

CITY OF MECHANICVILLE, NEW YORK

FINANCIAL STATEMENTS

DECEMBER 31, 2020

CITY OF MECHANICVILLE, NEW YORK

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the general fund, service awards program, 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, 2020, and the related notes to the financial statements, which collectively comprise the City of Mechanicville's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the general fund, service awards program, special grant fund, water fund, sewer fund, capital projects fund and fiduciary fund for the City of Mechanicville, New York, as of December 31, 2020, 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 Matters

As discussed in Note 1, the financial statements present only the general fund, service awards program, 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, 2020, 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 is presented as unaudited in Note 5 as we were not engaged to perform an audit of these items. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the City adopted the Governmental Accounting Standards Board's Statement No. 84, *Fiduciary Activities*, as of and for the year ended December 31, 2020. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information (page 26), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information 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.

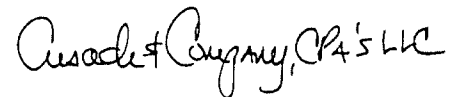
Other Information

Our audit was conducted for the purpose of forming an opinions on the financial statements that collectively comprise the City of Mechanicville's basic financial statements. The accompanying schedule of schedule of expenditures of federal awards on page 31 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to

prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2021 on our consideration of the City of Mechanicville, New York'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Mechanicville, New York's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Mechanicville, New York's internal control over financial reporting and compliance.



CUSACK & COMPANY, CPA'S LLC

Latham, New York
September 2, 2021

CITY OF MECHANICVILLE, NEW YORK
BALANCE SHEETS - ALL GOVERNMENTAL FUND TYPES
DECEMBER 31, 2020

| | <u>Special Revenue Funds</u> | | | | | |
|--|------------------------------|--------------------------------------|--------------------------|--------------------------|--------------------------|-----------------------------|
| | <u>General</u> | <u>Service Award Program</u> | <u>Special Grant</u> | <u>Water</u> | <u>Sewer</u> | <u>Capital Projects</u> |
| Assets: | | | | | | |
| Cash | \$ 1,116,261 | \$ - | \$ 222,521 | \$ 340,037 | \$ 455,663 | \$ 94,163 |
| Investments | - | 652,453 | - | - | - | - |
| Property taxes receivable, net | 379,829 | - | - | - | - | - |
| Accounts receivable, net | 139,119 | - | - | 213,684 | 28,790 | - |
| State and federal receivables | 327,032 | - | - | - | - | 1,581,839 |
| Loans receivable, net | - | - | 37,082 | - | - | - |
| Due from other funds | 1,140,166 | - | - | - | - | 169,462 |
| Due from other governments | 280,433 | - | - | - | - | - |
| Prepaid expenses | 71,929 | 5,500 | - | - | - | - |
| Total assets | <u>\$ 3,454,769</u> | <u>\$ 657,953</u> | <u>\$ 259,603</u> | <u>\$ 553,721</u> | <u>\$ 484,453</u> | <u>\$ 1,845,464</u> |
| Liabilities: | | | | | | |
| Accounts payable | \$ 207,798 | \$ - | \$ 1,253 | \$ 21,118 | \$ 1,034 | \$ 1,851,416 |
| Accrued liabilities | 45,036 | - | - | 7,157 | 1,386 | - |
| Due to other funds | - | - | 167,427 | - | - | 1,142,201 |
| Due to other governments | 63,737 | - | - | - | - | - |
| Total liabilities | <u>316,571</u> | <u>-</u> | <u>168,680</u> | <u>28,275</u> | <u>2,420</u> | <u>2,993,617</u> |
| Deferred inflows of resources | <u>322,022</u> | <u>-</u> | <u>37,082</u> | <u>111,629</u> | <u>25,350</u> | <u>524,183</u> |
| Fund balances (deficit): | | | | | | |
| Non-spendable | 71,929 | - | - | - | - | - |
| Assigned - appropriated | 404,501 | - | - | - | - | - |
| Assigned - unappropriated | 37,289 | 657,953 | 53,841 | 413,817 | 456,683 | - |
| Unassigned (deficit) | <u>2,302,457</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1,672,336)</u> |
| Total fund balances (deficit) | <u>2,816,176</u> | <u>657,953</u> | <u>53,841</u> | <u>413,817</u> | <u>456,683</u> | <u>(1,672,336)</u> |
| Total, liabilities, deferred inflows of resources and fund balances (deficit) | <u>\$ 3,454,769</u> | <u>\$ 657,953</u> | <u>\$ 259,603</u> | <u>\$ 553,721</u> | <u>\$ 484,453</u> | <u>\$ 1,845,464</u> |

