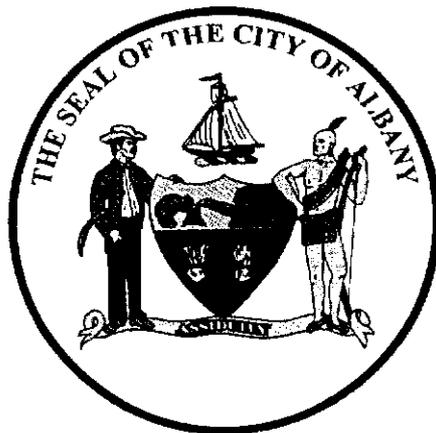


**CITY OF ALBANY,
NEW YORK**

**AUDITED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

Year ended December 31, 2004



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, 2004, 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, Albany Industrial Development Agency, Downtown Albany Restoration Program, Inc., Lark Street Area District Management Association, Inc., and Central District Management Association, Inc., which represent approximately 20 percent and 21 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, 2004, 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
July 22, 2005

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, 2004. 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, 2003.

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 financial statements.

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

FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The intent of the government-wide financial statements is to present an overview of the City's overall financial position. The government-wide financial statements include two parts: the *statement of net assets* and the *statement of activities*. Both statements are prepared using generally accepted accounting principles and an economic basis of accounting similar to that used by commercial enterprises. The *statement of net assets* and the *statement of activities* delineate between the primary government (the City of Albany, plus the Albany Community Development Agency) and the component units¹, which are separate entities for which the city has some responsibility.

The *statement of net assets* is an attempt to report all assets held and liabilities owed by the City on December 31, 2004. The City reports all assets when it takes ownership and reports liabilities at the time they are incurred. The City reports roads, buildings, and equipment as assets, even though they are not available to pay current obligations. The City reports capital assets based on historical costs, which may not reflect fair market value. Similarly, the City records the cost of accumulated vacation time as a liability, even though it will be paid over many years.

The difference between assets and liabilities is *net assets*, which is analogous to the *total owners' equity* reported by commercial enterprises. In contrast to commercial enterprises, the City has no goal of accumulating net assets. Increases in net assets over time *may* suggest that the financial position of the City is improving. However, increases in net assets also *may* 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 activities* attempts to show the net cost of the various activities provided by the City and its component units. The first column shows the costs of each of the City's major functions. Subsequent columns show revenues related to fees charged for services, grants and other sources of revenue. The final column shows the net difference between expenses and revenue--attempting to reflect the extent to which each activity is a draw on revenue or is self-financing.

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 these entities. Significant financial information from these entities has been disclosed in the footnotes to the City's financial statements. The fiduciary funds consist of the police and firefighter pension funds, the City Trust and the payroll accounts. Copies of the complete financial reports for the component units can be obtained by contacting the Comptroller's office of the City of Albany.

The City's government-wide financial statements distinguish between primary government and component units. Component units are legally separate from the City, but because the City has some financial accountability for them, they are reported in the City's financial statements. The government-wide financial statements are presented on pages 17-18.

Governmental Funds Financial Statements

Governmental funds financial statements consist of a *balance sheet* and *statement of revenue, expenditures, and change in fund balances*. Governmental financial statements have traditionally been presented in this format. These statements measure and account for cash and other assets that can easily be converted to cash. The *balance sheet* includes items such as cash, but not capital assets such as land and buildings. Fund liabilities include amounts that are to be paid within a short period after the end of the fiscal year. For example, amounts reported on the balance sheet include items such as accounts payable, and interest and principal on long term debt payable during that period, but not total long-term debt obligations. The difference between a fund's total assets and total liabilities is labeled as the fund balance, and indicates the amount that is available to finance subsequent years' activities. Likewise the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash during the current period or shortly after the end of the year. The governmental funds financial statements are included on pages 19-20.

Reconciliation of the Government-Wide Financial Statements with the Governmental Funds Financial Statements.

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

Reconciliation of Balance Sheet with Statement of Net Assets

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

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

A more complete reconciliation between financial statements is presented on pages 21 and 22 and in Note 2.

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

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

- Capital outlays are shown as expenditures on the *statement of revenues, expenditures and changes in fund balances*, however, only the depreciation expense of capital assets is reported on the *statement of activities*.

- Vacation expenses, employee retirement benefits, and judgments and claims are expensed as they are paid on the *statement of revenues, expenditures and changes in fund balances*. However, the *statement of activities* shows those expenses incurred during the reporting period. Long-term debt principal paid is reported as an expenditure on the *statement of revenues, expenditures and changes in fund balances*, but is not reported as an expenditure on the *statement of activities*. Rather, principal paid is reported as a reduction of the bonds and loans payable liability in the *statement of net assets*. Long-term debt interest is reported as an expenditure when the interest is paid on the *statement of revenues, expenditures and changes in fund balances*. Interest expense reported in the *statement of activities* is the interest expense incurred during the year, irrespective of when the interest is paid.

OVERVIEW OF THE CITY'S FINANCIAL POSITION

Government-Wide Financial Statements

Statement of Net Assets

Primary government net assets exceed total liabilities by approximately \$41.4 million, a decrease of \$4.1 million from 2003. (Liabilities increased by \$16.0 million while assets increased by \$11.9 million.) Of these assets, \$49.7 million is invested in capital assets, net of related debt, and \$1.2 million is restricted for debt service, leaving a deficit balance of (\$9.5) million in unrestricted net assets. This reflects a decrease from 2003 of \$2.5 million, caused in large part by the increased contribution to the NYS Retirement system of \$12 million, which was offset by \$10.7 million of revenue from the issue of pension bond anticipation notes. Other increases to long term debt obligations specifically the landfill closure post closure cost estimate and compensated absences also contributed to the decrease in the unrestricted net asset balance. Net capital assets increased by approximately \$100,000.

For the Component Units, net assets total approximately \$11.4 million and decreased from 2003 by \$1.6 million. After investment in capital assets, and restricted for debt service and program specific activities, unrestricted net assets total approximately \$40.2 million, which is an increase from 2003 of \$6.5 million.

Total capital assets, including property and equipment after depreciation are valued at \$158.8 million, an increase from 2003 of \$8.8 million. Additions to infrastructure of \$6.8 million account for most of the increase. Of the approximately \$42.4 million of assets not subject to depreciation, approximately \$41 million is construction in progress, particularly state and federally funded transportation projects. In 2004 the City donated property to the Albany Public Library. The net book value of the property was \$1.46 million. A more detailed description of capital assets is found in Footnote 7.

Governmental Activities - Primary Government Net Assets at December 31, 2004 (in Millions)

	<u>2004</u>	<u>2003</u>	<u>Increase/ (Decrease)</u>
Total Assets	\$ 237.89	\$ 225.93	\$ 11.96
Total Liabilities	<u>196.48</u>	<u>180.47</u>	<u>16.01</u>
Excess (deficiency) of assets over (under) liabilities	41.41	45.46	(4.05)
Invested in capital assets, net of related debt	49.75	49.65	0.10
Restricted for debt service and program activities	1.16	2.86	(1.70)
Unrestricted net assets	<u>(9.50)</u>	<u>(7.05)</u>	<u>(2.45)</u>
Total Net Assets	<u>\$ 41.41</u>	<u>\$ 45.46</u>	<u>\$ (4.05)</u>

Governmental Activities - Component Units
Net Assets at December 31, 2004
(in Millions)

	<u>2004</u>	<u>2003</u>	<u>Increase/ (Decrease)</u>
Total Assets	\$ 144.37	\$ 148.59	\$ (4.22)
Total Liabilities	<u>132.94</u>	<u>135.59</u>	<u>(2.65)</u>
Excess (deficiency) of assets over (under) liabilities	11.43	13.00	(1.57)
Invested in capital assets, net of related debt	(34.20)	(26.23)	(7.97)
Restricted for debt service and program activities	5.47	5.53	(0.06)
Unrestricted net assets	<u>40.16</u>	<u>33.70</u>	<u>6.46</u>
Total Net Assets	<u>\$ 11.43</u>	<u>\$ 13.00</u>	<u>\$(1.57)</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. 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).

General fund expenses increased from 2003 by \$19.5 million. Public safety expenses increased from 2003 by \$11 million (16.7%). This increase reflects contractual salary increases, overtime spending in excess of budget, increases in costs of retirement and health care. Most importantly it includes a \$6.4 million expense of moving firefighters into a new retirement plan pursuant to the past service cost section 384-e of the NYS Retirement and Social Security Law. Public Safety expenses of \$77.1 million are offset by \$9.7 million in charges for services, an increase from 2003 of \$1.1 million. The increase is a result of increased traffic fines and federal law enforcement grants.

General Government expenses of \$29.3 million increased from 2003 by \$2.5 million (9.5%). The increase reflects a \$1.4 million increase in Judgments and Claims expense due to a single large settlement, salary increases as well as increases in costs of health care and retirement. Expenses are offset by \$2.2 million in charges for services, which is a reduction from 2003 by \$1.1 million. Several revenue categories decreased in 2004.

