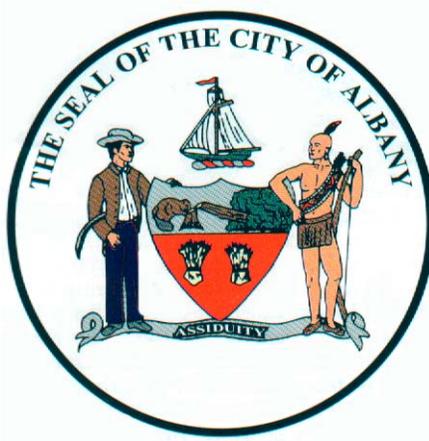


**CITY OF ALBANY,
NEW YORK**

AUDITED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

Year ended December 31, 2006



CITY OF ALBANY, NEW YORK

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INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of Albany, New York

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Albany, New York (the "City"), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the Albany Parking Authority or the Albany Industrial Development Agency, which represent approximately 20 percent and 17 percent, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Albany, New York as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

UHY LLP

Albany, New York
December 10, 2007

Management Discussion & Analysis

OVERVIEW

The Management Discussion and Analysis (MD&A) of the City of Albany, New York is an introduction to the major activities affecting the operation of the City of Albany and an overview and analysis of the financial statements of the City of Albany for the calendar year that ended December 31, 2006. It also provides comparative analysis of the City's overall financial position and results of operations as compared to those reported in the City's financial statements for the calendar year ending December 31, 2006.

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

The City's financial statements are prepared using generally accepted accounting principles and are presented in a format prescribed by the Government Accounting Standards Board's (GASB) Statement No. 34 "State and Local Government Financial Statements and MD&A" and other related statements.

FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

Statement of Net Assets

Statement of Activities

The *Statement of Net Assets* includes Assets and Liabilities of the City as a whole, with the difference between Assets and Liabilities reported as Net Assets. The *Statement of Activities* presents financial information as to how the City's Net Assets changed during the fiscal year, with all changes being reported as the underlying event occurs, regardless of the timing of cash flows. Over time, increases or decreases in the City's Net Assets position are one indicator of whether its financial position is deteriorating or strengthening. However, in contrast to commercial enterprises, the City has no goal of accumulating net assets. Increases in net assets may also create recurring expenses for staffing, maintenance, repair, and litigation, which may not be immediately recognizable. Moreover, an asset may or may not prove useful in achieving the purpose for which it was acquired. The *Statement of Net Assets* and the *Statement of Activities* delineate between the primary government (the City of Albany, plus the Albany Community Development Agency) and the City's component units¹. Component units are legally separate from the City, but because the City has some financial accountability for them, they are reported in the City's financial statements. Both statements utilize the accrual basis of accounting, the same accounting method used by most private-sector organizations.

Governmental Funds Financial Statements

Balance Sheet – Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

The Governmental Funds Financial Statements consist of a *Balance Sheet* and *Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds*. The *Balance Sheet* includes short-term assets such as cash, and short-term liabilities such as accounts payable, but neither long-term liabilities such as bonds payable, nor capital assets, such as land and buildings. The *Statement of Revenues, Expenditures and Changes in Fund Balances* reports only those revenues and expenditures that were collected in cash or paid with cash during the current period or shortly after the end of the year. The Fund Financial Statements provide financial information about the most significant funds of the City.

¹ The component units consist of the Albany Water Board and Municipal Water Finance Authority, the Albany Parking Authority, the Albany Industrial Development Agency, the Albany Port Commission, Albany Local Development Corporation and the three Business Improvement Districts. Independent accounting firms separately audit certain of these entities. Financial information from these entities has been reported in the City's financial statements. Copies of the complete financial reports for the component units can be obtained by contacting the Comptroller's office of the City of Albany.

Governmental Funds focus on near-term inflows and outflows, and resources still available at the end of the fiscal year. This measurement focus is known as the modified accrual basis of accounting.

Reconciliation of Government-wide Financial Statements with Governmental Funds Financial Statements.

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

Reconciliation of Balance Sheet with Statement of Net Assets

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

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

A more complete reconciliation between financial statements is presented in the financial statements.

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds with Statement of Activities

The *revenues, expenditures and fund balance* reported in the *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* (governmental funds financial statements) differ from those reported on the *statement of activities* (government-wide financial statements) in several respects:

- Capital outlays are shown as expenditures on the *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds*. However, only the depreciation expense of capital assets is reported on the *statement of activities*.
- Vacation expenses, employee retirement benefits, and judgments and claims are expensed as they are paid on the *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds*. However, the *Statement of Activities* shows those expenses incurred during the reporting period. Long-term debt principal paid is reported as an expenditure on the *Revenues, Expenditures and Changes in Fund Balances – Governmental Funds*, but is not reported as an expenditure on the *Statement of Activities*. Rather, principal paid is reported as a reduction of the bonds and loans payable liability in the *Statement of Net Assets*. Long-term debt interest is reported as an expenditure when the interest is paid on the *Revenues, Expenditures and Changes in Fund Balances – Governmental Funds*. Interest expense reported in the statement of activities is the interest expense incurred during the year, irrespective of when the interest is paid.

OVERVIEW OF THE CITY'S FINANCIAL POSITION

Government-Wide Financial Statements

Statement of Net Assets

Primary government net assets exceeded liabilities by \$53.7 million -- an increase of \$3.3 million from 2005. Assets of \$248.6 million increased from 2005 by almost \$7 Million. Liabilities of \$195 million increased by almost \$3.9 million.

Of the assets, \$61.7 million is invested in capital assets, net of related debt, and \$1.5 million is restricted for debt service, leaving a deficit balance in unrestricted net assets of \$9.6 million.

Total capital assets including property and equipment after depreciation are valued at \$163.6 million. The additions to capital assets include, \$2.7 million of infrastructure improvements, \$4 million in machinery and equipment (\$1.2 million for a firefighting pumper, aerial ladder truck and a tractor drawn aerial ladder, and \$1.3 million in vehicles). Of the approximately \$43.2 million of assets not subject to depreciation, approximately \$4.3 million is land, and \$38.9 million is construction in progress, particularly state and federally funded transportation projects. A more detailed description of capital assets is found in Footnote 7.

Due from Component units increased by \$4.9 million. Funds owed to the City by the Water Board increased by \$4.6 million in 2006. Due from other governments increased by \$600,000. This account is comprised of funds due to the city for public safety, and youth and family grants applicable to 2006 expenditures.

Governmental Activities - Primary Government
Net Assets at December 31, 2006
(in Millions)

	<u>2006</u>	<u>2005</u>	<u>Increase/ (Decrease)</u>
Total assets	\$ 248.63	\$ 241.45	\$ 7.18
Total liabilities	<u>194.99</u>	<u>191.12</u>	<u>3.87</u>
Excess of assets over liabilities	53.64	50.33	3.31
Invested in capital assets, net of related debt	61.68	62.14	(0.46)
Restricted for debt service and program activities	1.53	0.63	0.90
Unrestricted net assets	<u>(9.57)</u>	<u>(12.44)</u>	<u>2.87</u>
Total Net Assets	<u>\$ 53.64</u>	<u>\$ 50.33</u>	<u>\$ 3.31</u>

Component Units net assets exceeded liabilities by \$3.69 million. Net assets of \$134.8 million declined by \$2.7 million. Liabilities of \$131 million declined by \$1 million. Unrestricted net assets total approximately \$18.8 million, which is a decrease from 2005 of \$24.6 million. The Water Board ended the year with an operating loss due to a large write – off of receivables, unbudgeted repair costs, contracted salary increases, growing energy costs and rising costs to the County Sewer District, which caused much of the decrease of unrestricted net assets.

Governmental Activities - Component Units
Net Assets at December 31, 2006
(in Millions)

	<u>2006</u>	<u>2005</u>	<u>Increase/ (Decrease)</u>
Total assets	\$ 134.76	\$ 137.50	\$ (2.74)
Total liabilities	<u>131.08</u>	<u>130.05</u>	<u>1.03</u>
Excess of assets over liabilities	3.69	7.45	(3.77)
Invested in capital assets, net of related debt	(20.61)	(36.12)	15.51
Restricted for debt service and program activities	5.54	0.17	5.37
Unrestricted net assets	<u>18.76</u>	<u>43.40</u>	<u>(24.64)</u>
Total Net Assets	<u>\$ 3.69</u>	<u>\$ 7.45</u>	<u>\$ (3.76)</u>

Statement of Activities

The *Statement of Activities* describes the cost of the major governmental functions and compares the costs of these functions with revenue attributable to these activities. (Public Safety accounts for 47 percent of all spending, while General Government and Community Services account for 19 percent and 13 percent respectively.) This statement further delineates the major sources of revenue, which in the case of the City consists of Property Taxes, Sales Tax, Landfill Revenue, Grants (including State Aid), and Payments in Lieu of Taxes (PILOTs).

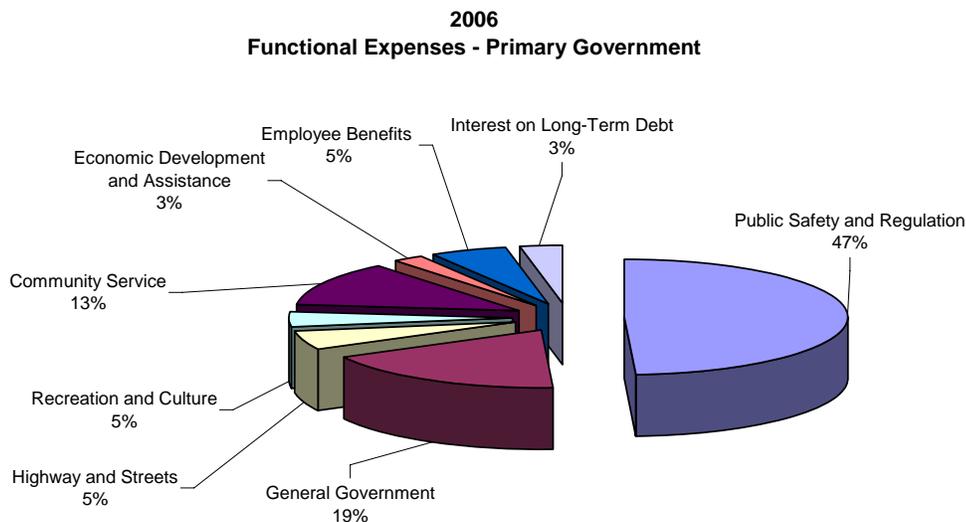
Expenses increased from 2005 by \$11.7 million. Public safety expenses increased from 2005 by \$2.4 million, reflecting the budgeted increase in cost of salaries and unbudgeted increases in overtime, and health benefits. Public Safety expenses of \$77.6 million are offset by \$8 million in charges for services and \$2.8 million in grant funds for urban security, truancy, and motor vehicle theft prevention programs.

Community Service expenses of \$20.8 million increased by \$1.9 million and are offset by \$13.7 million in revenues, of which the largest part is revenue generated from other localities who use the regional landfill, as well as \$4.6 million in grant funds for programs for youth and families in the capital region and adult workforce services.