CITY OF MECHANICVILLE, NEW YORK
STATEMENTS OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2020

| | <u>Special Revenue Funds</u> | | | | | |
|--|------------------------------|--------------------------------------|--------------------------|-------------------|-------------------|-----------------------------|
| | <u>General</u> | <u>Service Award Program</u> | <u>Special Grant</u> | <u>Water</u> | <u>Sewer</u> | <u>Capital Projects</u> |
| Revenue: | | | | | | |
| Real property taxes | \$ 2,700,649 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Real property tax items | 113,050 | - | - | - | - | - |
| Non property tax items | 1,377,033 | - | - | - | - | - |
| Departmental income | 24,498 | - | - | 841,593 | 953,562 | - |
| Intergovernmental charges | 56,994 | - | - | - | - | - |
| Use of money and property | 460 | 50,516 | 210 | - | - | - |
| Licenses and permits | 34,804 | - | - | - | - | - |
| Fine and forfeitures | 19,455 | - | - | - | - | - |
| Sale of property and compensation for loss | 39,323 | - | - | - | - | - |
| Miscellaneous local sources | 17,461 | 73,792 | 19,480 | - | - | - |
| State aid | 1,267,170 | - | - | - | 3,300 | 1,717 |
| Federal aid | - | - | 179,480 | - | - | 1,718,973 |
| Total revenue | <u>5,650,897</u> | <u>124,308</u> | <u>199,170</u> | <u>841,593</u> | <u>956,862</u> | <u>1,720,690</u> |
| Expenditures: | | | | | | |
| General government support | 623,304 | - | - | - | - | - |
| Public safety | 1,671,336 | - | - | - | - | - |
| Health | 10,000 | - | - | - | - | - |
| Transportation | 833,855 | - | - | - | - | 171,065 |
| Economic assistance and opportunity | 26,295 | - | 30,000 | - | - | - |
| Culture and recreation | 76,074 | - | - | - | - | - |
| Home and community services | 414,440 | - | 179,480 | 560,837 | 852,838 | 4,003,954 |
| Employee benefits | 1,137,317 | 66,894 | - | 75,627 | 52,172 | - |
| Debt service | 174,304 | - | - | 272,000 | 50,182 | - |
| Total expenditures | <u>4,966,925</u> | <u>66,894</u> | <u>209,480</u> | <u>908,464</u> | <u>955,192</u> | <u>4,175,019</u> |
| Excess (deficiency) of revenue over expenditures | 683,972 | 57,414 | (10,310) | (66,871) | 1,670 | (2,454,329) |
| Proceeds from note issuance | - | - | - | - | - | 1,387,372 |
| Net change in fund balance | 683,972 | 57,414 | (10,310) | (66,871) | 1,670 | (1,066,957) |
| Fund balance (deficit), beginning of year | <u>2,132,204</u> | <u>600,539</u> | <u>64,151</u> | <u>480,688</u> | <u>455,013</u> | <u>(605,379)</u> |
| Fund balance (deficit), end of year | <u>\$ 2,816,176</u> | <u>\$ 657,953</u> | <u>\$ 53,841</u> | <u>\$ 413,817</u> | <u>\$ 456,683</u> | <u>\$(1,672,336)</u> |

CITY OF MECHANICVILLE, NEW YORK
STATEMENT OF NET POSITION AND CHANGES IN NET POSITION
FIDUCIARY FUND
DECEMBER 31, 2020

Statement of Net Position

| | <u>Custodial</u> |
|--|-------------------------|
| Cash (Total Assets) | \$ <u>322,245</u> |
| Due to other governments (Total Liabilities) | \$ <u>322,245</u> |

Statement of Changes in Net Position

| | |
|--|-------------------|
| Property tax collection for other governments | \$ <u>247,294</u> |
| Payments of property taxes to other governments | \$ <u>247,295</u> |
| Change in net position | - |
| Net position, beginning | <u>-</u> |
| Net position, ending | \$ <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 fund 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, there were no component units identified.