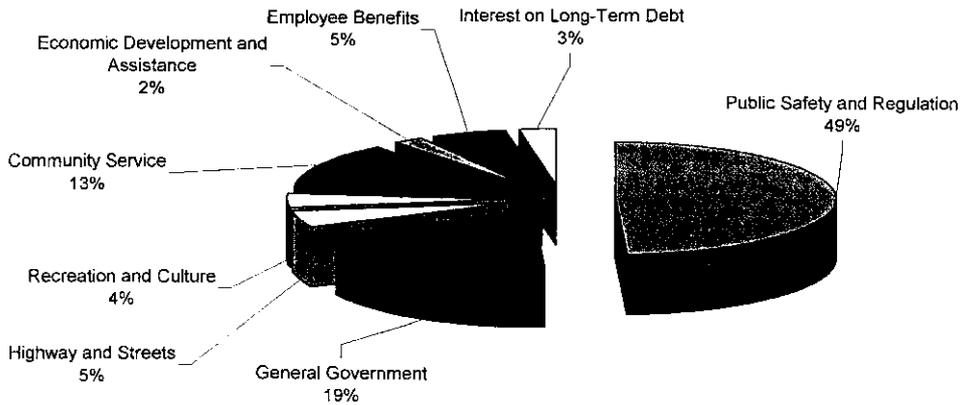
Highways and Streets expenses decreased by \$435,000 (5.7%). The decrease is a result of lower snow removal expense, which offset increased costs of street lighting, contractual salary wage increases, and increased costs of health care and retirement.

Community Service expenses of \$20.3 million are offset by \$15.4 million in revenues, of which the largest part is revenue generated from operation of the regional landfill.

Governmental Activities - Expenses
(in Millions)

<u>Governmental Functions</u>	<u>2004</u>	<u>2003</u>	<u>Increase / (Decrease)</u>	<u>% of Change</u>
Public Safety and Regulation	\$ 77.07	\$ 66.05	\$ 11.02	16.68%
General Government	29.26	26.72	2.54	9.51%
Highway and Streets	7.08	7.51	(0.43)	-5.73%
Recreation and Culture	6.41	5.78	0.63	10.90%
Community Service	20.39	15.91	4.48	28.16%
Economic Development and Assistance	3.30	3.42	(0.12)	-3.51%
Employee Benefits	8.59	7.49	1.10	14.69%
Interest on Long-Term Debt	<u>4.10</u>	<u>3.85</u>	<u>0.25</u>	<u>6.49%</u>
Total	<u>\$ 156.20</u>	<u>\$ 136.73</u>	<u>\$ 19.47</u>	<u>14%</u>

2004
Functional Expenses - Primary Government



Governmental Activities - Revenues
(in Millions)

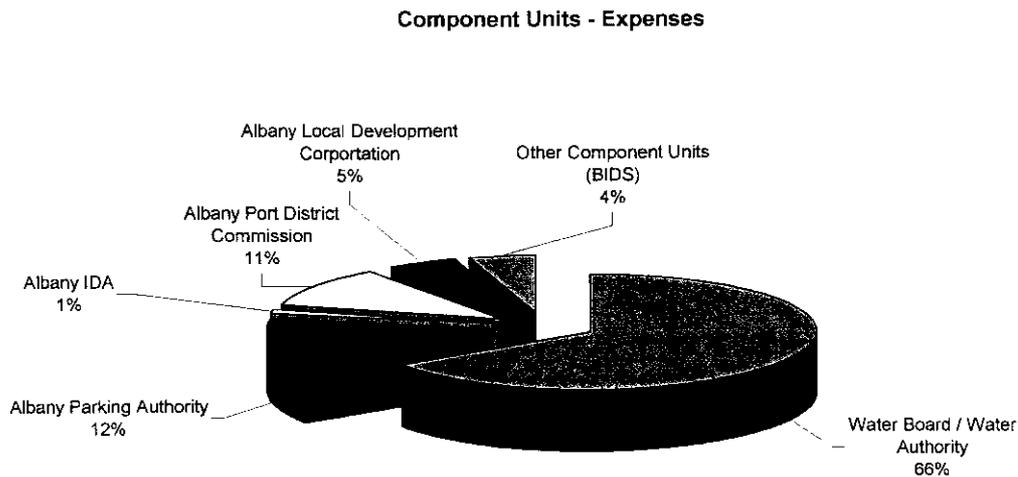
<u>Governmental Functions</u>	<u>2004</u>	<u>2003</u>	<u>Increase/ (Decrease)</u>	<u>% of Change</u>
Public Safety and Regulation	\$ 9.79	\$ 8.74	\$ 1.05	12%
General Government	2.20	3.31	(1.11)	-34%
Highway and Streets	8.32	9.56	(1.24)	-13%
Recreation and Culture	2.04	1.63	0.41	25%
Community Service	15.40	15.85	(0.45)	-3%
Economic Development and Assistance	<u>3.55</u>	<u>3.01</u>	<u>0.54</u>	<u>18%</u>
Total	<u>\$ 41.30</u>	<u>\$ 42.10</u>	<u>\$ (0.80)</u>	<u>-2%</u>

The overall expenses of the Component Units total \$38 million, an increase from 2003 of \$.8 million. The Water Board/Water Authority spending increased as a result of increased salaries (including overtime), increased cost of benefits, and increased taxes paid to other municipalities. IDA spending declined by \$.4 million from 2003. The following is a summary of the relative expenses of the component units, which excludes the Albany Community Development Agency, because it is a blended component unit and is therefore included with the Primary Government in the *statement of activities*.

Component Units - Expenses
(in Millions)

<u>Component Units</u>	<u>2004</u>	<u>2003</u>	<u>Increase/ (Decrease)</u>
Water Board / Water Authority	\$ 24.92	\$ 24.08	\$ 0.84
Albany Parking Authority	4.67	4.65	0.02
Albany IDA	0.44	0.80	(0.36)
Albany Port District Commission	4.31	4.69	(0.38)
Albany Local Development Corporation	1.93	1.58	0.35
Other Component Units (BIDS)	<u>1.76</u>	<u>1.42</u>	<u>0.34</u>
Total	<u>\$ 38.03</u>	<u>\$ 37.22</u>	<u>\$ 0.81</u>

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



Revenue

Property tax revenue increased from 2003 by \$4.5 million or 12 percent. Citywide reassessment effective for the 2004 tax roll resulted in an increase in the total taxable value. The increase is a result of relatively constant rate of taxation combined with an overall increase in property values.

Payments in Lieu of Taxes (PILOTS) increased from \$11.7 million to \$18.8 million because of a change in state law that accelerated payment from the State of New York for the Empire State Plaza state office complex from \$10 million to \$16.85 million.

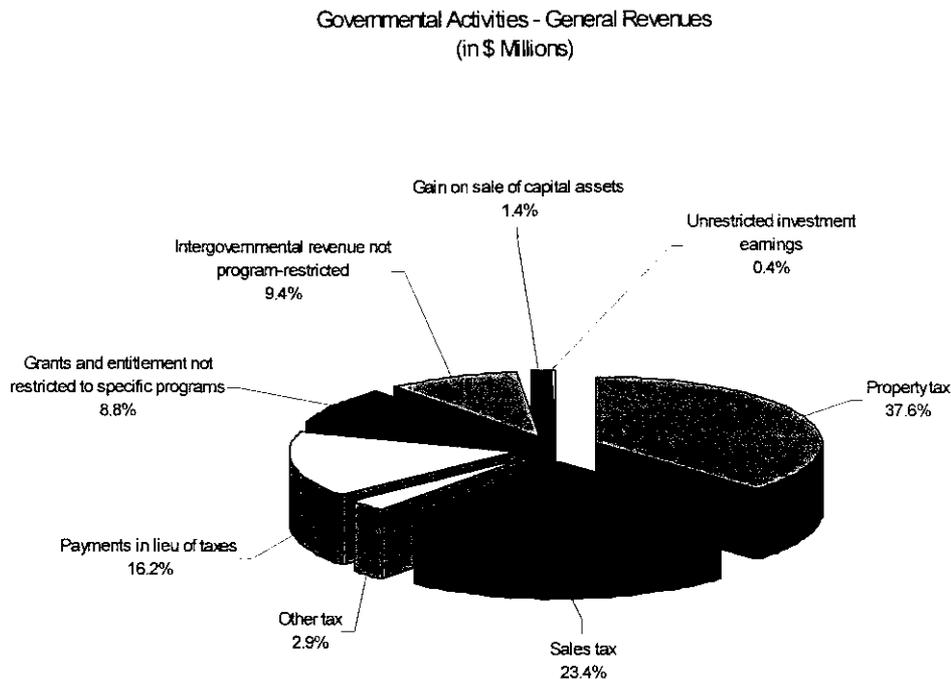
Albany Community Development Agency Grants and entitlements not restricted to specific programs decreased from \$8.1 million to \$8.0 million.