Employee benefits largely reflect retiree health care costs.²

**Governmental Activities - Expenses
(in Millions)**

<u>Governmental Functions</u>	<u>2006</u>	<u>2005</u>	<u>Increase/ (Decrease)</u>	<u>% of Change</u>
Public Safety and Regulation	\$ 77.62	\$ 75.19	\$ 2.43	3%
General Government	31.78	27.53	4.24	15%
Highway and Streets	8.40	7.84	0.56	7%
Recreation and Culture	7.81	6.57	1.25	19%
Community Service	20.79	18.92	1.86	10%
Economic Development and Assistance	3.56	3.39	0.17	5%
Employee Benefits	9.29	8.40	0.90	11%
Interest on Long-Term Debt	5.09	4.83	0.26	5%
Total	<u>\$ 164.34</u>	<u>\$ 152.67</u>	<u>\$ 11.67</u>	<u>8%</u>

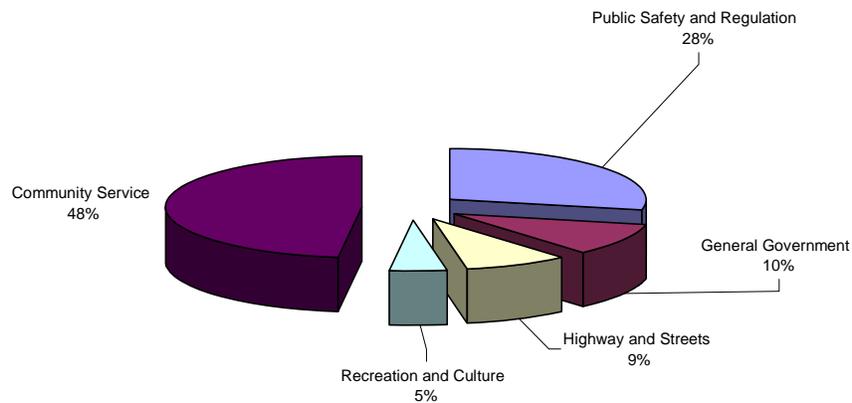


² Retiree health care expenses reflect the cost of premiums paid for retirees, but substantially understate the actual expense, because the City's claims experience is heavily weighted towards retirees.

Governmental Activities - Revenues
(in Millions)

Governmental Functions	2006	2005	Increase/ (Decrease)	% of Change
Public Safety and Regulation	\$ 10.87	\$ 11.91	\$(1.04)	-9%
General Government	3.84	3.78	0.06	2%
Highway and Streets	3.29	2.98	0.31	10%
Recreation and Culture	1.82	1.81	0.01	1%
Community Service	18.40	17.61	0.78	4%
Total	\$ 38.22	\$ 38.09	\$ 0.12	0%

Functional Revenues – Statement of Activities



The overall expenses of the Component Units total \$42.5 million - an increase from 2005 of \$2.4 million. The Water Board/Water Authority accounts for 68.1 percent of the overall spending among component units. Increased salaries (including overtime), increased cost of benefits, increased charges from the Albany County Sewer District, and spending in excess of budget on repair projects account for the increases. The following is a summary of the relative expenses of the component units, which excludes the Albany Community Development Agency, because it is a blended component unit and is therefore included with the Primary Government in the *Statement of Activities*.

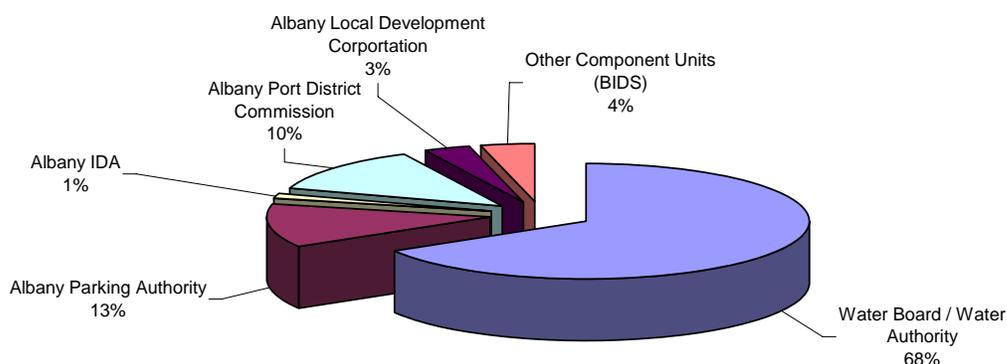
The following table indicates the relative value of expenses (including depreciation) for the component units:

Component Units - Expenses
(in Millions)

Component Units	2006	2005	Increase / (Decrease)	% of Change
Water Board / Water Authority	\$28.97	\$26.61	\$2.36	9%
Albany Parking Authority	5.55	5.01	0.54	11%
Albany IDA	0.51	0.50	0.01	2%
Albany Port District Commission	4.22	5.14	(0.92)	-18%
Albany Local Development Corporation	1.30	1.29	0.01	1%
Other Component Units (BIDS)	1.96	1.60	0.36	23%
Total	\$42.51	\$40.15	\$2.36	6%

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

Component Units - 2006 Expenses



Revenues

Payment in Lieu of Taxes was approximately the same as in 2005, but exceeded budget by \$6.1 million, because of a change in State Law related to State payments to the City of Albany on behalf of the State's Empire State Plaza state office complex.

Property tax revenue increased by \$2.6 million (6 percent). This increase was caused by an increase in the real property tax levy.

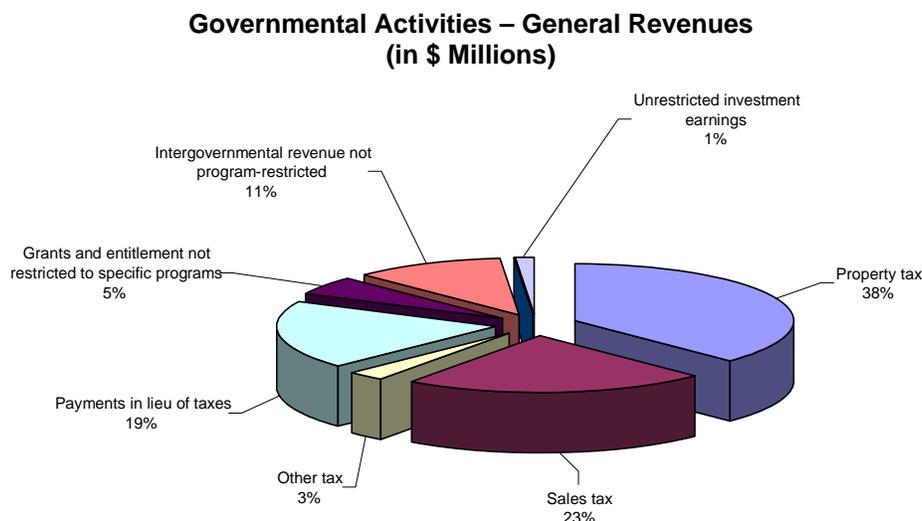
Sales Tax revenues increased by \$1.32 million from 2005, because of increased economic activity in the region.

Albany Community Development Agency Grants and entitlements not restricted to specific programs decreased by \$1.75 million. The decrease is due to overall cuts in U.S. Housing and Urban Development (HUD) funding as well as a decrease in lead program funding.

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

Governmental Activities - General Revenues				
<i>(in Millions)</i>				
<u>Revenues</u>	<u>2006</u>	<u>2005</u>	<u>Increase/ (Decrease)</u>	<u>% of Change</u>
Property tax	\$ 48.44	\$ 45.87	\$ 2.57	6%
Sales tax	29.24	27.92	1.32	5%
Other tax	3.54	3.48	0.06	2%
Payments in lieu of taxes	25.10	25.04	0.06	0%
Grants and entitlement not restricted to specific programs	6.80	8.55	(1.75)	-20%
Intergovernmental revenue not program restricted	14.57	12.31	2.26	18%
Gain (loss) on sale of capital assets	0.01	(0.11)	0.12	-109%
Unrestricted investment earnings	1.74	0.86	0.88	0%
Total General Revenues	\$ 129.44	\$ 123.92	\$ 5.52	4%

The following chart indicates the relative percentages of general revenues:



Governmental Funds Financial Statements

Balance Sheet – See page 17.

Assets increased by almost \$8 million and liabilities decreased by \$0.6 million resulting in an increase to unrestricted fund balance of \$8.6 million (59%) over the previous year. The City's fund balance at year-end totaled \$21.6 million. Unbudgeted state PILOT payments and unbudgeted state aid is responsible for much of the increase. Additionally, some of the increase is the result of yet undetermined salary increases for police officers whose collective bargaining agreement expired in the end of 2005. These funds will be paid during 2008 at the conclusion of the arbitration proceedings.

Assets increased by nearly \$8 million with the largest increase (\$4.6 million) from increase in due from component units. Funds owed to the City by the Water Board increased by \$4.6 million in 2006, which is responsible for most of the increase. Cash and cash equivalents have increased by \$1.4 million.

Liabilities decreased by \$0.6 million. The biggest decrease is in accounts payable and accrued expenses, which declined by nearly \$1 million (11%).

Combined Statement of Revenue and Expenditures -- Budget to Actual

General Fund revenue including other financing sources totals \$153.2 million and General fund expenses total \$144.6 resulting in a general fund gain of \$8.6 million. Unrestricted fund balance is \$21.6 million and total fund balance is \$23.3 million or 15% and 16% of actual expenditures respectively.

Spending in excess of budget on public safety overtime and increased expenses for employee benefits (health and pension) were more than offset by unbudgeted PILOT (19-a) payments and other aid from the State of New York.

The City's budget, which is effective on January 1st, is proposed by the Mayor prior to October 1st and is enacted by the Common Council by November 30th. This is the *Original Budget*. Changes to the budget throughout the year are made by the Board of Estimate and Apportionment, composed of the Mayor, the Comptroller, the President of the Common Council, and two designees of the Mayor³. This is the *Modified Budget*. *Actual* reflects the operational results, including any audit adjustments.

³ Effective January 1, 2007 the two mayoral appointees are replaced with the Corporation Council and the City Treasurer.

CITY OF ALBANY, NEW YORK

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, MODIFIED BUDGET AND ACTUAL –
GENERAL AND SPECIAL REVENUE FUNDS
(in Millions)**

	Governmental Fund Types				Special Revenue Funds*			
	Original Budget	Modified Budget	Actual	Actual Over (Under) Original Budget	Original Budget	Modified Budget	Actual	Actual Over (Under) Original Budget
REVENUES								
Real property taxes	\$48.70	\$48.70	\$48.44	(\$0.26)	\$0.00	\$0.00	\$0.00	\$0.00
Sales and use taxes	28.84	28.84	29.24	0.40	0.00	0.00	0.00	0.00
Other taxes	3.51	3.51	3.54	0.03	0.00	0.00	0.00	0.00
Payments in lieu of taxes	19.45	25.10	25.10	5.65	0.00	0.00	0.00	0.00
Intergovernmental revenue	15.77	17.11	19.66	3.88	2.95	3.37	2.91	0.46
Charges for services	13.80	13.80	14.21	0.41	0.00	0.00	0.00	0.00
Fines, interest and penalties	3.90	5.58	5.20	1.30	0.00	0.00	0.00	0.00
Use of money and properties	0.76	1.47	1.69	0.93	0.00	0.00	0.00	0.00
Licenses and permits	1.27	1.27	1.41	0.14	0.00	0.00	0.00	0.00
Other revenues	3.52	4.40	4.78	1.26	0.00	0.00	0.00	0.00
Total revenues	139.52	149.78	153.27	13.74	2.95	3.37	2.91	0.46
EXPENDITURES								
Public safety and regulation	69.01	74.52	72.66	3.65	0.00	0.00	0.00	0.00
General government	23.69	22.19	21.10	(2.59)	0.00	0.00	0.00	0.00
Highways and streets	5.90	7.02	6.66	0.76	0.00	0.00	0.00	0.00
Recreation and culture	6.28	6.42	6.28	0.00	0.00	0.00	0.00	0.00
Community service	8.25	9.28	9.40	1.16	0.00	0.00	0.00	0.00
Employee benefits	14.18	14.19	13.07	(1.11)	0.00	0.00	0.00	0.00
Economic development and assistance	0.00	0.05	0.05	0.05	2.95	3.44	3.08	(0.03)
Debt service	15.11	15.45	15.45	0.34	0.00	0.00	0.00	0.00
Total expenditures	142.42	149.12	144.67	2.26	2.95	3.44	3.08	(0.03)
Excess (deficiency) of revenues and appropriated fund balance over expenditures	(2.90)	0.66	8.60	11.48	0.00	(0.07)	(0.17)	0.49
OTHER FINANCING SOURCES (USES)								
Appropriated from fund balance	2.81	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Allocated from debt service	0.05	0.05	0.00	0.00	0.00	0.00	0.00	0.00
Proceeds from bonds	0.00	0.10	0.00	0.00	0.00	0.00	0.00	0.00
Proceeds from sale of property	0.05	0.00	0.01	(0.04)	0.00	0.00	0.00	0.00
Total other financing sources (uses)	2.91	0.15	0.01	(0.04)	0.00	0.00	0.00	0.00
Excess (deficiency) of revenues, appropriated fund balance and other financing sources over expenditures and other financing uses	\$0.01	\$0.81	\$8.61	\$11.44	\$0.00	(\$0.07)	(\$0.17)	\$0.49

*Includes special grant and miscellaneous special revenue funds only.