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. The City does not approve the Authority’s budget or contracts. The City has no oversight responsibility for the funds of the Authority. A separate audit report is available for the agency’s December 31, 2020 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, 2020 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)

Governmental Fund Types (Continued)

Service Awards Program - The service awards program is used to account for revenues and expenditures relating to the length of service plan provided to volunteer City Fire Fighters.

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 fund accounts for assets held by the City as an agent for the Mechanicville School District in a custodial capacity.

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. The City does not report the non-current governmental assets account group as historical records of fixed assets have not been maintained.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation - Fund Accounting (Continued)

Account Groups (Continued)

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.”

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 vest or accumulate, 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 Statement No. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2020 by recording its costs for the benefits for approximately 54 currently enrolled retirees and family members as an expenditure in 2020, which totaled approximately \$392,000.

J. Deferred Compensation Plan

Employees of the City may elect to participate in the City's Deferred Compensation Plan created in accordance with Internal Revenue Code §457. The Plan, available to all employees, permits them to defer a portion of their salary until future years, usually after retirement.

Under the terms of the amended Plan agreement, these monies are not subject to the claims of the City's general creditors after they are paid to the Plan's Trustee.

K. Subsequent Events

Management has evaluated subsequent events or transactions as to potential material impact on operations or financial position occurring through September 2, 2021, the date the financial statements were available to be issued. No such events or transactions were noted.

L. New Accounting Pronouncement

GASB Statement No. 84

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

2. STEWARDSHIP, COMPLIANCE, ACCOUNTABILITY

Deficit Fund Balance

The capital projects fund has deficits totaling \$1,672,336 at December 31, 2020. This deficit is caused by allowing contracts for projects funded by borrowings and operating transfers. The deficit will be eliminated with long term borrowings, collection of deferred receivables and general fund operating transfers.

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 2020, cash and investments were either insured by Federal Depository Insurance or collateralized by assets of the City’s agent in the City’s name.

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, 2020, 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> |
|-----------------------|---------------------------------|-------------------------------|
| General Fund | \$ 1,140,166 | \$ - |
| Special Grant Fund | - | 167,427 |
| Capital Projects Fund | <u>169,462</u> | <u>1,142,201</u> |
| | <u>\$ 1,309,628</u> | <u>\$ 1,309,628</u> |

CITY OF MECHANICVILLE, NEW YORK
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020

5. LONG-TERM INDEBTEDNESS (UNAUDITED)

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

| | <u>January 1,</u> <u>2020</u> | <u>Additions</u> | <u>Reductions</u> | <u>December 31,</u> <u>2020</u> |
|--------------------------------|----------------------------------|---------------------|-------------------|------------------------------------|
| Serial Bonds Payable | \$ 4,714,000 | \$ - | \$ 323,500 | \$ 4,390,500 |
| Installment Debt Payable | 285,559 | - | 52,669 | 232,890 |
| EFC Note Payable | 406,736 | 1,387,372 | 87,000 | 1,707,108 |
| Compensated Absences | 98,179 | - | 35,330 | 62,849 |
| Net Pension Liability (Note 7) | 806,746 | 1,756,707 | - | 2,563,453 |
| | <u>\$ 6,311,220</u> | <u>\$ 3,144,079</u> | <u>\$ 498,499</u> | <u>\$ 8,956,800</u> |

Serial bonds payable consist of the following:

| <u>Purpose</u> | <u>Year of</u> <u>Issue/</u> <u>Maturity</u> | <u>Interest</u> <u>Rate</u> | <u>Original</u> <u>Amount</u> | <u>December 31,</u> <u>2020</u> |
|--------------------------|--|--------------------------------|----------------------------------|------------------------------------|
| Water Plant Construction | | | | |
| - EFC | 2007/2037 | 0.00% | \$ 5,673,707 | \$ 3,480,000 |
| Sewer - EFC | 2006/2033 | 0.00% | 765,000 | 305,500 |
| Fire Truck | 2016/2031 | 2.375% | 380,000 | 295,000 |
| Bridges | 2017/2026 | 1.0%-4.4% | 478,920 | 310,000 |
| Total Serial Bonds | | | <u>\$ 7,297,627</u> | <u>\$ 4,390,500</u> |