Gain on sale of capital assets declined by \$3.2 million or 184% because the City donated buildings to the Albany Public Library during 2004, which resulted in a loss of \$1.3 million. In 2003, the City recorded \$1.5 million in revenue for the sale of property to the Port Authority, which resulted in a gain of \$1.5 million.

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

Governmental Activities - General Revenues <i>(in Millions)</i>				
<u>REVENUES</u>	<u>2004</u>	<u>2003</u>	<u>Increase/ (Decrease)</u>	<u>%</u>
Property tax	\$ 43.62	\$ 39.12	\$ 4.50	12%
Sales tax	27.14	26.07	1.07	4%
Other tax	3.35	3.37	(0.02)	-1%
Payments in lieu of taxes	18.77	11.70	7.07	60%
Grants and entitlement not restricted to specific programs	8.03	8.06	(0.03)	0%
Intergovernmental revenue not program-restricted	10.95	10.30	0.65	6%
Gain (loss) on sale of capital assets	(1.44)	1.72	(3.16)	-184%
Unrestricted investment earnings	<u>0.44</u>	<u>0.25</u>	<u>0.19</u>	<u>76%</u>
Total General Revenues	<u>\$ 110.86</u>	<u>\$ 100.59</u>	<u>\$ 10.27</u>	<u>10%</u>

The following chart indicates the relative percentages of general revenues:



Governmental Funds Financial Statements

Combined Statement of Revenue Expenditures Budget to Actual

General Fund revenue including other financing sources totals \$144.5 million and General fund expenses \$138.3 and results in a general fund gain of \$4.7 million. Unrestricted fund balance is \$9.9 million and total fund balance is \$11.5 million or 7.2% and 8.3% of actual expenditures respectively as of 12/31/04.

CITY OF ALBANY, NEW YORK

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

	<u>Governmental Fund Types</u>				<u>Special Revenue Funds*</u>			
	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Original Budget</u>	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Original Budget</u>
REVENUES								
Real property taxes	\$ 44.73	\$ 44.73	\$ 43.62	\$ (1.11)	\$ -	\$ -	\$ -	\$ -
Sales and use taxes	27.28	27.28	27.14	(0.14)	-	-	-	-
Other taxes	3.19	3.19	3.35	0.16	-	-	-	-
Payments in lieu of taxes	12.49	14.59	18.77	6.28	-	-	-	-
Intergovernmental revenue	13.70	17.91	15.42	1.72	2.95	3.43	2.81	(0.14)
Charges for services	12.66	12.66	13.92	1.26	-	-	-	-
Fines, interest and penalties	3.22	3.23	4.07	0.85	-	-	-	-
Use of money and properties	0.71	0.71	0.53	(0.18)	-	-	-	-
Licenses and Permits	1.27	1.27	1.16	(0.11)	-	-	-	-
Other revenues	3.67	3.80	4.45	0.78	-	-	0.01	0.01
Total revenues	122.92	129.37	132.43	9.51	2.95	3.43	2.82	(0.13)
EXPENDITURES								
Public Safety and Regulation	61.86	73.53	73.05	11.19	-	-	-	-
General government	19.64	21.91	21.57	1.93	-	-	-	-
Highways and streets	6.42	6.21	6.10	(0.32)	-	-	-	-
Recreation and culture	5.91	5.95	5.77	(0.14)	-	-	-	-
Community service	5.94	6.90	6.83	0.89	-	-	-	-
Employee benefits	11.80	12.74	12.43	0.63	-	-	-	-
Economic development and assistance	-	0.14	0.11	0.11	2.95	3.43	2.81	(0.62)
Debt Service	12.85	12.78	12.49	(0.36)	-	-	-	-
Total expenditures	124.42	140.16	138.35	13.93	2.95	3.43	2.81	(0.62)
Excess (deficiency) of revenues and appropriated fund balance over expenditures	(1.50)	(10.79)	(5.92)	(4.42)	-	-	0.01	0.49
Proceeds from bonds	-	8.80	10.88	10.88	-	-	-	-
Transfers	-	(2.97)	(1.66)	(1.66)	-	-	-	-
Proceeds from sale of property	1.50	1.50	1.44	(0.06)	-	-	-	-
Total other financing sources (uses)	1.50	7.33	10.66	9.16	-	-	-	-
Excess (deficiency) of revenues, appropriated fund balance and other financing sources over expenditures and other financing uses	\$ (0.00)	\$ (3.46)	\$ 4.74	\$ 4.74	\$ -	\$ -	\$ 0.01	\$ 0.49

* Includes special grant and miscellaneous special revenue funds only.

Spending in excess of budget on public safety overtime, increased expenses for employee benefits (health and pension) and lower than anticipated sales tax revenue exceeds the increased revenue from the acceleration of PILOT (19-a) payments from the State of New York and the savings from bonding a portion of the pension benefit.

The City's budget, which is effective on January 1, 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 Mayor. This is the *Modified Budget*. *Actual* reflects the operational results, including any audit adjustments.

Revenues

General Fund revenues were approximately \$9.5 million more than budget. The most significant variances in revenue include the following:

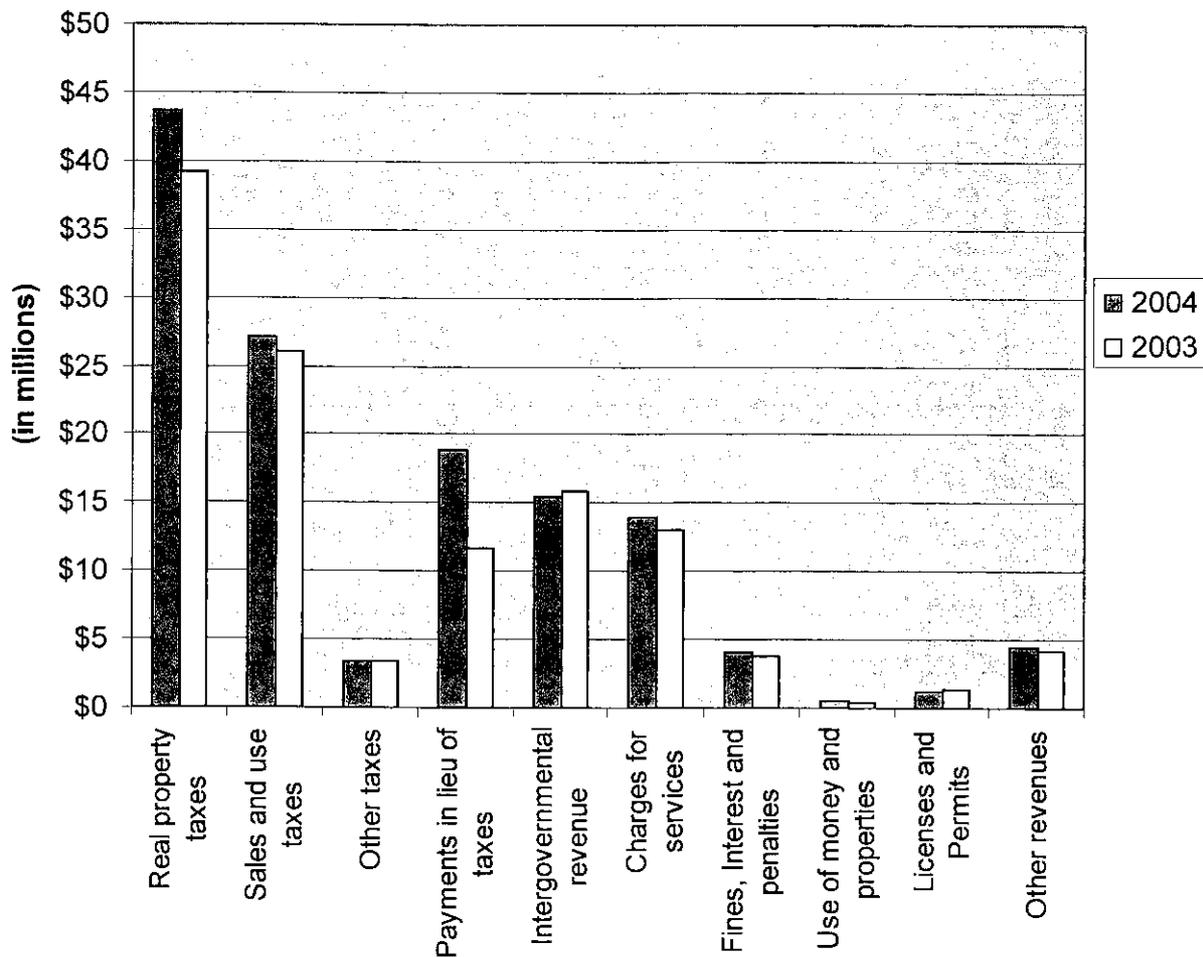
- Real property taxes were under budget by \$1.1 million and \$4.5 million more than in 2003. An increase in the property tax levy caused the increase relative to 2003. Property tax challenges caused the reduction relative to budget.
- Payments in Lieu of Taxes (PILOTs) were \$6.3 million over budget and \$7.1 million more than 2003. The increase is caused by a statutory change that accelerated payments by the State of New York for the Empire State Plaza complex.²
- Sales tax revenue was \$132 thousand under budget and \$1 million more than 2003.
- Intergovernmental revenue was \$1.7 million more than budget and \$451 thousand less than in 2003. The mortgage recording tax was \$1.2 million more than budget and \$881 thousand less than 2003.
- Charges for services revenue was \$1.3 million over budget and \$859 thousand more than 2003.
- Fines, interest and penalties revenue was \$844 thousand more than budget and \$282 thousand more than 2003. The increase is largely caused by increases in penalties for parking violations.

