</u>
	<u>\$ 751,986</u>	<u>\$ (515,350)</u>

The net amount of the employer's balances of deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

December 31, 2020	\$ 325,902
December 31, 2021	(124,818)
December 31, 2022	(38,443)
December 31, 2023	71,951
December 31, 2024	<u>2,044</u>
	<u>\$ 236,636</u>

ERS and PFRS Actuarial Assumption

The total pension liability at March 31, 2019 was determined by using an actuarial valuation as of April 1, 2018, with update procedures used to roll forward the total pension liability to March 31, 2019. The actuarial valuation used the following actuarial assumptions.

	<u>ERS</u>	<u>PERS</u>
Interest rate	7.0%	7.0%
Salary increase	4.2%	5.0%
Inflation rate	2.5%	2.5%
Cost of living adjustment	1.3%	1.3%

7. PENSION PLANS (UNAUDITED)(CONTINUED)

ERS and PFRS Actuarial Assumption (Continued)

Annuitant mortality rates are based on April 1, 2010 - March 31, 2015 System’s experience with adjustments for mortality improvements based on MP-2014.

The actuarial assumptions used in the April 1, 2015 valuation are based on the results of an actuarial experience study for the period April 1, 2010 - March 31, 2015.

The long term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2019 for ERS and PFRS were as follows:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	4.55%
International equity	6.35%
Private equity	7.50%
Real estate	5.5%
Absolute return strategies	3.75%
Opportunistic portfolio	5.68%
Real assets	5.29%
Bonds and mortgages	1.31%
Cash	(.25%)
Inflation-indexed bonds	1.25%

Discount Rate

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

7. PENSION PLANS (UNAUDITED)(CONTINUED)

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

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, as well as what the City's proportionate share of the net pension asset/liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Assumption</u>	<u>1%</u> <u>Increase</u>
<u>ERS</u>			
Employers' proportionate share of the net pension asset (liability)	\$ <u>(1,139,666)</u>	\$ <u>(260,664)</u>	\$ <u>477,759</u>
<u>PFRS</u>			
Employers' proportionate share of the net pension asset (liability)	\$ <u>(1,973,458)</u>	\$ <u>(546,082)</u>	\$ <u>645,943</u>

Pension Plan Fiduciary Net Position

The components of the net pension liability of the plans as of March 31, 2019 were as follows (in thousands):

	<u>ERS</u>	<u>PFRS</u>
Plan total pension liability	\$ (189,803,429)	\$ (34,128,100)
Fiduciary net position	<u>182,718,124</u>	<u>32,451,037</u>
Plan net pension liability	<u>(7,085,305)</u>	<u>(1,677,063)</u>
Ratio of fiduciary net position to the Plan total pension liability	<u>96.27%</u>	<u>95.09%</u>

8. FUND BALANCE

The City has implemented GASB 54 “Fund Balance Reporting and Governmental Fund Type Definitions.”

GASB 54 defines five categories of fund balances as follows:

- **Nonspendable** fund balance includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The City’s nonspendable fund balance consists of \$126,745 in prepaid expenses at December 31, 2019.
- **Restricted** fund balance includes amounts restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The City had no restricted fund balance at December 31, 2019.
- **Committed** fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council. The City had no committed fund balances at December 31, 2019.
- **Assigned** fund balance includes amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. Assigned fund balances include funds that are legally mandated to be accounted for separately as well as amounts that have been contractually obligated by the City or designated by the City for ensuing year’s budget. Assigned fund balance consisted of \$262,000 in the general fund, \$83,527 in the water fund and \$10,867 in the sewer fund assigned for the ensuing year’s budget.
- **Unassigned** fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the fund.

9. LENGTH OF SERVICE AWARD PROGRAM

The City participates in a single-employer, defined benefit pension plan administered by its Board of Commissioners. The Length of Service Award Program (LOSAP) plan provisions are established by the City and are approved by the voters. LOSAP provides a monthly pension benefit upon retirement at the age of 65 or upon death, should the volunteer decease before age 65. The City is required to contribute based upon actuarial calculations. Actual contributions made by the City for the year ended December 31, 2019 totaled \$70,804.