Revenues

General Fund revenues of \$153.3 million were approximately \$13.8 million more than budget and \$7.5 million more than 2005. The most significant variances in revenue include the following:

Real property taxes were under budget by \$0.3 million, but were \$2.6 million more than in 2005. An increase in the property tax levy caused the increase relative to 2005. Property tax challenges caused the reduction relative to budget.

Payments in Lieu of Taxes (PILOTs) were \$5.7 million over budget and were approximately the same as in 2005. The increase is caused by a statutory change that accelerated payments by the State of New York for the Empire State Plaza complex.⁴

Sales Tax revenue was \$0.4 million over budget and \$1.3 million more than 2005, which reflects increased economic activity county-wide.

Intergovernmental Revenue was almost \$3.9 million more than budget and \$0.9 million more than in 2005. State Aid Revenue Sharing increased by \$1 million, while other state aid funding for grant programs decreased, such as a 2005 – 2006 NYS Homeland Security Grant. Other funding sources increased such as the NYS Impact grant.

Charges for Services revenue was almost \$1.3 million more than in 2005 and \$0.4 million over budget. In 2005 there was a short-term reduction in landfill revenue when one of the two major waste haulers stopped using the Rapp Road Landfill. The City contracted with a major hauler which increased landfill revenues in 2006.

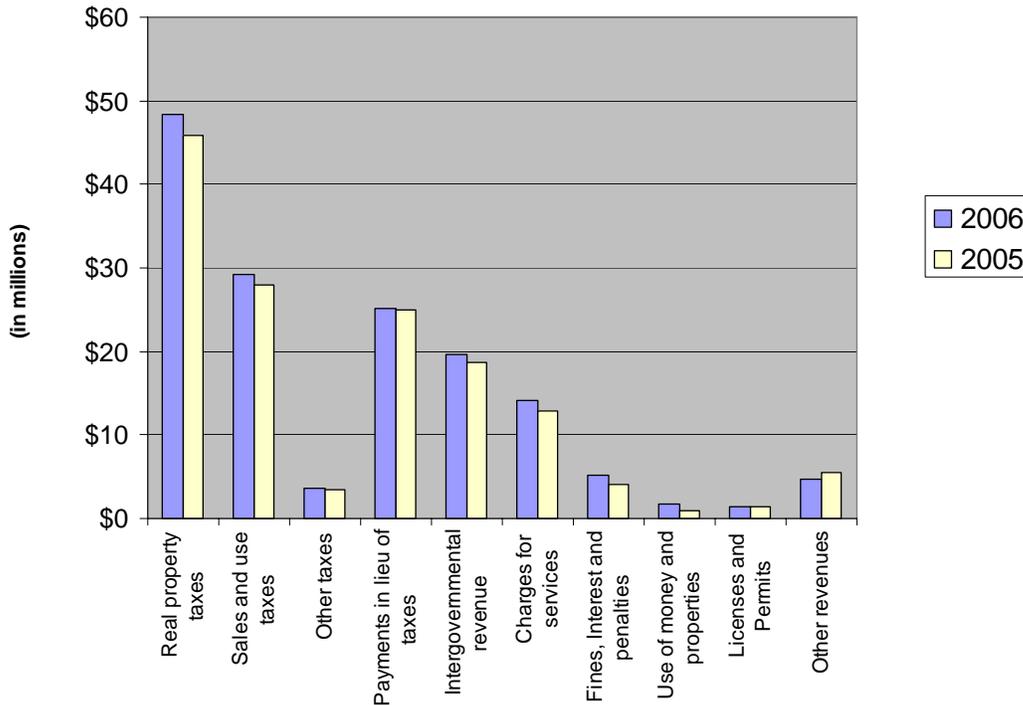
Other Revenues exceeded budgeted amounts by \$1.7 million because of reimbursement from the public utility (National Grid) related to an old street lighting dispute and reimbursement for work performed for the community development agency.

Governmental Funds – General Fund Revenues 2006 to 2005 Variance (in Millions)

<u>Revenues</u>	<u>2006</u>	<u>2005</u>	<u>2006 Over/(Under) 2005</u>
Real property taxes	\$48.44	\$45.87	\$2.57
Sales and use taxes	29.24	27.92	1.32
Other taxes	3.54	3.48	0.06
Payments in lieu of taxes	25.10	25.04	0.06
Intergovernmental revenue	19.66	18.68	0.98
Charges for services	14.21	12.94	1.27
Fines, interest and penalties	5.20	4.08	1.12
Use of money and properties	1.69	0.94	0.75
Licenses and permits	1.41	1.38	0.03
Other revenues	4.78	5.49	(0.71)
Total revenues	<u>\$153.27</u>	<u>\$145.82</u>	<u>\$7.45</u>

⁴ Payments made by the State of New York for the Empire State Plaza complex, pursuant to Section 19-a of the Public Lands Law.

Governmental Funds - General Fund Revenues 2006 to 2005 Variance



Expenses

Total expenditures of \$144.68 million were \$2.26 million more than budget and \$3.4 million more than 2005.

Public Safety spending was \$3.7 million over budget.

- *Public Safety Overtime* exceeded budgeted amounts by \$1.7 million. Police regular overtime totaled \$3.2 million on a budget of \$2.5 million. Reimbursable overtime totaled \$1.6 million on a budget of \$600,000 and Fire Department overtime totaled approximately \$0.7 million on a budget of \$0.4 million.
- The public safety expenditures for 2006 understates expenses because the police union contract expired in the end of 2005 and any negotiated/arbitrated salary increase are not reflected in this number. Additionally, \$6.3 million was bonded to cover the cost of moving firefighters into a new retirement plan in 2004. The bonds are paid using the general fund serial bond expense account and the expense is not reflected in the public safety expenditures.

General Government spending was \$2.59 million less than budget and not significantly higher than 2005.

Home and Community Services spending, which includes the expenses of the landfill, was \$1.16 million over budget and \$1.7 million more than 2005. The increase reflects expenses related to landfill development.

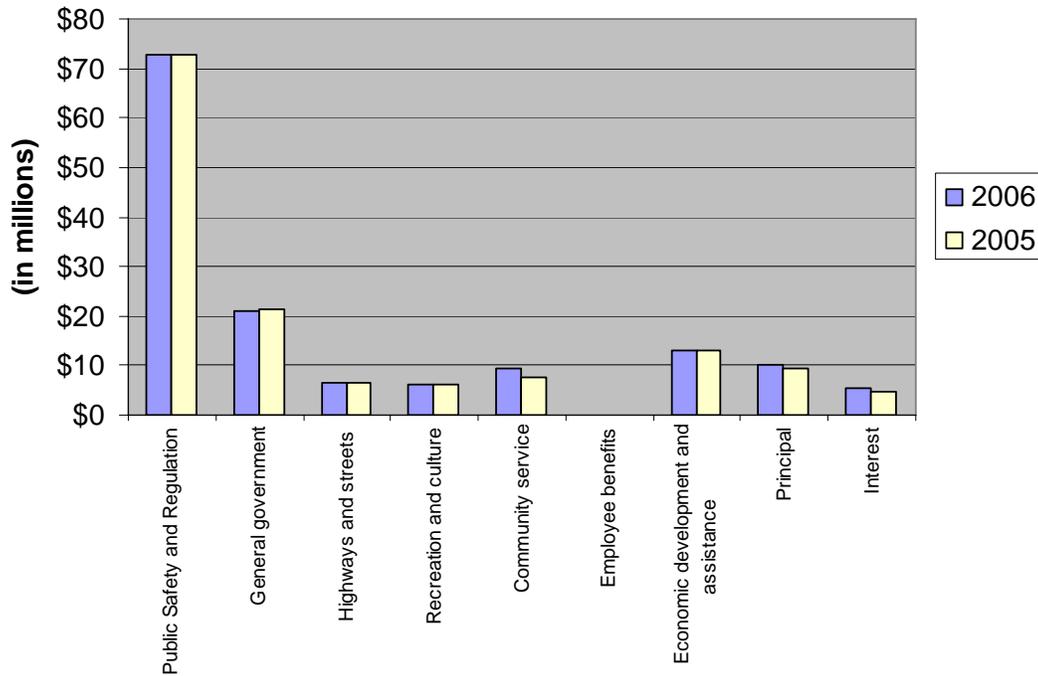
Undistributed Employee Benefits expense was \$1.1 million under budget and not significantly higher than 2005.

Debt Service payments were \$1.4 million more than 2005.

Governmental Funds – General Fund Expenditures 2006 to 2005

<u>Expenditures</u>	<u>2006</u>	<u>2005</u>	<u>2006 Over/(Under) 2005</u>
Public safety and regulation	\$72.66	\$72.63	\$0.03
General government	21.10	21.51	(0.41)
Highways and streets	6.66	6.43	0.23
Recreation and culture	6.28	5.98	0.30
Community service	9.40	7.61	1.79
Employee benefits	0.05	0.11	(0.06)
Economic development and assistance	13.07	12.90	0.17
Principal	10.20	9.56	0.64
Interest	5.25	4.55	0.70
Total expenditures	144.67	141.28	3.39
Excess operating revenues over expenditures	\$8.60	\$4.54	\$4.06

General Government - General Fund Expenditures 2006 to 2005 Variance



Debt

The City's long-term debt and short-term debt are described in detail in Notes 12-13.

Long-term Debt

In June 2006 the City issued \$10,095,000 General Obligation (Serial) Bonds, 2006 (Federally Taxable) at 5.75% interest for pension related expenses, including \$6.3 million for the cost of moving firefighters to a new pension plan in 2004; and \$15,500,000 General Obligation (Serial) Bonds at an interest rate of 4.0 – 4.13% interest for various capital projects.

Short-Term Debt

During 2006 the City issued \$10,000,000 in Revenue Anticipation Notes (RANS). The notes were due and paid off in their entirety on January 31, 2007. They carried an effective interest rate of 3.71 percent which differed from their stated rate of 4.25%.

During 2006 the City issued \$2,250,000 in Bond Anticipation Notes (BANS). The notes were due and paid off in their entirety on July 11, 2007. They carried an effective interest rate of 3.72 percent which differed from their stated rate of 4.25%.

Capital Leases

In 2005, following a competitive bidding process, the City entered into a master equipment lease/purchase agreement ("the agreement") for the purchase of vehicles and other equipment. The interest rates of the capital leases are a percentage of the interest rate of Treasury bills of the same duration: 3-year 76.24%, 5-year 76.38%, and 10-year 77.08%. The one-year agreement provides for renewal at the City's discretion for up to two additional years. During 2006, the City renewed the agreement and added schedules 4, 5, 6 corresponding with three, five and 10 years respectively.