Governmental Activities - General Revenues
(in Millions)

<u>REVENUES</u>	<u>2004</u>	<u>2003</u>	<u>Increase/ (Decrease)</u>	<u>%</u>
Property tax	\$ 43.62	\$ 39.12	\$ 4.50	12%
Sales tax	27.14	26.07	1.07	4%
Other tax	3.35	3.37	(0.02)	-1%
Payments in lieu of taxes	18.77	11.70	7.07	60%
Grants and entitlement not restricted to specific programs	8.03	8.06	(0.03)	0%
Intergovernmental revenue not program-restricted	10.95	10.30	0.65	6%
Gain (loss) on sale of capital assets	(1.44)	1.72	(3.16)	-184%
Unrestricted investment earnings	<u>0.44</u>	<u>0.25</u>	<u>0.19</u>	<u>76%</u>
Total General Revenues	<u>\$ 110.86</u>	<u>\$ 100.59</u>	<u>\$ 10.27</u>	<u>10%</u>

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

**Governmental Funds - General Fund Revenues 2004 to 2003
Variance**



Expenses

Expenditures total \$138.3 million, which is \$13.9 million more than budget and \$15.6 million more than 2003.

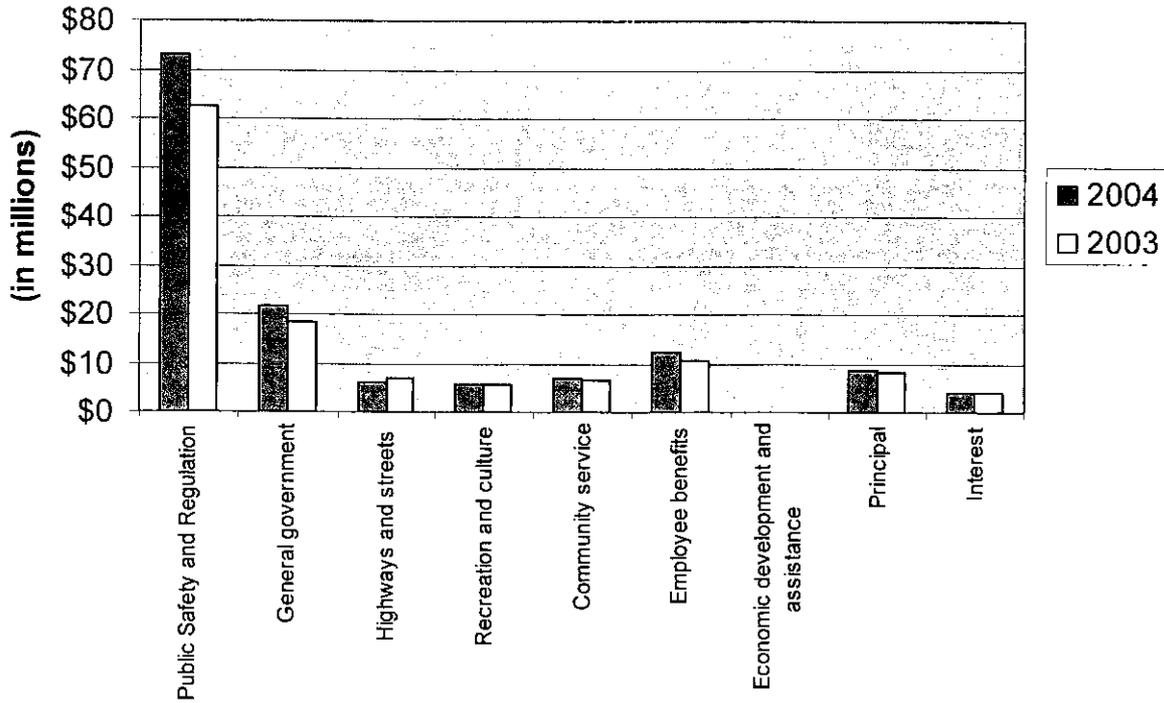
- Public Safety spending was \$11.2 million over budget and \$10.7 million more than 2003, which is largely the result of spending in excess of budget on police and fire department overtime and contractual salary and benefit increases. The increase of \$10.7 million from 2003 also reflects the \$6.3 million buy-in cost of moving firefighters to a new pension plan pursuant to Section 384-E of the New York State Retirement and Social Security Law.
- General Government spending was \$1.9 million more than budget and \$3.3 million more than 2003. Judgments and claims account for \$1.3 million of the increase in 2004 due to a single large settlement. The cost of litigation, summer help, and overtime from Central Maintenance make up the balance of the increase.
- Transportation (Highway and Street) spending was \$300 thousand less than budget and \$1 million less than in 2003 mainly due to decreased snow plowing and removal costs.
- Recreation and Culture spending was under budget by \$133 thousand.

- Home and Community Services spending, which includes the expenses of the landfill, was \$892 thousand more than original budget and \$215 thousand more than 2003. Landfill overtime was \$92 thousand over original budget.
- Undistributed Employee Benefits expense was \$892 thousand over original budget and \$2 million more than 2003. Most of the increase is the result of retirement costs for non-police and non-fire personnel.
- Debt Service payments were \$379 thousand under the original budget, and \$278 thousand more than 2003. The increase reflects the cost from the 2003 bond issue.

Governmental Funds - General Fund Expenditures 2004 to 2003

			2004 Over / (Under) 2003
<u>EXPENDITURES</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
Public Safety and Regulation	\$ 73.05	\$ 62.39	\$10.66
General government	21.57	18.26	3.31
Highways and streets	6.09	7.11	(1.02)
Recreation and culture	5.77	5.70	0.07
Community service	6.83	6.61	0.22
Employee benefits	12.43	10.43	2.00
Economic development and assistance	0.11	-	0.11
Principal	8.50	8.29	0.21
Interest	<u>3.98</u>	<u>3.91</u>	<u>0.07</u>
Total expenditures	<u>\$ 138.33</u>	<u>\$ 122.70</u>	<u>\$15.63</u>
Deficiency of operating revenues under expenditures	<u>\$ (5.89)</u>	<u>\$ (3.72)</u>	<u>\$ (2.17)</u>

**General Government - General Fund Expenditures 2004 to
2003 Variance**



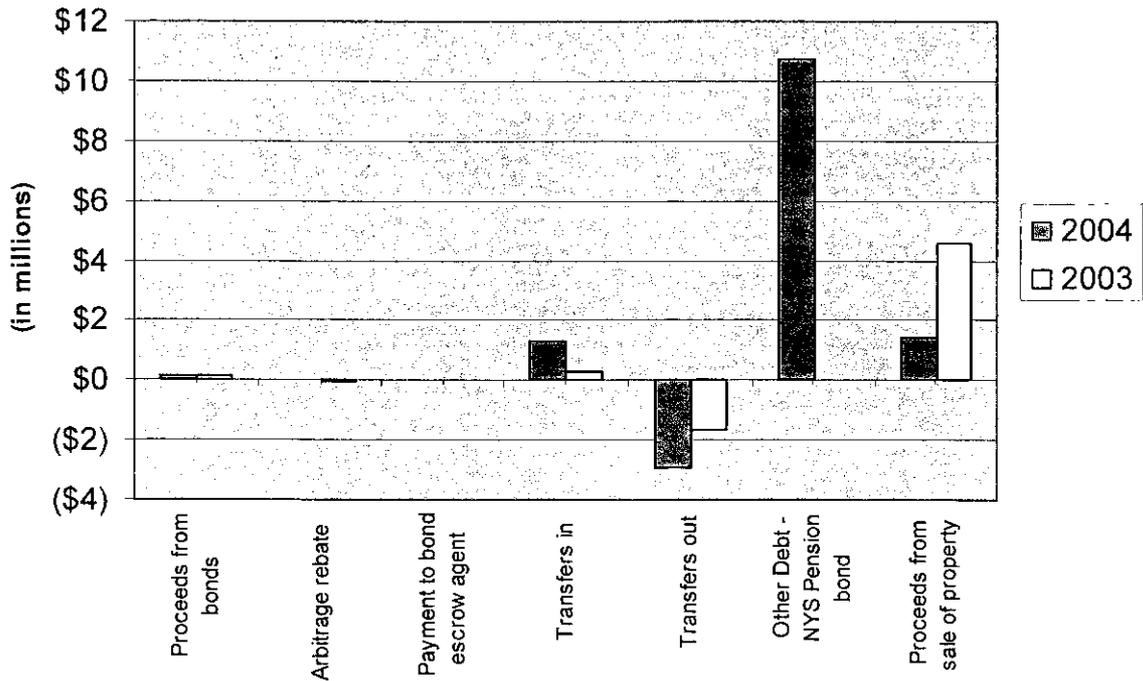
Other Financing Sources

Proceeds from the sale of property (including payments received from the Albany Water Board for the sale of Six-Mile Water Works) account for \$1.4 million. Proceeds from notes taken out to finance part of the City's NYS Retirement fund obligation account for \$10.7 million.