The annual maturities of serial bonds are as follows:

| <u>Year Ending</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------|---------------------|------------------|
| 2021 | \$ 288,500 | \$ 15,088 |
| 2022 | 288,500 | 13,746 |
| 2023 | 288,500 | 12,276 |
| 2024 | 293,500 | 10,683 |
| 2025 | 298,500 | 8,838 |
| 2026-2030 | 1,317,500 | 17,315 |
| 2031-2035 | 1,170,500 | 712 |
| 2036-2037 | 445,000 | - |
| | <u>\$ 4,390,500</u> | <u>\$ 78,658</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:

| | |
|------------------------------|-------------------|
| 2021 | \$ 67,015 |
| 2022 | 67,015 |
| 2023 | 67,015 |
| 2024 | <u>67,015</u> |
| Total | 268,060 |
| Amount Representing Interest | <u>(35,170)</u> |
| Installment Debt Payable | <u>\$ 232,890</u> |

5. LONG-TERM INDEBTEDNESS (UNAUDITED)

EFC note payable consists of a \$1,707,108 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>1,794,108</u> | <u>829,892</u> |
| Total Project | <u>\$ 5,000,000</u> | <u>\$ 2,982,108</u> | <u>\$ 2,017,892</u> |

Information to record the liability for post-employment benefits other than pensions (GASB Statement No. 75) and the liability for pensions and related assets that are not within the scope of GASB Statement No. 68 and GASB Statement No. 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 | <u>\$ 322,022</u> |
| Special grant fund - USDA loan payments | <u>\$ 37,082</u> |
| Water fund - water rents receivable | <u>\$ 111,629</u> |
| Sewer fund - sewer rents receivable | <u>\$ 25,350</u> |
| Capital projects fund - grant revenue | <u>\$ 524,183</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.

7. PENSION PLANS (UNAUDITED) (CONTINUED)

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.

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:

| | | |
|------|----|---------|
| 2020 | \$ | 287,716 |
| 2019 | \$ | 306,828 |
| 2018 | \$ | 304,778 |

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.

7. PENSION PLANS (UNAUDITED) (CONTINUED)

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

At December 31, 2020, the City reported a liability of \$1,023,555 for ERS and \$1,539,898 for PFRS for its proportionate share of the net pension liability. The net pension liability was measured as of March 31, 2020, 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, 2020, the City's proportion was .0038% for ERS and .028% for PFRS.

At December 31, 2020, the City's deferred outflows and inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Differences between expected and actual experience | \$ 162,781 | \$ (25,793) |
| Changes in assumptions | 152,234 | (17,796) |
| Net difference between projected and actual earnings on pension plan investments | 1,218,188 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 72,271 | (298,693) |
| Contributions subsequent to the measurement date | <u>215,787</u> | <u>-</u> |
| | <u>\$ 1,821,261</u> | <u>\$ (342,282)</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, 2021 | \$ 434,161 |
| December 31, 2022 | 304,603 |
| December 31, 2023 | 409,996 |
| December 31, 2024 | 343,994 |
| December 31, 2025 | <u>(13,775)</u> |
| | <u>\$ 1,478,979</u> |

7. PENSION PLANS (UNAUDITED)(CONTINUED)

ERS and PFRS Actuarial Assumptions

The total pension liability at March 31, 2020 was determined by using an actuarial valuation as of April 1, 2019, with update procedures used to roll forward the total pension liability to March 31, 2020. The actuarial valuation used the following actuarial assumptions.

| | <u>ERS</u> | <u>PERS</u> |
|---------------------------|------------|-------------|
| Interest rate | 6.8% | 6.8% |
| Salary increase | 4.2% | 5.0% |
| Inflation rate | 2.5% | 2.5% |
| Cost of living adjustment | 1.3% | 1.3% |

Annuitant mortality rates are based on April 1, 2010 - March 31, 2015 System's experience with adjustments for mortality improvements based on MP-2018.

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, 2020 for ERS and PFRS were as follows:

| <u>Asset Class</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------------|---|
| Domestic equity | 4.05% |
| International equity | 6.15% |
| Private equity | 6.75% |
| Real estate | 4.95% |
| Absolute return strategies | 3.25% |
| Opportunistic portfolio | 4.65% |
| Real assets | 5.95% |
| Bonds and mortgages | .75% |
| Cash | .50% |

7. PENSION PLANS (UNAUDITED)(CONTINUED)

Discount Rate

The discount rate used to calculate the total pension liability was 6.8% 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.