As of 12/31/2006

Schedule	Term	Original Amount	Remaining Balance	Interest Rate
1	3	\$ 760,000	\$ 514,689	3.21%
2	5	\$1,700,000	\$1,380,943	3.15%
3	10	\$1,640,000	\$1,499,074	3.30%
4	3	\$ 565,000	\$ 565,000	3.62%
5	5	\$ 965,000	\$ 965,000	3.61%
6	10	\$2,980,000	\$2,980,000	3.65%

Debt Ceiling

Of the outstanding indebtedness, approximately \$116,650,000 of the total was subject to the statutory debt limit, using approximately 42.43 percent of the City's statutory debt limit.

CREDIT RATINGS AND BOND INSURANCE

During 2006 the City's credit rating was re-evaluated and reaffirmed by each of the three major rating agencies: Moody's Investors Services, A3, Fitch Ratings, A, and Standard & Poor's, A. All outstanding debt is backed by insurance policies from municipal insurance companies except issues secured through the New York State Environmental Facilities Corporation (EFC). These EFC issues have the following rating: Moody's Investors Service, Aaa, Standard & Poor's, AAA, and FITCH Ratings, AAA.

CAPITAL ACQUISITION AND CONSTRUCTION ACTIVITIES

During 2006 the City expended \$14.1 million on capital projects and acquisitions. This includes Federal and State funds for transportation infrastructure projects, funds secured through General Obligation Bonds and Bond Anticipation Notes, and appropriations from the City's General Fund. The following are some of the major sources of capital expenditures:

<u>Capital Acquisition, Construction and Expenditures</u>	
Street Reconstruction	\$2,410,015
Pearl Street	\$2,035,189
Fire Pumper and Ladder Trucks	\$1,094,028
Heavy Equipment DGS	\$653,634

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

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24 Eagle Street
Albany, NY 12207

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Thomas P. Nitido
Comptroller

CITY OF ALBANY, NEW YORK
STATEMENT OF NET ASSETS
December 31, 2006

	<u>Primary Government</u>	<u>Component Units</u>
ASSETS		
Cash and cash equivalents	\$ 20,625,355	\$ 9,653,317
Cash and cash equivalents - restricted	13,253,814	1,635,730
Investments, restricted	-	13,222,759
Taxes receivable	4,161,573	-
Accounts receivable, net	2,271,150	13,503,886
Mortgage loans receivable	13,658,984	2,114,132
Due from primary government	-	136,489
Due from other governments	14,601,141	-
Due from other funds	1,083,954	-
Due from component units	12,640,689	-
Intangible assets, net	-	4,576,237
Prepaid and other assets	2,741,960	4,042,068
Property held for investment, lease or sale	-	4,954,736
Capital assets, net	<u>163,589,378</u>	<u>80,925,056</u>
Total assets	<u><u>\$ 248,627,998</u></u>	<u><u>\$ 134,764,410</u></u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 11,327,808	\$ 3,298,704
Capital lease obligations	10,094,707	-
Bonds and loans payable	105,338,143	111,284,860
Bond and revenue anticipation notes payable	12,250,000	-
Accrued interest payable	3,190,230	586,063
Deferred revenue	12,140,343	2,610,004
Due to other governments	10,341,212	-
Due to primary government	-	12,458,485
Compensated absences	15,759,094	-
Landfill post-closure costs	5,547,981	-
Judgments and claims	7,128,760	-
Other liabilities	<u>1,870,716</u>	<u>841,614</u>
Total liabilities	<u>194,988,994</u>	<u>131,079,730</u>
NET ASSETS (DEFICIENCY)		
Invested in capital assets, net of related debt	61,676,999	(20,613,867)
Restricted for:		
Program specific activities	-	5,364,232
Debt service	1,534,863	177,213
Unrestricted net assets (deficiency)	<u>(9,572,858)</u>	<u>18,757,102</u>
Total net assets	<u>53,639,004</u>	<u>3,684,680</u>
Total liabilities and net assets	<u><u>\$ 248,627,998</u></u>	<u><u>\$ 134,764,410</u></u>

See notes to financial statements.

CITY OF ALBANY, NEW YORK
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2006

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets	
					Primary Government	Component Units
Primary Government:						
Public safety and regulation	\$ 77,620,017	\$ 8,019,061	\$ 2,847,022	\$ -	\$ (66,753,934)	\$ -
General government	31,776,440	3,836,670	-	-	(27,939,770)	-
Highways and streets	8,399,514	85,051	-	3,205,699	(5,108,764)	-
Recreation and culture	7,812,962	1,821,124	-	-	(5,991,838)	-
Community service	20,786,434	13,752,979	4,642,540	-	(2,390,915)	-
Economic development and assistance	3,557,422	-	-	-	(3,557,422)	-
Employee benefits	9,294,337	-	-	-	(9,294,337)	-
Interest on long-term debt	5,091,765	-	-	-	(5,091,765)	-
Total governmental activities	<u>164,338,891</u>	<u>27,514,885</u>	<u>7,489,562</u>	<u>3,205,699</u>	<u>(126,128,745)</u>	<u>-</u>
Component Units:						
Albany Water Board and Municipal Water Finance Authority	28,966,904	22,915,769	-	-	-	(6,051,135)
Albany Parking Authority	5,546,980	5,808,861	-	-	-	261,881
Albany Industrial Development Agency	514,249	473,372	-	-	-	(40,877)
Albany Port District Commission	4,221,564	4,593,001	598,042	-	-	969,479
Albany Local Development Corporation	1,298,869	1,544,839	-	-	-	245,970
Other component units	1,960,283	1,846,103	47,789	-	-	(66,391)
Total component units	<u>\$ 42,508,849</u>	<u>\$ 37,181,945</u>	<u>\$ 645,831</u>	<u>\$ -</u>	<u>-</u>	<u>(4,681,073)</u>
General Revenues:						
Property tax					48,444,733	-
Sales tax					29,238,536	-
Other tax					3,541,435	-
Payments in lieu of taxes					25,097,709	-
Grants and entitlements not restricted to specific programs					6,796,472	-
Intergovernmental revenue not program-restricted					14,566,167	-
Gain on sale of capital assets					10,194	5,947
Unrestricted investment earnings					1,737,932	913,145
Total general revenues					<u>129,433,178</u>	<u>919,092</u>
Change in net assets					3,304,433	(3,761,981)
Net assets, beginning of year					<u>50,334,571</u>	<u>7,446,661</u>
Net assets, end of year					<u>\$ 53,639,004</u>	<u>\$ 3,684,680</u>

See notes to financial statements.

CITY OF ALBANY, NEW YORK
BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2006

	General	Special Revenue	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 4,898,449	\$ 1,712,578	\$ 12,719,899	\$ 1,294,429	\$ 20,625,355
Cash and cash equivalents-restricted	7,756,874	-	5,393,706	103,234	13,253,814
Taxes receivable	4,161,573	-	-	-	4,161,573
Accounts receivable, net	1,159,555	-	-	-	1,159,555
Landfill receivable, net	1,111,595	-	-	-	1,111,595
Mortgage loans receivable	-	-	-	13,658,984	13,658,984
Due from other funds	7,914,491	50,810	19,200	-	7,984,501
Due from component units	12,775,245	-	-	-	12,775,245
Due from federal and state governments	1,701,129	339,895	3,693,916	-	5,734,940
Due from other governments	8,866,201	-	-	-	8,866,201
Other assets	2,571,556	-	-	170,404	2,741,960
	<u>\$ 52,916,668</u>	<u>\$ 2,103,283</u>	<u>\$ 21,826,721</u>	<u>\$ 15,227,051</u>	<u>\$ 92,073,723</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
BANS and RANS payable	\$ 10,000,000	\$ -	\$ 2,250,000	\$ -	\$ 12,250,000
Accounts payable and accrued expenses	7,742,440	89,430	3,126,560	369,378	11,327,808
Due to other funds	62,361	1,843,977	4,393,112	601,097	6,900,547
Due to component units	134,556	-	-	-	134,556
Due to other governments	10,016,943	-	-	324,269	10,341,212
Deferred revenue	-	-	-	12,140,343	12,140,343
Accrued interest	1,569,707	-	-	-	1,569,707
Other liabilities	142,871	345,393	110,005	1,272,447	1,870,716
Total liabilities	<u>29,668,878</u>	<u>2,278,800</u>	<u>9,879,677</u>	<u>14,707,534</u>	<u>56,534,889</u>
Fund Balances (Deficiency):					
Reserved for:					
Encumbrances	257,665	-	-	-	257,665
Debt service	1,434,863	-	-	100,000	1,534,863
Unreserved:					
Undesignated, reported in:					
General fund	21,555,262	-	-	419,517	21,974,779
Special revenue fund deficit	-	(175,517)	-	-	(175,517)
Capital projects fund	-	-	11,947,044	-	11,947,044
Total fund balances (deficiency)	<u>23,247,790</u>	<u>(175,517)</u>	<u>11,947,044</u>	<u>519,517</u>	<u>35,538,834</u>
Total liabilities and fund balances	<u>\$ 52,916,668</u>	<u>\$ 2,103,283</u>	<u>\$ 21,826,721</u>	<u>\$ 15,227,051</u>	<u>\$ 92,073,723</u>

See notes to financial statements.

CITY OF ALBANY, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2006

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Real property taxes	\$ 48,444,733	\$ -	\$ -	\$ -	\$ 48,444,733
Sales and use taxes	29,238,536	-	-	-	29,238,536
Other taxes	3,541,435	-	-	-	3,541,435
Payments in lieu of taxes	25,097,709	-	-	-	25,097,709
Intergovernmental revenue	19,655,317	2,909,715	3,205,699	7,403,988	33,174,719
Charges for services	14,210,229	-	-	852,418	15,062,647
Fines, interest and penalties	5,196,544	-	-	-	5,196,544
Uses of money and properties	1,689,254	-	-	-	1,689,254
License and permits	1,409,511	-	-	-	1,409,511
Other revenues	4,778,033	-	-	-	4,778,033
Total revenues	<u>153,261,301</u>	<u>2,909,715</u>	<u>3,205,699</u>	<u>8,256,406</u>	<u>167,633,121</u>
EXPENDITURES					
Public safety and regulation	72,662,917	-	2,501,036	-	75,163,953
General government	21,097,406	-	4,359,253	-	25,456,659
Highways and streets	6,664,985	-	2,390,701	-	9,055,686
Recreation and culture	6,279,572	-	1,071,752	-	7,351,324
Community service	9,403,467	-	3,771,847	-	13,175,314
Economic development and assistance	50,733	3,084,037	8,550	8,077,317	11,220,637
Employee benefits	13,067,046	-	-	-	13,067,046
Debt service:					
Principal	10,199,839	-	-	199,707	10,399,546
Interest	5,254,487	-	-	107,425	5,361,912
Total expenditures	<u>144,680,452</u>	<u>3,084,037</u>	<u>14,103,139</u>	<u>8,384,449</u>	<u>170,252,077</u>
Excess (deficiency) of revenues over expenditures	<u>8,580,849</u>	<u>(174,322)</u>	<u>(10,897,440)</u>	<u>(128,043)</u>	<u>(2,618,956)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from general obligation bonds and capital lease obligations	-	-	20,010,000	-	20,010,000
Proceeds from sale of property	10,550	-	-	-	10,550
Total other financing sources	<u>10,550</u>	<u>-</u>	<u>20,010,000</u>	<u>-</u>	<u>20,020,550</u>
Excess (deficiency) of revenues over expenditures and other financing sources	8,591,399	(174,322)	9,112,560	(128,043)	17,401,594
FUND BALANCE (DEFICIENCY), beginning of year,	<u>14,656,391</u>	<u>(1,195)</u>	<u>2,834,484</u>	<u>647,560</u>	<u>18,137,240</u>
FUND BALANCE (DEFICIENCY), ending	<u>\$ 23,247,790</u>	<u>\$ (175,517)</u>	<u>\$ 11,947,044</u>	<u>\$ 519,517</u>	<u>\$ 35,538,834</u>

See notes to financial statements.