**Governmental Funds - General Fund Other Financing
Sources (Uses) 2004 to 2003 Variance**

<u>OTHER FINANCING SOURCES (USES)</u>	<u>2004</u>	<u>2003</u>	<u>2004 over / (under) 2003</u>
Proceeds from bonds	\$ 0.17	\$ 0.12	\$ 0.05
Transfers in	1.30	0.29	1.01
Transfers out	(2.96)	(1.63)	(1.33)
Other Debt - NYS Pension bond	10.70	-	10.70
Proceeds from sale of property	1.44	4.60	(3.16)
Total other financing sources	10.65	3.38	7.27
Excess (deficiency) of revenues over expenditures and other financing sources and uses	4.76	(0.34)	5.10
FUND BALANCE, beginning of year	6.79	7.13	(0.34)
FUND BALANCE, end of year	\$ 11.55	\$ 6.79	\$ 4.76

Other Financing Sources Revenues (Uses) 2004 to 2003 Variance



Governmental Funds Financial Statements

Debt

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

Long-Term Debt

In 2004, the City issued \$14,262,338 in long-term debt for various capital projects. At the end of 2004, the City's long-term debt totaled \$108,355,261, which consists of the City of Albany's long term debt, as well as bonds, loans, and notes of the Albany Community Development Corporation (ACDA). This is an increase from 2003 of \$16,065,450 (see Note 13). All of the City of Albany's outstanding debt is backed by insurance policies from municipal insurance companies except issues secured through the New York State Environmental Facilities Corporation (EFC). These EFC issues have the following rating: Moody's Investors Service, Aaa, Standard & Poor's, AAA, and FITCH Ratings, AAA.

Short-Term Debt

The City's short-term debt totaled \$15,710,000. This total includes \$5,710,000 in Bond Anticipation Notes which is largely used for State and Federal funded transportation projects. The balance consists of \$10 million in Revenue Anticipation Notes, which were paid off in their entirety in January 2005.

Of the outstanding indebtedness, approximately \$113,460,385 million of the total was subject to the statutory debt limit, using approximately 47% of the City's statutory debt limit.

CREDIT RATINGS AND BOND INSURANCE

During 2004 the City's credit rating was re-evaluated and reaffirmed by each of the three major rating agencies: Moody's Investors Services, A3, Fitch Ratings, A, and Standard & Poor's, A.

CAPITAL ACQUISITION AND CONSTRUCTION ACTIVITIES

During 2004 the City spent \$19.1 million on capital projects. This includes Federal and State funds for transportation infrastructure projects, funds secured through General Obligation Bonds and Bond Anticipation Notes, and appropriations from the City's General Fund. The following are some of the major uses of capital expenditures:

Capital Construction	
New Scotland Avenue Reconstruction	\$5.1 million
Street and Sidewalk Construction	\$3.8 million
Police Court Renovation	\$1.3 million
Landfill Shredder	\$1.1 million
Palace Theatre	\$1.0 million
Landfill Development	\$.5 million

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

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

CITY OF ALBANY, NEW YORK
STATEMENT OF NET ASSETS
December 31, 2004

	<u>Primary Government</u>	<u>Component Units</u>
ASSETS		
Cash and cash equivalents	\$ 21,334,535	\$ 6,866,899
Cash and cash equivalents - restricted	6,755,313	834,280
Investments, restricted	-	18,536,253
Taxes receivable	3,168,719	-
Accounts receivable, net	2,458,602	15,032,761
Mortgage loans receivable	17,189,333	2,788,938
Due from primary government	-	242,458
Due from other governments	18,747,014	-
Due from other funds	577,899	-
Due from component units	6,138,997	-
Intangible assets, net	-	4,865,783
Prepaid and other assets	2,674,965	4,159,846
Property held for investment and lease	-	5,568,409
Capital assets, net	<u>158,848,224</u>	<u>85,474,335</u>
Total assets	<u>\$ 237,893,601</u>	<u>\$ 144,369,962</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 12,592,628	\$ 3,392,203
Capital lease obligations	2,553,333	-
Bonds and loans payable	108,932,726	118,848,040
Bond and revenue anticipation notes payable	15,710,000	-
Accrued interest payable	2,862,093	604,407
Deferred revenue	15,227,423	2,170,773
Due to other governments	10,169,390	-
Due to primary government	-	7,101,355
Compensated absences	13,932,329	-
NYS retirement obligation	381,387	-
Landfill post-closure costs	4,599,517	-
Judgment and claims	7,615,219	-
Other liabilities	<u>1,905,657</u>	<u>821,573</u>
Total liabilities	<u>196,481,702</u>	<u>132,938,351</u>
NET ASSETS		
Invested in capital assets, net of related debt (deficiency)	49,745,701	(34,202,302)
Restricted for:		
Debt service	1,162,654	169,257
Program specific activities	-	5,301,334
Unrestricted net assets (deficiency)	<u>(9,496,456)</u>	<u>40,163,322</u>
Total net assets	<u>41,411,899</u>	<u>11,431,611</u>
Total liabilities and net assets	<u>\$ 237,893,601</u>	<u>\$ 144,369,962</u>

See notes to financial statements.

CITY OF ALBANY, NEW YORK
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2004

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	\$ 77,069,394	\$ 7,988,551	\$ 1,798,895	\$ -	\$ (67,281,948)	\$ -
General government	29,262,873	2,201,120	-	-	(27,061,753)	-
Highways and streets	7,077,569	62,327	-	8,260,502	1,245,260	-
Recreation and culture	6,407,650	2,038,771	-	-	(4,368,879)	-
Community service	20,387,103	13,370,610	2,029,115	-	(4,987,378)	-
Economic development and assistance	3,298,591	-	3,545,371	-	246,780	-
Employee benefits	8,592,712	-	-	-	(8,592,712)	-
Interest on long-term debt	4,101,611	-	-	-	(4,101,611)	-
Total governmental activities	<u>156,197,503</u>	<u>25,661,379</u>	<u>7,373,381</u>	<u>8,260,502</u>	<u>(114,902,241)</u>	<u>-</u>
Component Units:						
Albany Water Board and Municipal Water Finance Authority	24,923,672	22,525,046	-	-	(2,398,626)	-
Albany Parking Authority	4,672,217	5,289,815	-	-	617,598	-
Albany Industrial Development Agency	435,485	417,025	-	-	(18,460)	-
Albany Port District Commission	4,308,032	3,408,827	397,166	-	(502,039)	-
Albany Local Development Corporation	1,926,507	2,082,441	-	-	155,934	-
Other component units	1,764,566	1,556,241	-	-	(208,325)	-
Total component units	<u>38,030,479</u>	<u>35,279,395</u>	<u>397,166</u>	<u>-</u>	<u>(2,353,918)</u>	<u>-</u>
General Revenues:						
Property tax					43,619,644	-
Sales tax					27,143,332	-
Other tax					3,353,075	-
Payments in lieu of taxes					18,769,230	-
Grants and entitlements not restricted to specific programs					8,028,261	-
Intergovernmental revenue not program-restricted					10,951,074	-
Loss on sale of capital assets					(1,445,117)	(884)
Unrestricted investment earnings					435,872	782,432
Total general revenues					<u>110,855,371</u>	<u>781,548</u>
Change in net assets					(4,046,870)	(1,572,370)
Net assets, beginning of year					45,458,769	13,003,981
Net assets, end of year					<u>\$ 41,411,899</u>	<u>\$ 11,431,611</u>

See notes to financial statements.