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 6.8%, 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 liability | <u>\$ (1,878,512)</u> | <u>\$ (1,023,555)</u> | <u>\$ (236,136)</u> |
| <u>PFRS</u> | | | |
| Employers' proportionate share of the net pension liability | <u>\$ (2,753,369)</u> | <u>\$ (1,539,898)</u> | <u>\$ (453,207)</u> |

Pension Plan Fiduciary Net Position

The components of the net pension liability of the plans as of March 31, 2020 were as follows (in thousands):

| | <u>ERS</u> | <u>PFRS</u> |
|---|---------------------|--------------------|
| Plan total pension liability | \$ (194,596,261) | \$ (35,309,017) |
| Fiduciary net position | <u>168,115,682</u> | <u>29,964,080</u> |
| Plan net pension liability | <u>(26,480,579)</u> | <u>(5,344,937)</u> |
| Ratio of fiduciary net position to the Plan total pension liability | <u>86.39%</u> | <u>84.86%</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 \$71,929 in prepaid expenses at December 31, 2020.
- **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, 2020.
- **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, 2020.
- **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 \$404,501 in the general 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.

The City Council determines whether restricted, committed, assigned or unassigned amounts are considered to have been spent first when resources are available from multiple constraint levels. The default policy is that resources are spent first from the highest constraint level.

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, 2020 totaled \$73,792.

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, 2020 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, 2020, which was dated June 9, 2021. 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 |
|---|-------------------------------------|--|---|-------------------------|
| 1/1/21 | \$ 657,953 | \$ 1,011,673 | \$ 353,720 | 65% |
| 1/1/20 | \$ 600,539 | \$ 950,613 | \$ 350,074 | 63% |
| 1/1/19 | \$ 544,827 | \$ 934,641 | \$ 389,814 | 58% |

Information is reported as of the most recent actuarial valuation date, January 1, 2021.

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, 2020.

(a) Program Financial Condition

Assets and Liabilities

| | | |
|---|--------------|-------------------|
| Actuarial present value of accrued service awards as of January 1, 2021 | | \$ 1,011,673 |
| Less assets available for benefits: | | |
| Cash and money market | \$ 116,295 | |
| U.S. equities | 165,496 | |
| International equities | 72,751 | |
| Fixed income | 297,911 | |
| Benefits prepaid | <u>5,500</u> | |
| Total net assets available from benefits | | <u>657,953</u> |
| Total unfunded benefits | | <u>\$ 353,720</u> |

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, 2020 | | \$ 600,539 |
| Changes during the year: | | |
| Sponsor contributions | 73,792 | |
| Changes in fair market value of investments | 42,009 | |
| Investment income earned | 12,854 | |
| Investment expense | (4,347) | |
| Administrative fees | (894) | |
| Benefits paid/payable | <u>(66,000)</u> | |
| | | <u>57,414</u> |
| Plan net assets at January 1, 2021 | | <u>\$ 657,953</u> |

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, 2020, the City had \$55,754 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, 2020, 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, 2024 |
| Mechanicville Police Benevolent and Protective Association | December 31, 2022 |

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, 2020 the City's workers' compensation premium was \$131,726. 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, 2020 were \$408,562.

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 City 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, 2020

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|--|---------------------|-------------------|---|
| Revenue | | | |
| Real Property Taxes | \$ 2,718,344 | \$ 2,700,649 | \$ (17,695) |
| Real Property Tax Items | 63,100 | 113,050 | 49,950 |
| Non Property Tax Items | 1,389,225 | 1,377,033 | (12,192) |
| Departmental Income | 25,258 | 24,498 | (760) |
| Intergovernmental Charges | 28,500 | 56,994 | 28,494 |
| Use of Money and Property | 1,500 | 460 | (1,040) |
| Licenses and Permits | 14,660 | 34,804 | 20,144 |
| Fines and Forfeitures | 46,900 | 19,455 | (27,445) |
| Sale of Property and Compensation for Loss | 2,000 | 39,323 | 37,323 |
| Miscellaneous Local Sources | - | 17,461 | 17,461 |
| State Aid | <u>913,971</u> | <u>1,267,170</u> | <u>353,199</u> |
| Total Revenue | <u>5,203,458</u> | <u>5,650,897</u> | <u>447,439</u> |
| Expenditures | | | |
| General Government Support | 711,029 | 623,304 | 87,725 |
| Public Safety | 1,684,743 | 1,671,336 | 13,407 |
| Health | 10,000 | 10,000 | - |
| Transportation | 897,745 | 833,855 | 63,890 |
| Economic Assistance and Opportunity | 22,905 | 26,295 | (3,390) |
| Culture and Recreation | 103,037 | 76,074 | 26,963 |
| Home and Community Services | 442,424 | 414,440 | 27,984 |
| Employee Benefits | 1,260,029 | 1,137,317 | 122,712 |
| Debt Service | <u>173,546</u> | <u>174,304</u> | <u>(758)</u> |
| Total Expenditures | <u>5,305,458</u> | <u>4,966,925</u> | <u>338,533</u> |
| Other Changes | | | |
| Operating Transfers - Out | <u>160,000</u> | <u>-</u> | <u>160,000</u> |
| Excess (Deficiency) of Revenue Over Expenditures | <u>\$ (262,000)</u> | <u>\$ 683,972</u> | <u>\$ 945,972</u> |