CITY OF ALBANY, NEW YORK
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
WITH THE STATEMENT OF NET ASSETS
December 31, 2006

Total fund balance - governmental funds \$ 35,538,834

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

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

The cost of capital assets is	328,835,375	
Accumulated depreciation is	<u>(165,245,997)</u>	163,589,378

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

Bonds and loans payable	(105,338,143)	
Accrued interest on bonds	(1,620,523)	
Compensated absences	(15,759,094)	
Landfill closure and postclosure obligation	(5,547,981)	
Capital lease obligations	(10,094,707)	
Judgments and claims	<u>(7,128,760)</u>	<u>(145,489,208)</u>

Net assets of governmental activities		<u><u>\$ 53,639,004</u></u>
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CITY OF ALBANY, NEW YORK
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
WITH THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2006

Total net change in fund balance - governmental funds \$ 17,401,594

Amounts reported for governmental activities in the statement of activities are different because:

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

Capital outlays	8,723,274	
Depreciation expense	(11,099,435)	
Other	<u>(347)</u>	(2,376,508)

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

Compensated absences	(1,401,185)	
Landfill closure and postclosure costs	(684,463)	
Judgments and claims	<u>(187,273)</u>	(2,272,921)

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

Debt issued	(20,010,000)	
Principal repaid	<u>10,399,546</u>	(9,610,454)

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

	<u>162,722</u>	
Change in net assets of governmental activities		<u><u>\$ 3,304,433</u></u>

CITY OF ALBANY
COMBINING BALANCE SHEET –
DISCRETELY PRESENTED COMPONENT UNITS
December 31, 2006

	Albany Water Board and Municipal Water Finance Authority	Albany Parking Authority	City of Albany Industrial Development Agency	Albany Port District Commission	Albany Local Development Corporation	Other Component Units	Totals
ASSETS							
Cash and cash equivalents	\$ 1,060,288	\$ 1,841,700	\$ 170,611	\$ -	\$ 5,977,295	\$ 603,424	\$ 9,653,317
Cash and cash equivalents, restricted	-	1,232,114	-	403,616	-	-	1,635,730
Investments, restricted	7,618,395	3,796,137	-	912,774	895,453	-	13,222,759
Receivables, net:							
Accounts	12,698,282	37,521	-	248,445	-	128,913	13,113,161
Other	-	69,775	-	-	320,950	-	390,725
Mortgage loans and notes receivable	-	-	170,676	-	1,943,456	-	2,114,132
Due from primary government	-	-	-	-	16,448	120,041	136,489
Prepaid and other assets	834,376	30,001	299	179,622	2,991,955	5,815	4,042,068
Property held for investment, lease or sale	-	-	-	-	4,954,736	-	4,954,736
Intangible assets, net	3,676,553	899,684	-	-	-	-	4,576,237
Capital assets, net	40,496,529	18,593,019	-	21,237,094	290,245	308,169	80,925,056
	<u>\$ 66,384,423</u>	<u>\$ 26,499,951</u>	<u>\$ 341,586</u>	<u>\$ 22,981,551</u>	<u>\$ 17,390,538</u>	<u>\$ 1,166,362</u>	<u>\$ 134,764,410</u>
Total assets							
LIABILITIES							
Accounts payable and accrued expenses	\$ 2,373,691	\$ 155,489	\$ -	\$ 465,557	\$ 56,480	\$ 247,488	\$ 3,298,704
Current maturities of long-term debt	916,966	1,040,000	-	375,210	251,472	10,286	2,593,934
Accrued interest payable	-	575,010	-	-	-	11,053	586,063
Due to primary government	12,018,379	-	131,970	-	308,136	-	12,458,485
Deferred revenues	1,184,384	-	-	54,096	1,371,524	-	2,610,004
Revolving loan fund	-	-	-	-	777,614	-	777,614
Other liabilities	-	-	51,696	-	-	12,304	64,000
Accrued interest on capital appreciation bonds	-	1,676,772	-	-	-	-	1,676,772
Bonds and notes payable	73,663,946	24,858,061	-	2,644,847	5,644,400	202,900	107,014,154
Total liabilities	<u>90,157,366</u>	<u>28,305,332</u>	<u>183,666</u>	<u>3,539,710</u>	<u>8,409,626</u>	<u>484,031</u>	<u>131,079,730</u>
FUND BALANCE (DEFICIT) AND OTHER CREDITS							
Contributed capital	-	-	-	-	-	-	-
Fund balances	-	-	157,920	-	-	-	157,920
Reserved for							
Program specific activities	-	5,028,251	-	-	335,981	-	5,364,232
Debt service	-	-	-	-	177,213	-	177,213
Invested in capital assets, net of related debt	(34,084,383)	(7,185,919)	-	18,217,037	2,439,398	-	(20,613,867)
Unreserved	10,311,440	352,287	-	1,224,804	6,028,320	682,331	18,599,182
Total fund balance (deficit) and other credits	<u>(23,772,943)</u>	<u>(1,805,381)</u>	<u>157,920</u>	<u>19,441,841</u>	<u>8,980,912</u>	<u>682,331</u>	<u>3,684,680</u>
Total liabilities and fund balance	<u>\$ 66,384,423</u>	<u>\$ 26,499,951</u>	<u>\$ 341,586</u>	<u>\$ 22,981,551</u>	<u>\$ 17,390,538</u>	<u>\$ 1,166,362</u>	<u>\$ 134,764,410</u>

See notes to financial statements.

CITY OF ALBANY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
DISCRETELY PRESENTED COMPONENT UNITS
December 31, 2006

	Albany Water Board and Municipal Water Finance Authority	Albany Parking Authority	Albany Industrial Development Agency	Albany Port District Commission	Albany Local Development Corporation	Other Component Units	Totals
Operating revenue	\$ 22,915,769	\$ 5,808,861	\$ 473,372	\$ 4,593,001	\$ 1,544,839	\$ 1,846,103	\$ 37,181,945
Operating expenses							
Costs of services	-	1,997,952	142,392	1,568,536	832,553	1,735,284	6,276,717
Source of supply and purification	3,783,639	-	-	-	-	-	3,783,639
Transmission and distribution	3,393,666	-	-	-	-	-	3,393,666
General and administrative	3,099,061	976,128	-	975,795	(53,073)	174,202	5,172,113
Real estate taxes paid to other governments	2,067,105	-	-	-	-	-	2,067,105
Sewer contract	9,470,814	-	-	-	-	-	9,470,814
Depreciation and amortization	3,994,282	686,543	-	1,373,229	202,249	50,797	6,307,100
Grants	-	-	365,380	-	-	-	365,380
Miscellaneous	-	214,341	-	-	82,796	-	297,137
Total operating expenses	<u>25,808,567</u>	<u>3,874,964</u>	<u>507,772</u>	<u>3,917,560</u>	<u>1,064,525</u>	<u>1,960,283</u>	<u>37,133,671</u>
Excess (deficiency) of operating revenue over expenses before nonoperating revenue (expenses)	<u>(2,892,798)</u>	<u>1,933,897</u>	<u>(34,400)</u>	<u>675,441</u>	<u>480,314</u>	<u>(114,180)</u>	<u>48,274</u>
Nonoperating revenue (expenses)							
Letter-of-credit fees	-	(5,017)	-	-	-	-	(5,017)
Amortization of bond issue costs	-	(75,621)	-	-	-	-	(75,621)
Decrease in fair value of investments	-	(24,455)	-	-	-	-	(24,455)
Interest income	533,622	313,820	13,213	52,490	-	-	913,145
Interest expense	(3,158,337)	(1,566,923)	(6,477)	(103,743)	234,344	-	(4,601,136)
Gain/(loss) on sale of property and equipment	-	-	(8,903)	14,850	-	-	5,947
Waterfront development expenses	-	-	-	(200,261)	-	-	(200,261)
Revenues and Support Contributions	-	-	-	-	-	47,789	47,789
Net nonoperating expenses	<u>(2,624,715)</u>	<u>(1,358,196)</u>	<u>(2,167)</u>	<u>(236,664)</u>	<u>234,344</u>	<u>47,789</u>	<u>(3,987,398)</u>
Excess (deficiency) of revenue over expenses before transfers	<u>(5,517,513)</u>	<u>575,701</u>	<u>(36,567)</u>	<u>438,777</u>	<u>245,970</u>	<u>(66,391)</u>	<u>(4,360,023)</u>
Grant funding	-	-	-	598,042	-	-	598,042
Excess (deficiency) of revenue over expenses	<u>(5,517,513)</u>	<u>575,701</u>	<u>(36,567)</u>	<u>1,036,819</u>	<u>245,970</u>	<u>(66,391)</u>	<u>(3,761,981)</u>
FUND BALANCE (DEFICIT) AND OTHER CREDITS, beginning of year	<u>(18,255,430)</u>	<u>(2,381,082)</u>	<u>194,487</u>	<u>18,405,022</u>	<u>8,734,942</u>	<u>748,722</u>	<u>7,446,661</u>
FUND BALANCE (DEFICIT) AND OTHER CREDITS, end of year	<u>\$ (23,772,943)</u>	<u>\$ (1,805,381)</u>	<u>\$ 157,920</u>	<u>\$ 19,441,841</u>	<u>\$ 8,980,912</u>	<u>\$ 682,331</u>	<u>\$ 3,684,680</u>

See notes to financial statements.

CITY OF ALBANY
COMBINING STATEMENT OF CASH FLOWS –
DISCRETELY PRESENTED COMPONENT UNITS
December 31, 2006

	Albany Water Board and Municipal Water Finance Authority	Albany Parking Authority	Albany Industrial Development Agency	Albany Port District Commission	Albany Local Development Corporation	Other Component Units*	Totals
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES							
Excess (deficiency) of operating expenses over revenue	\$ (2,892,798)	\$ 1,933,897	\$ (34,400)	\$ 675,441	\$ 480,314	\$ (114,180)	\$ 48,274
Adjustments to reconcile excess of operating expenses over revenue to net cash provided (used) by operating activities:							
Depreciation and amortization	3,994,282	686,543	-	1,373,229	202,249	50,797	6,307,100
Realized gain on sale of investments and assets	-	-	-	-	(20,185)	-	(20,185)
In-kind donations of property	-	-	-	-	-	-	-
Provision for losses on mortgage costs, accrued interest, and other receivables	-	-	-	-	(53,073)	-	(53,073)
Interest income on cash and cash equivalents and investments	-	-	-	-	(144,477)	-	(144,477)
Deferred program support recognized as program income	-	-	-	-	(22,605)	-	(22,605)
Changes in:							
Accounts receivable	(854,855)	-	-	605,389	72,071	(61,707)	(239,102)
Due from primary government	-	-	-	-	-	237,029	237,029
Other receivables	-	(12,997)	-	-	-	-	(12,997)
Prepaid expenses and other assets	41,896	7,437	1,347	(139,970)	-	6,630	(82,660)
Accounts payable and accrued expenses	(154,828)	72,874	-	(773,197)	(23,304)	152,744	(725,711)
Due to City of Albany	-	-	-	-	(58,518)	-	(58,518)
Other liabilities	913	-	2,816	-	4,781	(192,575)	(184,065)
Deferred revenue	-	-	-	-	(86,553)	-	(86,553)
Net cash provided by (used in) operating activities	<u>134,610</u>	<u>2,687,754</u>	<u>(30,237)</u>	<u>1,740,892</u>	<u>350,700</u>	<u>78,738</u>	<u>4,962,457</u>
CASH FLOWS PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES							
Proceeds from long-term debt	533,622	-	-	-	-	24,650	558,272
Principal payments on long-term debt	(933,803)	(879,525)	(215,000)	(365,104)	(302,691)	(6,075)	(2,702,198)
Interest payments on long-term debt	(3,158,337)	(1,824,946)	(8,222)	(103,743)	(235,610)	-	(5,330,858)
Cash payments for capital assets	-	-	-	(1,823,225)	326,673	-	(1,496,552)
Letter-of-credit fee	-	(5,017)	-	-	-	-	(5,017)
Support contributions	-	-	-	-	-	47,789	47,789
Proceeds from sale of assets	-	-	7,000	14,850	-	-	21,850
Net payments to City of Albany	5,782,905	-	-	-	-	-	5,782,905
Proceeds from grant fundings	-	-	-	598,042	-	-	598,042
Net cash provided by (used in) capital and related financing activities	<u>2,224,387</u>	<u>(2,709,488)</u>	<u>(216,222)</u>	<u>(1,679,180)</u>	<u>(211,628)</u>	<u>66,364</u>	<u>(2,525,767)</u>

Continued...