CITY OF ALBANY, NEW YORK
BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2004

	General	Special Revenue	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 3,409,816	\$ 523,323	\$ 15,348,734	\$ 2,052,662	\$ 21,334,535
Cash and cash equivalents-restricted	6,755,313	-	-	-	6,755,313
Taxes receivable	3,168,719	-	-	-	3,168,719
Accounts receivable	844,311	-	-	-	844,311
Landfill receivable, net	1,614,291	-	-	-	1,614,291
Mortgage loans receivable	-	-	-	17,189,333	17,189,333
Due from other funds	4,798,895	-	-	-	4,798,895
Due from component units	9,836,368	-	-	-	9,836,368
Due from federal and state governments	1,602,292	553,644	7,212,054	-	9,367,990
Due from other governments	8,500,848	-	878,176	-	9,379,024
Other assets	2,543,127	-	-	131,838	2,674,965
	<u>\$ 43,073,980</u>	<u>\$ 1,076,967</u>	<u>\$ 23,438,964</u>	<u>\$ 19,373,833</u>	<u>\$ 86,963,744</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
BANS and RANS payable	\$ 10,000,000	\$ -	\$ 5,710,000	\$ -	\$ 15,710,000
Accounts payable and accrued expenses	8,520,395	227,448	3,579,121	265,664	12,592,628
Retainage payable	-	-	889,360	-	889,360
Due to other funds	171,771	442,995	3,330,102	276,128	4,220,996
Due to component units	3,697,371	-	-	-	3,697,371
Due to other governments	7,780,333	-	-	2,389,057	10,169,390
Deferred revenue	-	-	-	15,227,423	15,227,423
Accrued interest	1,246,968	-	-	-	1,246,968
Other liabilities	127,253	395,583	-	493,461	1,016,297
Total liabilities	<u>31,544,091</u>	<u>1,066,026</u>	<u>13,508,583</u>	<u>18,651,733</u>	<u>64,770,433</u>
Fund Balances:					
Reserved for:					
Encumbrances	450,481	-	2,383,536	-	2,834,017
Debt Service	1,162,654	-	-	-	1,162,654
Unreserved:					
Undesignated, reported in:					
General fund	9,916,754	-	-	-	9,916,754
Special revenue funds	-	10,941	-	722,100	733,041
Capital projects fund	-	-	7,546,845	-	7,546,845
Total fund balances	<u>11,529,889</u>	<u>10,941</u>	<u>9,930,381</u>	<u>722,100</u>	<u>22,193,311</u>
Total liabilities and fund balances	<u>\$ 43,073,980</u>	<u>\$ 1,076,967</u>	<u>\$ 23,438,964</u>	<u>\$ 19,373,833</u>	<u>\$ 86,963,744</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, 2004

	General	Special Revenue	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Real property taxes	\$ 43,619,644	-	-	-	\$ 43,619,644
Sales and use taxes	27,143,332	-	-	-	27,143,332
Other taxes	3,353,075	-	-	-	3,353,075
Payments in lieu of taxes	18,769,230	-	-	-	18,769,230
Intergovernmental revenue	15,421,115	2,811,674	8,260,502	6,412,276	32,905,567
Charges for services	13,923,951	-	-	3,674,115	17,598,066
Fines, interest and penalties	4,068,352	-	-	-	4,068,352
Uses of money and properties	523,932	-	-	-	523,932
License and permits	1,163,931	-	-	-	1,163,931
Other revenues	4,450,122	494	-	-	4,450,616
Total revenues	132,436,684	2,812,168	8,260,502	10,086,391	153,595,745
EXPENDITURES					
Public safety and regulation	73,052,225	-	1,911,336	-	74,963,561
General government	21,572,454	-	1,332,206	-	22,904,660
Highways and streets	6,093,275	-	10,543,244	-	16,636,519
Recreation and culture	5,773,149	-	682,857	-	6,456,006
Community service	6,834,338	-	3,285,878	10,191,531	20,311,747
Economic development and assistance	114,971	2,813,369	1,456,578	-	4,384,918
Employee benefits	12,425,394	-	-	-	12,425,394
Debt service:					
Principal	8,500,264	-	-	191,662	8,691,926
Interest	3,984,759	-	-	-	3,984,759
Total expenditures	138,350,829	2,813,369	19,212,099	10,383,193	170,759,490
Deficiency of revenues under expenditures	(5,914,145)	(1,201)	(10,951,597)	(296,802)	(17,163,745)
OTHER FINANCING SOURCES (USES)					
Proceeds from general obligation bonds and long-term notes payable	175,216	-	14,262,339	200,000	14,637,555
Proceeds from other debt	10,700,000	-	-	-	10,700,000
Transfers in	1,302,000	-	2,960,000	-	4,262,000
Transfers out	(2,960,000)	-	(1,302,000)	-	(4,262,000)
Proceeds from sale of property	1,440,921	-	-	-	1,440,921
Total other financing sources	10,658,137	-	15,920,339	200,000	26,778,476
Excess (deficiency) of revenues over expenditures and other financing sources	4,743,992	(1,201)	4,968,742	(96,802)	9,614,731
FUND BALANCES, beginning	6,785,897	12,142	4,961,639	818,902	12,578,580
FUND BALANCES, ending	\$ 11,529,889	\$ 10,941	\$ 9,930,381	\$ 722,100	\$ 22,193,311

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, 2004

Total fund balance - governmental funds		\$ 22,193,311
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	302,672,537	
Accumulated depreciation is	<u>(143,824,313)</u>	158,848,224
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds and loans payable	(108,932,726)	
Accrued interest on the bonds	(1,615,125)	
Compensated absences (vacations and sick)	(13,932,329)	
NYS retirement obligation	(381,387)	
Landfill closure and postclosure obligation	(4,599,517)	
Capital lease obligations	(2,553,333)	
Judgments and claims	<u>(7,615,219)</u>	<u>(139,629,636)</u>
Net assets of governmental activities		<u>\$ 41,411,899</u>

See notes to financial statements.

CITY OF ALBANY, NEW YORK
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
WITH THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2004

Total net change in fund balances - governmental funds \$ 9,614,731

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	19,933,424	
Depreciation expense	(9,688,163)	
Loss on donated property and sale of other assets	(1,486,040)	
Sales of property already recognized in government wide financial statements	<u>(1,400,000)</u>	7,359,221

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

Employee retirement expense	498,513	
Compensated absences	(2,102,168)	
Landfill closure and postclosure costs	(2,480,028)	
Judgment and claims	<u>(174,658)</u>	(4,258,341)

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	(25,337,554)	
Principal repaid	<u>8,691,926</u>	(16,645,628)

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>(116,853)</u>
Change in net assets of governmental activities		<u><u>\$ (4,046,870)</u></u>

CITY OF ALBANY
COMBINING BALANCE SHEET –
DISCRETELY PRESENTED COMPONENT UNITS
December 31, 2004

	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	\$ 435,122	\$ 1,736,895	\$ 589,594	\$ -	\$ 3,582,612	\$ 522,676	\$ 6,866,899
Cash and cash equivalents, restricted	-	632,796	-	201,484	-	-	834,280
Investments, restricted	12,159,855	3,570,126	-	884,730	1,921,542	-	18,536,253
Receivables:							
Accounts							
Other	13,729,441	16,770	-	559,941	-	-	14,306,152
Mortgage loans and notes receivable	-	52,910	-	-	652,384	21,315	726,609
Due from primary government	-	-	177,547	-	2,611,391	-	2,788,938
Prepaid and other assets	-	-	-	-	-	242,458	242,458
Property held for investment and lease	690,869	45,715	1,670	189,246	3,212,510	19,836	4,159,846
Intangible assets, net	3,812,872	1,052,911	-	-	5,568,409	-	5,568,409
Capital assets, net	43,896,996	19,924,736	26,176	21,084,331	311,372	220,724	85,474,335
Total assets	<u>74,725,155</u>	<u>27,032,859</u>	<u>794,987</u>	<u>22,929,732</u>	<u>17,860,220</u>	<u>1,027,009</u>	<u>144,369,362</u>
LIABILITIES							
Accounts payable and accrued expenses	2,057,065	75,844	-	1,024,563	50,828	183,903	3,392,203
Current maturities of long-term debt	948,817	827,025	-	353,942	270,175	13,822	2,413,881
Accrued interest payable	-	591,121	1,745	-	-	11,541	604,407
Due to primary government	6,435,794	-	131,970	150,000	383,591	-	7,101,355
Deferred revenues	1,384,384	-	-	71,386	715,003	-	2,170,773
Revolving loan fund	-	-	-	-	768,915	-	768,915
Other liabilities	-	-	50,100	-	-	2,458	52,658
Accrued interest on capital appreciation bonds	-	-	-	-	-	-	-
Bonds and notes payable	-	2,129,556	-	-	-	-	2,129,556
Total liabilities	<u>76,471,998</u>	<u>26,777,586</u>	<u>436,424</u>	<u>3,383,701</u>	<u>7,037,757</u>	<u>197,437</u>	<u>114,304,903</u>
FUND BALANCE (DEFICIT) AND OTHER CREDITS	<u>87,298,058</u>	<u>30,401,132</u>	<u>620,239</u>	<u>4,983,592</u>	<u>9,226,669</u>	<u>409,061</u>	<u>132,938,351</u>
Contributed capital	-	-	122,893	-	-	-	122,893
Fund balances (deficits) Reserved for	-	-	51,855	-	-	-	51,855
Program Specific Activities	-	4,202,922	-	-	1,098,412	-	5,301,334
Debt Service	-	-	-	-	169,257	-	169,257
Invested in capital assets, net of related debt	(46,096,722)	(7,546,424)	-	17,206,688	2,234,156	-	(34,202,302)
Unreserved	33,523,819	(24,771)	-	739,452	5,132,126	617,948	39,988,574
Total fund balance (deficit) and other credits	<u>(12,872,903)</u>	<u>(3,368,273)</u>	<u>174,748</u>	<u>17,946,140</u>	<u>8,633,951</u>	<u>617,948</u>	<u>11,431,611</u>
Total liabilities and fund balance	<u>74,725,155</u>	<u>27,032,859</u>	<u>794,987</u>	<u>22,929,732</u>	<u>17,860,220</u>	<u>1,027,009</u>	<u>144,369,362</u>

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

See notes to financial statements.