9. LENGTH OF SERVICE AWARD PROGRAM (CONTINUED)

The actuarial present value of accumulated plan benefits is determined by an actuary from Penflex, Inc. Service Award Program Specialists using the attained age, normal frozen initial liability cost method and it is that amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts of interest) and the probability of payment (by means of decrements such as death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The actuarial values of the Plan's assets were determined using the fair market value of the assets as of the valuation date. The significant actuarial assumptions used in the valuation as of December 31, 2019 were mortality rates of participants (RP-2014 Male Mortality Table was used); investment return rate (the valuations include an assumed rate of return of 5.0%); and retirement age assumptions (all active participants will elect pensions as soon as eligible for normal pension at age 65). The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated Plan benefits.

Penflex, Inc. Service Award Program Specialists issued a stand-alone, certified financial report for the Plan for the year ended December 31, 2019, which was dated May 31, 2019. The following is a summary of the funding of the Plan for the most recent actuarial valuation:

Actuarial Valuation Date	Value of Plan Assets	Actuarial Accrued Liability	Actual Actuarial Liability	Funded Ratio
1/1/20	\$ 600,539	\$ 950,613	\$ 350,074	63%
1/1/19	\$ 554,827	\$ 934,320	\$ 389,813	59%

Information is reported as of the most recent actuarial valuation date, January 1, 2020.

9. LENGTH OF SERVICE AWARD PROGRAM (CONTINUED)

The following disclosures are required for Plans that do not obtain an independent certified public accountant to perform an audit of the Plan. This disclosure is as of December 31, 2019.

(a) Program Financial Condition

Assets and Liabilities

Actuarial present value of accrued service awards as of January 1, 2020		\$ 950,613
Less assets available for benefits:		
Cash and money market	\$ 104,957	
U.S. equities	107,180	
International equities	70,316	
Fixed income	312,806	
Benefits prepaid	5,280	
Total net assets available from benefits		600,539
Total unfunded benefits		\$ 350,074

Separately Amortized Costs

The remaining unfunded prior costs are being amortized over 13 years at 5.0%. The unfunded liability for additional Service Awards earned after attainment of the entitlement age is being amortized over three years at 5.0% from the year they are accrued.

Receipts and Disbursements

Plan net assets at January 1, 2019		\$ 544,827
Changes during the year:		
Sponsor contributions	70,854	
Changes in fair market value of investments	17,925	
Investment income earned	49,472	
Investment expense	(4,040)	
Administrative fees	(923)	
Benefits paid/payable	(77,576)	
		55,712
Plan net assets at January 1, 2020		\$ 600,539

Contributions

Contribution recommended by actuary		\$ 73,792
Actual contribution made by the Sponsor		\$ 73,792

9. LENGTH OF SERVICE AWARD PROGRAM (CONTINUED)

(b) Funding Methodology and Actuarial Assumptions

Normal Costs

The actuarial valuation methodology used by the actuary to determine the Sponsor's contribution is the Attained Age Normal Cost Method. The assumptions used by the actuary to determine the Sponsor's contribution and the actuarial present value of benefits are:

Assumed rate of return on Program investments 5.0%

Tables used for:

Post Entitlement Age mortality	RP-2014 Male Mortality Table without projection
* Pre-entitlement age mortality	None
* Pre-entitlement age disability	None
* Pre-entitlement age withdrawal	None
* Pre-entitlement age service credit accrual	100%

* For Program cost calculation purposes, all pre-entitlement age active volunteer firefighter participants are assumed to survive to the entitlement age and begin to be paid service awards upon attainment of the entitlement age.