See notes to financial statements.

CITY OF ALBANY
COMBINING STATEMENT OF CASH FLOWS –
DISCRETELY PRESENTED COMPONENT UNITS, Continued
December 31, 2006

	Albany Water Board and Municipal Water Finance Authority	Albany Parking Authority	Albany Industrial Development Agency	Albany Port District Commission	Albany Local Development Corporation	Other Component Units*	Totals
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES							
Purchase of property, plant, and equipment	(2,747,464)	(5,171)	-	-	(90,757)	(58,448)	(2,901,840)
Issuance of mortgage notes	-	-	-	-	(225,000)	-	(225,000)
Cash received on sale of investments	250,138	-	-	1,859,060	700,000	-	2,809,198
Cash paid for purchase of investments	-	(354,591)	-	(1,918,966)	(20,418)	-	(2,293,975)
Repayments received on mortgage loans	-	-	1,421	-	717,878	-	719,299
Interest on investments	-	323,012	13,213	47,389	147,589	-	531,203
Principal payments received under direct financing leases	-	-	-	-	113,910	-	113,910
Repayment from (advances to) City agencies net	-	-	-	-	15,202	-	15,202
Net cash provided by (used in) investing activities	<u>(2,497,326)</u>	<u>(36,750)</u>	<u>14,634</u>	<u>(12,517)</u>	<u>1,358,404</u>	<u>(58,448)</u>	<u>(1,232,003)</u>
Net increase (decrease) in cash and cash equivalents	(138,329)	(58,484)	(231,825)	49,195	1,497,476	86,654	1,204,687
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,198,616</u>	<u>3,132,298</u>	<u>402,436</u>	<u>354,421</u>	<u>4,479,819</u>	<u>516,770</u>	<u>10,084,360</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,060,287</u>	<u>\$ 3,073,814</u>	<u>\$ 170,611</u>	<u>\$ 403,616</u>	<u>\$ 5,977,295</u>	<u>\$ 603,424</u>	<u>\$ 11,289,047</u>

See notes to financial statements.

CITY OF ALBANY, NEW YORK
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
December 31, 2006

	Expendable Trust	Agency
ASSETS		
Cash and equivalents	\$ 8,071	\$ 2,401,601
Cash and equivalents - restricted	-	211,616
Total assets	<u>\$ 8,071</u>	<u>\$ 2,613,217</u>
LIABILITIES		
Accounts payable	\$ -	\$ 2,532
Seized forfeitures	-	211,616
Due to other funds	-	1,083,954
Other liabilities	-	1,315,115
Total liabilities	<u>-</u>	<u>2,613,217</u>
NET ASSETS	<u>8,071</u>	<u>-</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,071</u>	<u>\$ 2,613,217</u>

See notes to financial statements.

CITY OF ALBANY, NEW YORK
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
For the Year Ended December 31, 2006

	<u>Expendable Trust</u>
Additions	
Contributions	\$ 394,531
Other	<u>92</u>
Total additions	<u>394,623</u>
Deductions	
Fire retirement	<u>393,824</u>
Change in net assets	799
Net assets, beginning of year	<u>7,272</u>
Net assets, end of year	<u><u>\$ 8,071</u></u>

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Reporting Entity*

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

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

In preparing financial statements in conformity with GAAP, management is required to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

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

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

Blended Component Unit

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

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

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Discretely Presented Component Units

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

Albany Water Board and Albany Municipal Water Finance Authority

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

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

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

Albany Parking Authority

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

City of Albany Industrial Development Agency

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

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Albany Port District Commission

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

The Laws of 1925 provide that the municipalities of Albany and Rensselaer be assessed for the Commission's deficit, if any, from operations and financing. A reapportionment determination made April 1, 1932 established the rates of 88 percent for Albany and 12 percent for Rensselaer. These rates are still in effect and although the rates are subject to change under the provisions of the law, in recent years, there have been no such assessments.

Albany Local Development Corporation

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

Other Component Units

Downtown Albany Restoration Program, Inc.

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

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Lark Street Area District Management Association, Inc.

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

Central District Management Association, Inc.

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

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

Entities excluded from the reporting entity:

Albany Housing Authority

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

Albany City School District

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

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

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

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

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The City reports the following major governmental funds:

Governmental fund types

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

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

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

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

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

Other governmental funds

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

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

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

D. *Assets, Liabilities and Net Assets*

Cash and investments

The City's investment policies must comply with State statutes as well as their own written investment policy. City monies must be deposited into Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the State. The City is authorized to use money market accounts and certificates of deposit. Permissible investments include obligations of the United States Treasurer, and United States agencies that are backed by the full faith and credit of the United States, repurchase agreements, and with the permission of the State Comptroller, obligations of New York State or its localities.

Deposits in excess of the FDIC are required to be fully collateralized by obligations of New York State or Federal agencies, the principal and interest of which are guaranteed by the United States or obligations of New York State local governments. The securities are held in a separate, segregated account in the name of the financial institution for the benefit of the City.

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

Receivables and Payables

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

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

Inventories and Prepaid Items

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

Restricted Assets

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

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets (Continued)

Capital Assets

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

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

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

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

Compensated Absences

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

Leave paid in the current period is reported as an expenditure in the fund financial statements. All accumulated leave, including that which is not expected to be liquidated with expendable available financial resources, is reported in the government-wide financial statements.

Judgments and Claims

The liability for claims in process represents estimates for all known workers' compensation claims and probably legal settlements at December 31, 2006.

Deferred Revenue

Deferred revenues principally represent unpaid loan balances resulting from various community development home loan programs operated by the City. When loan payments are received, revenue is recognized to the extent of principal received. When grant funds are reloaned, a corresponding expenditure is recorded. When the allowance for loan losses is increased, a corresponding decrease in the amount of deferred revenue is made in the same period, the effect of which is to reduce the overall amount of funds available for future loans.

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Long-Term Obligations

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

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

Future Impacts of Accounting Pronouncements

The City has not completed the process of evaluating the impact that will result from adopting the GASB Statement No. 48 *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, effective for the year ending December 31, 2007, GASB 49 *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective for the year ending December 31, 2009, GASB 50 *Pension Disclosures*, effective December 31, 2008, and GASB 51 *Accounting and Financial Reporting for Intangible Assets*. The City is, therefore, unable to disclose the impact of the adoption of these statements will have on its financial position and results of operations when such statements are adopted.

NOTE 2 — EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENT-WIDE STATEMENTS AND GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

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

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

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 2 — EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENT-WIDE STATEMENTS AND GOVERNMENTAL FUND FINANCIAL STATEMENTS (Continued)

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

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

i. Long-term revenue and expense differences:

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

ii. Capital related differences:

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

iii. Long-term liability transaction differences:

Long-term liability transaction differences relate principally to bonds and accrued compensated absences. Both interest and principal payments on bonds and other long-term debt are recorded as expenditures in the governmental fund statements, whereas interest payments are recorded in the statement of activities as incurred, and principal payments are recorded as a reduction of liabilities in the statement of net assets.

Employees earn vacation and sick leave as they provide service. They may accumulate (subject to certain limitations) unused time earned and, upon retirement, termination or death, may be compensated for such accumulated time. The cost of vacation pay and sick time are recognized in the statement of revenues, expenditures and changes in fund balance when the expenditures are paid. The cost of vacation and sick time earned within the reporting period, including that which is not expected to be paid with expendable available financial resources, is reported in the government-wide financial statements and expensed in the statement of activities.

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 3 — STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

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

NOTE 4 — CASH AND CASH EQUIVALENTS AND CASH AND CASH EQUIVALENTS RESTRICTED

At December 31, 2006, cash and cash equivalents and cash and cash equivalents - restricted are comprised of interest bearing and non-interest bearing deposits in various financial institutions. The City considers all certificates of deposit, with original maturities of three months or less, and money market accounts to be cash equivalents.

It is the City's policy for all deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of Federal Deposit Insurance Corporation (FDIC) insurance. At December 31, 2006, all cash and cash equivalents, as well as restricted cash and restricted cash equivalents in excess of FDIC insurance, were fully collateralized by securities in the name of the financial institution held in a separate account.

The City has approximately \$13,254,000 in cash and cash equivalents that have been restricted as follows:

General Fund		
Debt service	\$ 2,954,000	
Landfill postclosure	844,000	
Retirement of BAN liability	3,616,000	
Prescription plan, insurance claims and other	<u>343,000</u>	
		\$ 7,757,000
Capital Fund		
Purchase of capital lease equipment	<u>5,394,000</u>	
		5,394,000
Other Governmental Funds		
Debt service	<u>103,000</u>	
		<u>103,000</u>
Cash and cash equivalents - restricted		<u><u>\$ 13,254,000</u></u>

The City's investment policy attempts to limit exposure to losses arising from interest rate risk, credit risk, custodial risk, and concentration of credit risk. Further, statutes authorize the City to invest in obligations of New York State, the United States Government and its agencies, and repurchase agreements collateralized by U.S. obligations.

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 5 — LANDFILL RECEIVABLE

The City currently has one landfill accepting waste from various public and private entities. These entities are billed monthly based on the tonnage deposited at the landfill for the previous month. At December 31, 2006, the City had outstanding landfill receivables of approximately \$1,144,000. Management has established an allowance for doubtful accounts for this receivable balance of approximately \$32,500 which is netted against the receivable balance in the financial statements at December 31, 2006.

NOTE 6 — PROPERTY TAXES

Property taxes are levied and payable in January. Any property taxes not paid by the following December 31 are purchased without recourse by the County of Albany. Accordingly, the total levy is considered measurable and available, and there is no allowance for uncollectible property taxes at December 31, 2006.

The taxable assessed value of real property, as adjusted by New York State, included in the tax levy of 2005 (amount to be received in 2006), was \$3,440,361,143. The effective tax rate on this value is \$12.74 per thousand for residential and \$15.95 per thousand for non-residential properties. The constitutional tax limit is 2% of the 5-year average of the full value assessment. The 2005 levy represents approximately 47% of the constitutional tax limit.