CITY OF ALBANY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
DISCRETELY PRESENTED COMPONENT UNITS
December 31, 2004

	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	\$ 22,525,046	\$ 5,289,815	\$ 417,025	\$ 3,408,827	\$ 2,082,441	\$ 1,556,241	\$ 35,279,395
Operating expenses	-	-	-	-	-	-	-
Costs of services	3,196,261	1,197,178	196,487	1,145,853	1,001,523	1,367,648	4,908,689
Source of supply and purification	3,272,250	-	-	-	-	-	3,196,261
Transmission and distribution	2,026,702	825,724	-	1,438,662	190,965	163,392	3,272,250
General and administrative	1,927,636	-	-	-	-	-	4,645,445
Real estate taxes paid to other governments	7,340,497	-	-	-	-	-	1,927,636
Sewer contract	3,425,257	703,585	10,273	1,370,315	208,648	33,526	7,340,497
Depreciation and amortization	-	-	181,558	-	-	200,000	5,751,604
Grants	-	109,339	-	-	28,414	-	381,558
Miscellaneous	21,188,603	2,835,826	388,318	3,954,830	1,429,550	1,764,566	137,753
Total operating expenses	1,336,443	2,453,989	28,707	(546,003)	652,891	(208,325)	3,717,702
Excess (deficiency) of operating revenue over (under) expenses before nonoperating revenue (expenses)	-	(17,731)	-	-	-	-	(17,731)
Nonoperating revenue (expenses)	-	(77,606)	-	-	-	-	(77,606)
Letter-of-credit fees	-	15,579	-	-	-	-	15,579
Amortization of bond issue costs	-	-	-	-	-	-	-
Increase in fair value of investments	490,084	156,459	115,626	20,263	-	-	782,432
Interest income	(3,735,069)	(1,756,633)	(47,167)	(166,448)	(225,800)	-	(5,931,117)
Interest expense	-	-	-	-	(271,157)	-	(271,157)
Impairment write-down of property held for lease and other	-	-	-	(884)	-	-	(884)
Gain on sale of property and equipment	-	-	-	(186,754)	-	-	(186,754)
Waterfront development expenses	(3,244,985)	(1,679,932)	68,459	(333,823)	(496,957)	-	(5,687,238)
Net nonoperating expenses	(1,908,542)	774,057	97,166	(879,826)	155,934	(208,325)	(1,969,536)
Excess (deficiency) of revenue over (under) expenses before transfers	(1,908,542)	774,057	97,166	(879,826)	155,934	(208,325)	(1,969,536)
Grant funding	(1,908,542)	774,057	97,166	(482,660)	155,934	(208,325)	397,166
Excess (deficiency) of revenue over (under) expenses	(10,664,361)	(4,142,330)	77,582	18,428,800	8,478,017	826,273	13,003,981
FUND BALANCE (DEFICIT) AND OTHER CREDITS, beginning of year	\$ (12,572,903)	\$ (3,368,273)	\$ 174,748	\$ 17,946,140	\$ 8,633,951	\$ 617,948	\$ 11,451,611
FUND BALANCE (DEFICIT) AND OTHER CREDITS, end of year							

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

See notes to financial statements.

**CITY OF ALBANY
COMBINING STATEMENT OF CASH FLOWS –
DISCRETELY PRESENTED COMPONENT UNITS
December 31, 2004**

	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 (USED) BY OPERATING ACTIVITIES							
Excess of operating expenses over revenue	\$ 1,336,443	\$ 2,453,989	\$ 28,707	\$ (546,003)	\$ 652,891	\$ (208,325)	\$ 3,717,702
Adjustments to reconcile excess of operating expenses over revenue to net cash provided (used) by operating activities:							
Depreciation and amortization	3,425,257	703,585	10,273	1,370,315	208,648	33,526	5,751,604
Change in allowance for reduced assessments	-	-	-	-	-	115,000	115,000
Unrealized loss on investments	-	-	-	-	11,615	-	11,615
Realized gain on sale of investments	-	-	-	-	(21,665)	-	(21,665)
Provision for losses on mortgage costs, accrued interest, and other receivables	-	-	-	-	190,965	-	190,965
Interest income on cash and cash equivalents and investments	-	-	-	-	(91,419)	-	(91,419)
Deferred program support recognized as program income	-	-	-	(206,201)	(925,025)	-	(925,025)
Waterfront development costs	-	-	-	-	-	-	(206,201)
Changes in:							
Accounts receivable	(2,258,735)	-	-	(109,854)	(12,726)	(3,179)	(2,384,494)
Due from primary government	-	-	-	-	-	87,925	87,925
Other receivables	-	(440)	-	-	-	(440)	(440)
Prepaid expenses and other assets	21,330	(5,285)	-	(18,917)	-	(6,207)	(9,079)
Accounts payable and accrued expenses	(52,798)	53,645	-	81,522	(212,444)	62,077	(67,998)
Due to City of Albany	-	-	-	-	14,113	-	14,113
Other liabilities	(36,860)	-	(105,492)	-	95,644	(900)	(47,608)
Deferred revenue	-	-	-	-	46,540	-	46,540
	<u>2,434,637</u>	<u>3,205,484</u>	<u>(66,512)</u>	<u>570,862</u>	<u>(42,863)</u>	<u>79,917</u>	<u>6,181,535</u>
Net cash provided by (used in) operating activities							
CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES							
Proceeds from long-term debt	490,084	-	-	1,430,000	-	15,785	1,935,869
Principal payments on long-term debt	(666,876)	(715,706)	(75,579)	(2,252,212)	(293,786)	(6,982)	(4,011,143)
Interest payments on long-term debt	(3,735,069)	(1,917,852)	(269,240)	(193,611)	(244,520)	-	(6,360,292)
Letter-of-credit fee	-	(12,673)	-	-	-	-	(12,673)
Proceeds from sale of assets	-	-	-	2,546	141,028	-	143,574
Advances from City of Albany	1,507,979	-	-	-	-	-	1,507,979
Proceeds from grant fundings	-	-	-	397,166	-	-	397,166
	<u>(2,403,882)</u>	<u>(2,646,231)</u>	<u>(344,819)</u>	<u>(616,111)</u>	<u>(397,280)</u>	<u>8,803</u>	<u>(6,398,520)</u>
Net cash provided by (used in) capital and related financing activities							

Continued...

See notes to financial statements.

CITY OF ALBANY
COMBINING STATEMENT OF CASH FLOWS –
DISCRETELY PRESENTED COMPONENT UNITS, Continued
December 31, 2004

	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 (USED) BY INVESTING ACTIVITIES							
Purchase of property, plant, and equipment	(6,719,793)	(86,487)	-	(626,622)	(149,830)	(30,447)	(7,613,179)
Issuance of mortgage notes	-	-	-	-	(484,321)	-	(484,321)
(Purchase) sale of investments	731,586	24,483	-	766,777	(821,217)	-	701,629
Repayments received on mortgage loans	-	-	46,891	-	1,549,784	-	1,596,675
Proceeds from maturities of investments	-	-	116,047	43,611	818,745	-	818,745
Interest on investments	-	123,499	-	-	87,080	-	370,237
Principal payments received under direct financing leases	-	-	-	-	85,757	-	85,757
Repayment from (advances to) City agencies net	(5,988,207)	61,495	162,938	183,766	(4,167)	-	(4,167)
Net cash provided by (used in) investing activities	(5,957,452)	620,758	(248,393)	138,517	641,688	(30,447)	(4,746,609)
CASH AND CASH EQUIVALENTS, beginning of year	6,392,574	1,748,933	837,987	62,967	2,940,924	464,403	12,447,788
CASH AND CASH EQUIVALENTS, end of year	\$ 435,122	\$ 2,369,691	\$ 589,594	\$ 201,484	\$ 3,582,612	\$ 522,676	\$ 7,701,179
Supplemental Disclosure of Cash Flow Information							
Cash payments for interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 586	\$ 586
Unrelated business taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 250	\$ 250
Non-Cash Investing Activities							
Deferred program support converted to allowance for losses	\$ -	\$ -	\$ -	\$ -	\$ 5,554	\$ -	\$ 5,554
Non-Cash Financing Activities							
Accounts payable and accrued expenses incurred for purchase of capital assets	\$ -	\$ -	\$ -	\$ 28,000	\$ -	\$ 900	\$ 28,900

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

See notes to financial statements.