10. TAX ABATEMENT

The City enters into Payment in Lieu of Taxes ("PILOT") agreements with some local businesses. PILOTS are often included as part of an Industrial Development Agency ("IDA") agreement with a commercial or industrial development for the purpose of attracting or retaining business within their jurisdictions. PILOT agreements normally provide for payments of amounts lesser than would have been collected for real estate taxes for a number of years.

For the year ended December 31, 2019, the City had \$30,930 in PILOT revenue.

11. COMMITMENTS AND CONTINGENCIES

Litigation

Several claims against the City are presently pending for various reasons including condemnation and personal injuries. Although the final outcome of these matters cannot be predicted, management of the City, based on the advice of the City's Counsel, does not believe that the final settlement of these matters will have a material adverse effect on the financial condition of the City.

11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Grant Programs

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

Environmental Concerns

The City is engaged in many activities (*e.g.*, water and sewer service, refuse collection, gasoline storage), in the normal course of operations, that are potentially hazardous to the environment. As of December 31, 2019, the City is not aware of any significant environmental problems that should be disclosed in the financial statements.

Union Contracts

Police, fire department and department of public works employees are each represented by a collective bargaining agent. Those agents which represent them and the dates of expiration of their agreements are as follows:

<u>Bargaining Unit</u>	<u>Contract Expiration Date</u>
Civil Service Employees Association	December 31, 2019
Mechanicville Police Benevolent and Protective Association	December 31, 2019

Self Insurance

The City participates in a self-insured plan for workers' compensation under County of Saratoga Local Law No. 1 and 2, 1956, pursuant to Article 5 of the Workers' Compensation Law. The plan, which currently has 53 participants, is open to any eligible municipality or public entity for participation. The County of Saratoga Springs, New York is responsible for administration of the plan and reserves. The plan purchases commercial insurance for employer's third party suits; the limit is \$1,000,000 with retention of \$10,000. All participants make annual payments to the plan based on historical estimates of the amounts needed to pay prior and current year claims and establish a reserve for catastrophic losses. For the year ended December 31, 2019 the City's workers' compensation premium was \$129,721. The City's annual workers' compensation premium is included in the County tax levy for the given fiscal year, therefore no expenditure is reflected in the City's financial statements for workers' compensation. The County issues a publicly available financial report which may be obtained by writing to the County of Saratoga, 40 McMaster Street, Ballston Spa, New York. 12020.

11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Refuse Agreement

The City has entered into an agreement with County Waste and Recycling Service, Inc. for refuse and recycling at established rates through December 31, 2021. Total refuse and recycling expenditures for the year ended December 31, 2019 were \$382,715.

12. UNCERTAINTY

The United States is presently in the midst of a national health emergency related to a virus commonly known as Novel Coronavirus (COVID-19). The overall consequences of COVID-19 on a national, regional, and local level are unknown, but it has the potential to result in a significant economic impact. The impact of this situation on the Agency and its future financial position and results of operations is not presently determinable.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MECHANICVILLE, NEW YORK
SCHEDULE OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenue			
Real Property Taxes	\$ 2,594,955	\$ 2,564,305	\$ (30,650)
Real Property Tax Items	110,000	98,048	(11,952)
Non Property Tax Items	1,374,976	1,409,036	34,060
Departmental Income	79,000	23,376	(55,624)
Intergovernmental Charges	174,037	95,532	(78,505)
Use of Money and Property	1,506	8,790	7,284
Licenses and Permits	11,790	91,227	79,437
Fines and Forfeitures	3,300	44,774	41,474
Sale of Property and Compensation for Loss	52,000	25,959	(26,041)
Miscellaneous Local Sources	5,438	8,844	3,406
State Aid	<u>913,971</u>	<u>993,777</u>	<u>79,806</u>
Total Revenue	<u>5,320,973</u>	<u>5,363,668</u>	<u>42,695</u>
Expenditures			
General Government Support	781,501	670,193	111,308
Public Safety	1,695,796	1,570,467	125,329
Public Health	10,000	10,000	-
Transportation	922,013	844,598	77,415
Economic Assistance and Opportunity	152,905	145,787	7,118
Culture and Recreation	119,771	79,063	40,708
Home and Community Services	452,464	405,280	47,184
Employee Benefits	1,244,605	1,165,342	79,263
Debt Service (Principal and Interest)	<u>170,563</u>	<u>170,563</u>	<u>-</u>
Total Expenditures	<u>5,549,618</u>	<u>5,061,293</u>	<u>488,325</u>
Other Changes			
Operating Transfers - Out	<u>130,355</u>	<u>125,000</u>	<u>5,355</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>\$ (359,000)</u>	<u>\$ 177,375</u>	<u>\$ 536,375</u>

**REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Mayor and City Council
City of Mechanicville, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Mechanicville, New York, as of and for the year ended December 31, 2019, and the related notes to the financial statements, and have issued our report thereon dated March 10, 2021.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City of Mechanicville, New York's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings, that we consider to be significant deficiencies as items 2019-01 and 2019-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Mechanicville, New York's financial statements are free from misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



CUSACK & COMPANY, CPA'S LLC

Latham, New York
March 10, 2021

2019-1 Segregation of Duties

Criteria - As part of our audit we noted that the City did not appropriately segregate the performance, review and recordkeeping of all accounting functions. Strong internal control systems require separation between the performance, review and recordkeeping of all transactions.

Condition - The City maintains two distinct financial departments, one headed by the Commissioner of Finance and one headed by the Commissioner of Accounts. As such, one person is not responsible for the entire financial reporting process of the City.

Effect of Condition - Provides opportunity for fraud, misuse or error to go undetected, and as discussed above, inaccurate financial reporting.

Recommendation - We recommend that the City improve its financial reporting system by increasing the communication and transparency between the accounting departments, and delegate one of the positions described above responsible for the financial reporting process of the City.

Response: Client concurs and is working on communication between departments.

2019-2 Outsourcing of Financial Statement Preparation Process to Your Auditors

Auditing standards require the reporting of a significant deficiency if the City does not employ an individual with the necessary qualifications to prepare a complete set of financial statements and related footnotes in accordance with generally accepted accounting principles. As the City bookkeeper is not a certified public accountant, she is not able to determine that the financial statements and related footnotes are in accordance with generally accepted accounting principles. As a result, Cusack & Company CPA's LLC has assisted the City in preparing its financial statement preparation functions. Management continues to make all management decisions and perform all management functions. Additionally, management has designated an individual who possesses suitable skill, knowledge and experience to oversee our services. Such individual is responsible to evaluate the adequacy and results of the services performed, accepts responsibility for the results of the services, and maintains control and monitors such services.

Governance and management have concluded that the cost to rectify this comment would exceed the benefit.

2018-1 Significant Adjustments

Criteria - Significant adjustments were made to the general ledger to prevent the financial statements from being materially misstated, mostly related to receivables for loans and reimbursements.

Condition - As part of the audit of the financial statements of the City, we recorded adjusting journal entries amounting to approximately \$819,000.

Effect of Condition - Adjustments have been made to reflect the accounts affected.

Recommendation - We recommend that the City analyze significant general ledger accounts on a monthly or quarterly basis. Any differences should be investigated promptly and appropriate journal entries recorded.

Status - The finding was corrected in 2018.

2018-2 Segregation of Duties

Criteria - As part of our audit we noted that the City did not appropriately segregate the performance review and recordkeeping of all accounting functions. Strong internal control systems require separation between the performance, review and recordkeeping of all transactions.

Condition - The City maintains two district financial departments, one headed by the Commissioner of Finance and one headed by the Commissioner of Accounts. As such, one person is not responsible for the entire financial reporting process of the City.

Effect of Condition - Provides opportunity for fraud, misuse of error to go undetected, and as discussed above, inaccurate financial reporting.

Recommendation - We recommend that the City improve its financial reporting system by increasing the communication and transparency between the accounting departments, and delegate one of the positions described above responsible for the financial reporting process of the City.

Status - The finding was repeated in 2019.