NOTE 7 — CAPITAL ASSETS

Property and equipment is comprised of the following:

	Balance December 31, 2005	Additions	Deletions and Adjustments	Balance December 31, 2006
Capital assets not being depreciated:				
Land	\$ 1,310,496	\$ 3,027,727	\$ (11)	\$ 4,338,212
Construction in process	40,159,909	2,665,474	(3,901,035)	38,924,348
	<u>41,470,405</u>	<u>5,693,201</u>	<u>(3,901,046)</u>	<u>43,262,560</u>
Capital assets being depreciated:				
Buildings, capital leases and improvements	45,310,394	150,129	(3)	45,460,520
Machinery and equipment	41,875,210	4,052,373	(903)	45,926,680
Infrastructure	191,457,011	2,728,605	-	194,185,616
	<u>320,113,020</u>	<u>12,624,308</u>	<u>(3,901,952)</u>	<u>328,835,376</u>
Less accumulated depreciation for:				
Buildings, capital leases and improvements	19,116,308	1,158,099	-	20,274,407
Machinery and equipment	27,458,409	3,828,820	(576)	31,286,653
Infrastructure	107,572,422	6,112,516	-	113,684,938
	<u>144,147,139</u>	<u>11,100,435</u>	<u>(626)</u>	<u>155,046,948</u>
Total capital assets, net	<u>\$ 165,965,881</u>			<u>\$163,589,378</u>

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 7 — CAPITAL ASSETS (Continued)

Depreciation expense was \$11,099,435 for the period ending December 31, 2006. In the statement of activities, depreciation expense is allocated to each function as follows:

<u>Function/Programs</u>	<u>Depreciation Expense</u>
Public safety and regulation	\$ 2,925,637
General government	5,872,504
Highway and streets	987,242
Recreation and culture	129,490
Community service	1,037,365
Economic development and assistance	147,197
	<u>\$ 11,099,435</u>

NOTE 8 — MORTGAGE LOANS RECEIVABLE AND DEFERRED REVENUES

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

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

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

The balance of mortgage loans receivable, net of related allowances, is comprised of the following at December 31, 2006:

<u>Program</u>	<u>Balance</u>
HUD CDBG	\$ 12,561,630
NYSHTFC	1,097,354
	<u>\$ 13,658,984</u>

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 9 — INTERFUND RECEIVABLES AND PAYABLES

A summary of interfund receivables and payables at December 31, 2006 is as follows:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General	\$ 7,914,491	\$ 62,361
Special Revenue	50,810	1,843,977
Capital Projects	19,200	4,393,112
Albany Community Development Agency	-	601,097
	<u>7,984,501</u>	<u>6,900,547</u>
Fiduciary Fund	-	1,083,954
	<u>\$ 7,984,501</u>	<u>\$ 7,984,501</u>

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

NOTE 10 — DUE FROM/TO COMPONENT UNITS

The City has reported approximately \$12,775,000 and \$135,000 as the amount due from and due to the Component Units at December 31, 2006. The Component Units reported approximately \$135,000 and \$12,460,000 as the amount due from and due to the primary government, respectively. The net difference as reported by the City and its Component Units is approximately \$315,000. Activity giving rise to amounts due between the City and the Component Units relates to payroll, benefits, grant reimbursements, tax assessment adjustments and other administrative costs paid for by the City and reimbursed to the City by the Component Units or paid for by the Component Units and reimbursed by the City. This reporting variance is attributable principally to the timing differences of recording these underlying transactions.

NOTE 11 — EMPLOYEE BENEFIT PLANS

(a) Pension plans

The City of Albany participates in the New York State and Local Employees' Retirement System (ERS), the New York State and Local Police and Fire Retirement System (PFRS) and the Public Employees' Group Life Insurance Plan (collectively, the Systems). These are cost-sharing multi-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, NYS Comptroller State Office Building, 110 State Street, Albany, NY 12207.

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 11 — EMPLOYEE BENEFIT PLANS (Continued)

(a) Pension plans (Continued)

The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary for the first ten years of service. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

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

	<u>ERS</u>	<u>PFRS</u>
2006	\$3,372,739	\$ 6,498,740
2005	\$3,349,161	\$ 5,774,591
2004	\$3,868,269	\$12,622,793 *

* Includes past service cost section 384E of \$6,298,000

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

(b) Health insurance benefits

The City provides health benefits to its employees and retirees through a variety of health insurance plans, which are offered to full-time employees. Employees hired prior to January 1, 1985 pay no contributory share of premiums. Employees hired after January 1, 1995 pay 10% of premiums for individual coverage and 25% of the premium for family coverage. Pursuant to collective bargaining contracts, public safety employees (police officers and firefighters) with eight years of service or more pay no contributory share of premiums.

Employees who reach retirement age while working for the City and who have ten or more years of continuous full-time service are currently provided with the insurance benefit, to which they were entitled as employees. Retirement benefits are not collectively bargained and the City can alter this benefit at any time. At December 31, 2006, the number of retired participants eligible to receive benefits was 1,017.

The cost of premiums paid for City employees and the buyouts for employees who elected to forgo the health insurance benefits offered by the City totaled approximately \$11,551,200 during 2006. The cost of premiums paid by the City for health care benefits to retirees during 2006 was approximately \$9,280,000.

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 11 — EMPLOYEE BENEFIT PLANS (Continued)

(b) Health insurance benefits (Continued)

During 2007 the City will adopt GASB Statement No. 45, *Accounting and Financial Reporting by Employees for Post-Employment Benefits Other Than Pensions*. The City has evaluated the impact of the adoption of GASB 45 on its statement of net assets and statement of activities as of and for the period ending December 31, 2007. The City has estimated that other post employment benefit obligation as calculated in accordance with the parameters of GASB Statement No. 45 will approximate \$310 million in 2007.

This obligation is based on the level of benefits currently provided to retirees. However, changes in the cost or level of benefit provided in the future would change the liability.

The 2007 annual required contribution (ARC), which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize over a 30 year period any unfunded actuarial liabilities is as follows:

Past Service Cost	\$19,194,800
Normal Cost	9,838,400
Interest	<u>1,330,700</u>
Annual required contribution	<u><u>\$30,363,900</u></u>

The City currently has no plan to fund any portion of its post employment benefit obligation.

NOTE 12 — NOTES PAYABLE

(a) Bond Anticipation Notes

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

In July 2006, the City issued \$2,250,000 in BANS at an interest rate of 4.25%. The notes are for expenses of current capital projects, including some transportation projects for which there is state and federal reimbursement. These BANS were repaid in July 2007.

(b) Revenue Anticipation Notes

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

In January 2006, the City issued \$10,000,000 in RANS at a rate of 4.25% in anticipation of later than usual receipt of state aid, and PILOT payments from the state. The RANS were repaid in January 2007.

Interest expense on both BANS and RANS totaled approximately \$45,500 and \$431,500, respectively, for the period ending December 31, 2006.

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 13 — INDEBTEDNESS

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

The following is a summary of certain long-term liability transactions of the City for the year ended December 31, 2006:

	Balance January 1, 2006	New Issues/ Increase in Estimates	Debt Retirement Decrease in Estimates	Balance December 31, 2006
Judgments and claims	\$ 6,941,482	\$ 187,278	\$ -	\$ 7,128,760
Vacation/sick pay obligations	14,357,909	1,401,185	-	15,759,094
Landfill closure and postclosure care costs	4,863,518	684,463	-	5,547,981
Capital lease obligations	6,475,000	4,510,000	(896,960)	10,094,707
Accrued interest	3,187,091	3,139	-	3,190,230
Bonds	98,793,782	15,500,000	(9,485,082)	104,808,700
Loans payable (ACDA)	553,614	-	(24,171)	529,443
Total	\$ 135,172,396	\$ 22,286,066	\$ (10,406,213)	\$ 147,058,915

Of the total outstanding indebtedness of the City in the sum of approximately \$116,650,000, the total amount was subject to the statutory debt limit and represented approximately 42.43% of the City's \$274,955,043 statutory debt limit.

(a) Bonds

During 1993, the City issued \$39,847,849 in General Obligation Refunding Bonds with an average interest rate of 4.35% to advance refund \$2,030,000 of outstanding 1986 General Obligation Bonds with an average interest rate of 7.5%, \$3,910,000 of outstanding 1986 General Obligation Refunding Bonds with an average interest rate of 6.5%, \$7,300,000 of outstanding 1987 Public Improvement Bonds with an average interest rate of 6% and \$22,240,000 of outstanding 1990 General Obligation Serial Bonds with an average interest rate of 7% (the 1986, 1987 and 1990 bonds). The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the aforementioned bonds. As a result, the 1986, 1987 and 1990 bonds are considered to be defeased. Of the total bonds defeased in 1993, \$1,415,000 of the 1990 remain outstanding at December 31, 2006.

During 2001, the City issued \$6,675,000 in General Obligation Refunding Bonds with an average interest rate of 4.45% to advance refund \$6,210,000 of outstanding 1994 General Obligation Bonds with an average interest rate of 6.10%. The net proceeds were deposited in an irrevocable trust with an escrow agent. The escrow agent subsequently purchased non-callable direct obligations of the United States of America ("Governmental Obligations"). The principal of and investment income on the portfolio of Government Obligations together with other available cash on deposit in the irrevocable trust are expected to provide for all future debt service payments on the aforementioned bonds. As a result, the 1994 bonds are considered to be defeased. The amount of the defeased bonds outstanding at December 31, 2006 for the 1994 bonds is approximately \$3,710,000.

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 13 — INDEBTEDNESS (Continued)

(a) Bonds (Continued)

During 2002, the City issued \$10,085,000 in General Obligation Refunding Bonds with an average interest rate of 3.75% to advance refund \$9,660,000 of outstanding 1993 General Obligation Bonds with an average interest rate of 5.08%. The issue matures in 2013 with annual payments ranging from \$785,000 to \$1,160,000.

During 2003, the City issued \$21,908,218 in General Obligation Bonds with interest rates from 2.75% to 4.25% and priced to yield from .94% to 4.25%. The bonds carry an average interest rate of 3.94% and the average life of the bonds is 8.75 years. The issue matures on August 1, 2018 with annual payments ranging from approximately \$1,956,200 to \$1,961,800. Proceeds are being used for ongoing and additional capital projects.

During 2004, the City issued \$14,262,338 in General Obligation Bonds with interest rates from 3.00% to 4.00% and priced to yield from 1.50% to 4.00%. The bonds carry an average interest rate of 3.50% and the average life of the bonds is 8.75 years. The issue matures on July 15, 2015 with annual payments ranging from approximately \$1,565,000 to \$1,638,000. Proceeds are being used for ongoing and additional capital projects.

During 2006, the City issued \$25,595,000 in General Obligation Bonds. The issue included \$15,500,000 in tax exempt bonds to be used for ongoing and additional capital projects and \$10,095,000 in federally taxable bonds used to convert the federally taxable BANS originally issued in 2004 to finance additional retirement participation costs of City employees participating in the New York State Retirement System.

During 2004 the City issued \$10,700,000 in federally taxable BANS to finance additional retirement participation costs of City employees participating in the New York State Retirement System. Of this expense, \$6.3 million was a one-time cost of moving City firefighters to a new retirement plan pursuant to Section 38-E of the Retirement and Social Security Law. The remaining \$4.4 million was the City's pension contribution in excess of seven percent of payroll that was to be bonded pursuant to Chapter 260 of Laws of 2004 of New York State. The City converted this obligation to long-term debt, as noted above, during 2006 through the issuance of federally taxable bonds. Proceeds from the original BAN were recognized as an other financing source in the statement of revenues, expenditures and changes in fund balance for the period ending December 31, 2004. Due to the long term nature of the obligation the original BAN was classified as bonds and loans payable in the government-wide statement of net assets as of December 31, 2004.

The 2006 tax exempt bonds bear interest rates from 4.00% to 4.13%. The issue matures in 2018 with annual payments ranging from \$1,015,000 to \$1,610,000. The 2006 taxable bonds bear interest of 5.75% and mature in 2020. Annual payments range from \$495,000 to \$1,000,000.

During 2003 and 2002, ACDA issued \$500,000 and \$200,000, respectively, in General Obligation Bonds with an interest rate of 6.14%. The bonds have a maturity date of October 2013. Bond proceeds will fund loans granted through the Albany Down Payment Assistance Program. Principal payments are required to be paid in conjunction with payments received from loan beneficiaries. As of December 31, 2006, the balance under the general obligation bonds was approximately \$400,900.