**ADDITIONAL REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS
AND THE UNIFORM GUIDANCE**

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

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 basic financial statements of the City of Mechanicville, New York, as of and for the year ended December 31, 2020, and the related notes to the financial statements, and have issued our report thereon dated September 2, 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) as a basis for designing 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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. 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 2020-01 and 2020-02.

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 financial statements. 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*.

City of Mechanicville, New York's Response to Findings

The City of Mechanicville, New York's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Mechanicville's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no such opinion on it.

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
September 2, 2021

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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Mechanicville, New York's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2020.

The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2020.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



CUSACK & COMPANY, CPA'S LLC

Latham, New York
September 2, 2021

CITY OF MECHANICVILLE, NEW YORK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020

| <u>Federal Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Grantor's Number</u> | <u>Pass-Through to Subrecipients</u> | <u>Federal Expenditures</u> |
|---|------------------------------------|--|--|---------------------------------|
| <u>U.S. Department of Housing and Urban Development</u> | | | | |
| Passed through the New York State Housing Trust Fund Corporation Community Development Block Grant (Water Improvements) | 14.228 | 718PW133-18 | - | 750,000 |
| Passed through the New York State Department of Transportation Community Development Block Grant (South Central Drainage) | 14.228 | 718PR63-17 | - | 968,973 |
| Passed through the New York State Office of Community Renewal Community Development Block Grant (Home Investment Partnership Program) | 14.239 | 20153108 | - | <u>179,480</u> |
| | | | <u>\$ -</u> | <u>\$ 1,898,453</u> |

- (1) The schedule of expenditures of federal awards was prepared on the accrual basis of accounting.
- (2) The Town did not elect to use the 10% de minimus indirect cost rate. Administrative rates are established by the grants.
- (3) There were no subrecipients in 2020.
- (4) There were no loans or loan guarantees in 2020.
- (5) Federal revenue reconciliations:

Total Federal revenue per financial statements

| | |
|-----------------------|------------------|
| Special Grant Fund | \$ 179,480 |
| Capital Projects Fund | <u>1,718,973</u> |

| | |
|--|---------------------|
| Total Federal revenue per schedule of Federal Awards | <u>\$ 1,898,453</u> |
|--|---------------------|

CITY OF MECHANICVILLE, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020

SECTION I — SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ___ Yes X No
- Significant deficiency(ies) identified? X Yes ___ No
- Noncompliance material to financial statements noted? ___ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ___ Yes X No
- Significant deficiency(ies) identified? ___ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section CFR 200.516(a)? ___ Yes X No

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 14.228 | Community Development Block Grants/Entitlement Grants |

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? ___ Yes X No

SECTION II - FINANCIAL STATEMENT FINDINGS

See schedule of current year audit findings.

SECTION III - SCHEDULE OF FINDINGS AND QUESTIONED COSTS

No findings or matters were reported.

SECTION IV - RESOLUTION OF PRIOR YEAR AUDIT FINDINGS

No findings or matters were reported.

2020-1 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.

2020-2 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. Additionally, adjustments proposed resulted in net income changes of approximately \$307,00 in the general fund, (\$166,000) in the special grant fund, \$306,000 in the water fund, (\$7,000) in the sewer fund and \$589,000 in the capital projects fund. 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.

Response: The unforeseen retirement of the Commissioner of Finance in early 2020 resulted in the need for significant audit adjustments. A new Commissioner of Finance was elected in late 2020 and will resolve the financial reporting issues identified.

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.

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