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 13 — INDEBTEDNESS (Continued)

(a) Bonds (Continued)

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

Serial and EFC bonds, the proceeds of which have been used primarily to provide funds for various capital projects, consists of the following at December 31, 2006:

Future maturities of general long-term debt as of December 31, 2006 are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 10,360,000	\$ 4,461,247	\$ 14,821,247
2008	9,042,343	4,739,987	13,782,330
2009	9,203,036	4,391,755	13,594,791
2010	9,217,470	4,007,273	13,224,743
2011	8,330,000	2,969,283	11,299,283
2012 - 2016	39,245,851	9,458,107	48,703,958
2017 - 2021	18,170,000	2,517,918	20,687,918
2022 - 2025	1,240,000	149,281	1,389,281
	<u>\$ 104,808,700</u>	<u>\$ 32,694,851</u>	<u>\$ 137,503,551</u>

Interest expense for bonds and loans payable was approximately \$5,092,000 for the period ending December 31, 2006.

(b) Capital leases

City

During 2005, the City entered into a one year master equipment lease/purchase agreement (the "agreement") with a bank. The agreement provided capital for the City to use to purchase certain equipment from various vendors to be used by the City in executing day to day delivery of general government services to its constituency. Lease purchases are authorized by the City's Common Council and identified by ordinance numbers in the agreements. Approved ordinances became part distinct subordinate lease/purchase agreements. The one year agreement provided for renewal of the agreement at the City's discretion for up to two additional years. During 2006, the City renewed the agreement adding three new distinct subordinate lease/purchase agreements. Proceeds under the separate agreements are transferred by the bank to an escrow account to be used by the City to purchase the designated equipment identified in the subordinate agreements. These amounts are recognized by the City as other financing sources on the statement of revenues, expenditures, and change in fund balance in the period in which the cash is transferred by the bank. The unspent proceeds under the agreements of approximately \$5,400,000 were recorded as restricted cash in the capital fund on the governmental funds balance sheet at December 31, 2006. The total acquisition cost is deferred in the lease/purchase schedules and bear interest ranging from 3.15% to 3.65%. The purchases qualify as capital leases. The interest portion of the future minimum lease payments approximate \$1,105,000 and the net present value of the lease payments approximate \$7,905,000. Payments of interest and principal are semi-annual and are made in accordance with each subordinate agreement payment schedule.

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 13 — INDEBTEDNESS (Continued)

IDA

The City entered into a capital lease with the IDA, whereby the City has agreed to rent the City of Albany Municipal Golf Course clubhouse and related parcel of land (collectively the “property”). The lease payments made under the agreement shall be in an amount equal to the amount payable as principal and interest on the IDA’s Revenue Bonds, 1991 Series A and B. The lease payments are due monthly through 2012. The agreement qualifies as a capital lease. The interest portion of the future minimum lease payments approximates \$267,000 and the net present value at December 31, 2006 is approximates \$748,000. Title of the property transfers to the City upon satisfaction of the outstanding debt service.

ACDA

ACDA amended its lease for office space at a facility located at 200 Henry Johnson Boulevard. The amended lease has a sixteen year term and the agreement requires ACDA to remit semi-annual payments to the City of Albany Local Development Corporation (“the ALDC”) through 2018. The agreement qualifies as a capital lease. The interest portion of future minimum lease payments approximate \$493,000 and the net present value at December 31, 2006 approximates \$1,435,000.

A summary of future minimum lease payments and future minimum maturities of the capital lease obligation as of December 31, 2006 is as follows:

<u>Year Ending December 31</u>	<u>CITY</u>	<u>IDA</u>	<u>ACDA</u>	<u>Total</u>
2007	\$ 1,603,336	\$ 188,126	\$ 151,144	\$ 1,942,606
2008	1,603,336	194,668	155,138	1,953,142
2009	1,335,584	193,641	158,656	1,687,881
2010-2014	3,556,868	439,019	809,019	4,804,906
2015-2018	910,652	-	654,007	1,564,659
Total minimum lease payments	<u>\$ 9,009,776</u>	<u>\$ 1,015,454</u>	<u>\$ 1,927,964</u>	<u>\$ 11,953,194</u>

(c) *Litigation and contingent liabilities*

(1) *Judgments and Claims*

There are various suits and claims pending against the City. In the opinion of City officials and Corporation Counsel, there are no proceedings against the City in which the likelihood has been deemed possible or probable and could have a material adverse effect on the City’s financial position or results of operations. The City has recognized an accrued liability of approximately \$402,000 to allow for future claims on certain matters.

(2) *Self Insurance*

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

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 13 — INDEBTEDNESS (Continued)

(c) *Litigation and contingent liabilities (Continued)*

Under the program, the City utilizes a program administrator to process claims as they occur. A liability of approximately \$6,727,000 for unpaid claims based upon individual case estimates for claims incurred at December 31, 2006 has been recorded in the caption "Judgments and claims." This liability is the City's best estimate based on available information. Changes in the reported liability since December 31, 2005 resulted from the following:

	Balance as of December 31, 2005	Current Year Claims and Changes in Estimates	Claim Payments	Balance as of December 31, 2006
Workers' compensation liability	<u>\$ 6,739,232</u>	<u>\$ 1,853,815</u>	<u>\$ (1,866,287)</u>	<u>\$ 6,726,760</u>

(3) *Grant Programs*

The City participates in a number of grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of these programs may be conducted periodically in accordance with grantor requirements. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amounts of expenditures that may be disallowed by the granting agencies cannot be determined at this time although the City believes, based upon its review of current activity and prior experience, the amount of such disallowances, if any, will be minimal.

(d) *Landfill closure and postclosure care costs*

The City has four landfills, three of which stopped accepting waste prior to December 1993. The fourth, Albany Interim Landfill (AIL), together with the expansion added in 1997, are still accepting waste at December 31, 2006.

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

Accrued landfill closure and postclosure care costs of approximately \$5,548,000 at December 31, 2006, represent the cumulative amount reported to date based on the use of 100 percent of the estimated capacity of all previously closed landfills and 39 percent of the estimated capacity of the AIL and expansion currently being used as determined by an independent engineer. The estimated remaining life of this landfill is approximately two years. The City will recognize the remaining estimated cost of closure and postclosure care of \$909,000 as the remaining AIL and expansion estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2006. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The City currently has a cash reserve of approximately \$844,100 for the payment of post-closure care costs. The City makes deposits of approximately \$38,500 into the reserve annually.

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 13 — INDEBTEDNESS (Continued)

(d) Landfill closure and postclosure care costs (Continued)

Coeymans landfill

In 2006 the City took title to 365.5 acres of land in the Town of Coeymans, New York for the purpose of building a long-term solid waste facility. Beginning in 1996 the City purchased and annually renewed options for the purchase of the land. In each year a portion of the option price was credited towards the purchase price. The options along with the portion credited toward the purchase price totaled \$5,198,000 and were paid with operating funds. The facility was planned in accordance with the City's solid waste management plan and was a permit condition for the expansion of the City's Rapp Road Landfill. The land is the subject of ongoing litigation with the Town of Coeymans and other parties, who oppose the construction of a landfill in the Town of Coeymans.

(e) Loans payable

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

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

NOTE 14 — SUBSEQUENT EVENTS

During 2007 the City issued \$10,000,000 in Revenue Anticipation Notes (RANS). The notes are due on January 31, 2008 and carry an effective interest rate of 3.71%.

During 2007 the City issued \$11,375,000 in Bond Anticipation Notes (BANS). The notes are due on July 11, 2008 and carry an effective interest rate of 3.72%.

NOTE 15 — COMPONENT UNITS

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

Substantially all of the financial data was derived from audited annual financial statements and summarized in the financial statements. Additional information about each of the component units can be obtained from their annual financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ALBANY, NEW YORK
SCHEDULE OF REVENUES, EXPENDITURES AND MODIFIED BUDGET AND ACTUAL –
GENERAL AND SPECIAL REVENUE FUNDS
For the Year Ended December 31, 2005

	Governmental Fund Types				Special Revenue Funds*			
	Original Budget	Final Adopted Budget	Actual	Actual Over (Under) Final Budget	Original Budget	Final Adopted Budget	Actual	Actual Over (Under) Final Budget
REVENUES								
Real property taxes	\$ 48,701,000	\$ 48,701,753	\$ 48,444,733	\$ (257,020)	\$ -	\$ -	\$ -	\$ -
Sales and use taxes	28,840,000	28,840,000	29,238,536	398,536	-	-	-	-
Other taxes	3,510,000	3,510,000	3,541,435	31,435	-	-	-	-
Payments in lieu of taxes	19,445,000	25,097,703	25,097,709	6	-	-	-	-
Intergovernmental revenue	15,773,000	17,108,377	19,655,317	2,546,940	3,366,800	3,405,383	2,909,715	(457,085)
Charges for services	13,800,000	13,800,000	14,210,229	410,229	-	-	-	-
Fines, interest and penalties	3,895,000	5,578,400	5,196,544	(381,856)	-	-	-	-
Use of money and properties	763,000	1,469,473	1,689,254	219,781	-	-	-	-
Licenses and permits	1,265,000	1,265,000	1,409,511	144,511	-	-	-	-
Other revenues	3,518,000	4,399,863	4,778,033	378,170	-	-	-	-
Total revenues	<u>139,510,000</u>	<u>149,770,569</u>	<u>153,261,301</u>	<u>3,490,732</u>	<u>3,366,800</u>	<u>3,405,383</u>	<u>2,909,715</u>	<u>(457,085)</u>
EXPENDITURES								
Public safety and regulation	69,012,978	74,518,350	72,662,917	(1,855,433)	-	-	-	-
General government	23,685,029	22,188,270	21,097,406	(1,090,864)	-	-	-	-
Highways and streets	5,900,137	7,018,353	6,664,985	(353,368)	-	-	-	-
Recreation and culture	6,283,076	6,417,622	6,279,572	(138,050)	-	-	-	-
Community service	8,247,779	9,280,267	9,403,467	123,200	-	-	-	-
Employee benefits	14,177,000	14,185,422	13,067,046	(1,118,376)	-	-	-	-
Economic development and assistance	-	50,731	50,733	2	3,439,000	3,405,383	3,084,037	(354,963)
Debt service	15,113,001	15,454,329	15,454,326	(3)	-	-	-	-
Total expenditures	<u>142,419,000</u>	<u>149,113,344</u>	<u>144,680,452</u>	<u>(4,432,892)</u>	<u>3,439,000</u>	<u>3,405,383</u>	<u>3,084,037</u>	<u>(354,963)</u>
Excess (deficiency) of revenues and appropriated fund balance over expenditures	<u>(2,909,000)</u>	<u>657,225</u>	<u>8,580,849</u>	<u>7,923,624</u>	<u>(72,200)</u>	<u>-</u>	<u>(174,322)</u>	<u>(102,122)</u>
OTHER FINANCING SOURCES (USES)								
General fund allocation	2,809,000	-	-	-	-	-	-	-
Debt service allocation	50,000	50,000	-	-	-	-	-	-
Proceeds from other debt	-	97,391	-	(97,391)	-	-	-	-
Proceeds from sale of property	50,000	-	10,550	10,550	-	-	-	-
Total other financing sources (uses)	<u>2,909,000</u>	<u>147,391</u>	<u>10,550</u>	<u>(86,841)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues, appropriated fund balance and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ 804,616</u>	<u>\$ 8,591,399</u>	<u>\$ 7,836,783</u>	<u>\$ (72,200)</u>	<u>\$ -</u>	<u>\$ (174,322)</u>	<u>\$ (102,122)</u>

* Includes special grant and miscellaneous special revenue funds only.