CITY OF ALBANY, NEW YORK
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
December 31, 2004

	<u>Expendable Trust</u>	<u>Agency</u>
ASSETS		
Cash and equivalents	\$ 9,368	\$4,678,459
Cash and equivalents - restricted	-	229,054
Due from other funds	-	-
Total assets	<u>\$ 9,368</u>	<u>\$4,907,513</u>
LIABILITIES		
Accounts payable	\$ -	\$ -
Seized forfeitures	-	229,054
Due to other funds	-	577,898
Other liabilities	-	4,075,483
Total liabilities	<u>-</u>	<u>4,882,435</u>
NET ASSETS	<u>9,368</u>	<u>25,078</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,368</u>	<u>\$4,907,513</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, 2004

	<u>Expendable Trust</u>
Additions	
Contributions	\$ 741,524
Other	<u>12,447</u>
Total additions	<u>753,971</u>
Deductions	
Police retirement, hospital and medical insurance	12,364
Fire retirement	<u>743,403</u>
Total deductions	<u>755,767</u>
Change in net assets	(1,796)
Net assets, beginning of year	<u>11,164</u>
Net assets, end of year	<u><u>\$ 9,368</u></u>

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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. It has been designated by the City to undertake community development programs on behalf of the City and to administer federal community development block grant programs.

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

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

City of Albany Industrial Development Agency, Continued

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.

Albany Port District Commission

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

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

Albany Local Development Corporation

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

Other Component Units

Downtown Albany Restoration Program, Inc.

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

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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, 2004

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, 2004

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, 2004

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 Treasury and United States agencies, repurchase agreements, and obligations of New York State or its localities.

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

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Inventories and Prepaid Items

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

Restricted Assets

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

Capital Assets

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

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

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

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

Compensated Absences

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

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

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Judgments and Claims

The liability for claims in process represents estimates for all known workers' compensation claims and legal settlements at December 31, 2004.

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.

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. 40, *Deposit and Investment Risk Disclosures*, effective for the year ending December 31, 2005; GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective for the year ending December 31, 2005; and GASB Statement No 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the year ending December 31, 2008. The City is, therefore, unable to disclose the impact that adopting GASB Statements Nos. 40, 42 and 45 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, 2004

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

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

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

i. Long-term revenue and expense differences:

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

ii. Capital related differences:

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

iii. Long-term debt transaction differences:

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

NOTE 3 — STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

The appropriated budget is prepared by fund, function and department, encumbrance accounting is employed in governmental funds. Encumbrances (such as purchase orders) 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.

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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

At December 31, 2004, 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, 2004, 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 \$1,080,000 and \$762,150 in cash equivalents that have been restricted for future debt services payments and landfill post closure costs, respectively.

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

NOTE 5 — LANDFILL RECEIVABLE

The City currently has one landfill accepting waste from various public and private entities. These entities are billed monthly based on the tonnage deposited at the landfill for the previous month. At December 31, 2004, the City had outstanding landfill receivables of approximately \$1,759,000. Management has established an allowance for doubtful accounts for this receivable balance of approximately \$144,500 which is netted against the receivable balance in the financial statements at year end. This net receivable is reported in the statement of net assets as part of accounts receivable, net at December 31, 2004.

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, 2004.

The taxable assessed value of real property, as adjusted by New York State, included in the tax levy of 2003 (amount to be received in 2004), was \$3,571,512,980. The effective tax rate on this value is \$11.65 per thousand for residential and \$13.52 per thousand for non-residential properties. The constitutional tax limit is 2% of the 5-year average of the full value assessment. The 2003 levy represents approximately 57% of the constitutional tax limit.

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 7 — CAPITAL ASSETS

Property and equipment is comprised of the following:

	<u>Balance December 31, 2003</u>	<u>Additions</u>	<u>Deletions and Adjustments</u>	<u>Balance December 31, 2004</u>
Capital assets not being depreciated:				
Land	\$ 1,280,833	\$ 40,471	\$ (4,788)	\$ 1,316,516
Construction in process	33,792,816	10,812,176	(3,421,671)	41,183,321
	<u>35,073,649</u>	<u>10,852,647</u>	<u>(3,426,459)</u>	<u>42,499,837</u>
Capital assets being depreciated:				
Buildings, capital leases and improvements	41,362,280	873,947	(3,834,281)	38,401,946
Machinery and equipment	32,386,372	4,806,841	(743,900)	36,449,313
Infrastructure	178,560,685	6,821,660	(60,904)	185,321,441
	<u>287,382,986</u>	<u>23,355,095</u>	<u>(8,065,544)</u>	<u>302,672,537</u>
Less accumulated depreciation for:				
Buildings, capital leases and improvements	19,549,388	1,065,485	(2,544,460)	18,070,413
Machinery and equipment	22,375,112	2,498,296	(613,375)	24,260,033
Infrastructure	95,369,482	6,124,385	-	101,493,867
	<u>157,293,982</u>	<u>9,688,166</u>	<u>(3,158,240)</u>	<u>163,823,888</u>
Total capital assets, net	<u>\$ 150,089,004</u>			<u>\$158,848,224</u>

Depreciation expense was approximately \$9,688,100 for the period ending December 31, 2004. 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	\$ 1,880,730
General government	6,618,265
Highway and streets	658,700
Recreation and culture	73,725
Community service	445,780
Economic development and assistance	10,900
	<u>\$ 9,688,100</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.

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 8 — MORTGAGE LOANS RECEIVABLE AND DEFERRED REVENUES (Continued)

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 is comprised of the following at December 31, 2004:

<u>Program</u>	<u>Balance</u>
HUD CDBG	\$ 15,678,425
NYSHTFC	1,510,908
	<u>\$ 17,189,333</u>

NOTE 9 — INTERFUND RECEIVABLES AND PAYABLES

A summary of interfund receivables and payables at December 31, 2004 is as follows:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General	\$ 4,798,895	\$ 171,771
Special Revenue	-	442,995
Capital Projects	-	3,330,102
Albany Community Development Agency	-	276,128
	<u>4,798,895</u>	<u>4,220,996</u>
Fiduciary Fund	-	577,898
	<u>\$ 4,798,895</u>	<u>\$ 4,798,894</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 \$9,836,300 and \$3,697,300 as the amount due from and due to the Component Units at December 31, 2004. The Component Units reported approximately \$242,400 and \$7,101,400 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 \$960,000. Activity giving rise to amounts due between the City and the Component Units principally relates to payroll, benefits, certain property transactions and other administrative costs paid for by the City and reimbursed to the City by the Component Units. This reporting variance is attributable to timing differences of recording the underlying transactions.

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 11. EMPLOYEE BENEFIT PLANS

(a) Pension plans

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

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

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

	<u>ERS</u>	<u>PFRS</u>
2004	\$3,868,269	\$12,622,793 *
2003	\$1,674,607	\$ 2,728,828
2002	\$ 661,672	\$ 337,290

* Includes past service cost section 384E of \$6,297,675

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

Since 1989, the System's billings have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the System's fiscal years ending March 31, 1988 and 1989 (which otherwise were to have been paid on June 30, 1989 and 1990, respectively) over a 17-year period, with an 8.75% interest factor added. Local governments were given the option to prepay this liability. The total unpaid liability at the end of the fiscal year was approximately \$381,400.

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 11. EMPLOYEE BENEFIT PLANS (Continued)

(b) Health insurance benefits

In addition to providing pension benefits, the City provides health insurance benefits, in accordance with its union contracts, to retired employees and their families. Substantially all of the City's employees may become eligible for these benefits, which vary by length of service and type of coverage, if they reach retirement age while working for the City. The cost to the City of providing health care benefits to retirees during 2004 was approximately \$8,156,000. At December 31, 2004, the number of retired participants eligible to receive benefits was 1,032, the majority of whom chose to receive the benefits.

NOTE 12 — NOTES PAYABLE

(a) Bond Anticipation Notes

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

In June 2004, the City renewed and issued \$1,230,000 and \$4,480,000 of BANS, respectively. Proceeds of the BANS were used to provide short-term financing of Federal Transportation Payments. The BANS have an interest rate of 3.00% and were priced to yield 1.70%. These BANS were paid in full in June 2005.

(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 June 2004, the City issued \$10,000,000 in RANS in anticipation of later than usual receipt of state aid and county sales tax revenue. The RANS had an interest rate of 3.00% and were priced to yield 1.48%. The RANS were paid off in their entirety in January 2005.

Interest expense on both BANS and RANS totaled approximately \$97,500 and \$168,000, respectively, for the period ending December 31, 2004.

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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, 2004:

	Balance January 1, 2004	New Issues/ Increase in Estimates	Debt Retirement Decrease in Estimates	Balance December 31, 2004
NYS retirement system	\$ 879,900	\$ -	\$ (498,513)	\$ 381,387
Judgments and claims	7,440,561	174,658	-	7,615,219
Vacation/sick pay obligations	11,830,161	2,102,168	-	13,932,329
Landfill closure and postclosure care costs	2,119,489	2,480,028	-	4,599,517
Capital lease obligations	2,725,000	-	(171,667)	2,553,333
Accrued interest	2,422,482	439,611	-	2,862,093
Bonds	91,890,812	24,962,338	(8,497,889)	108,355,261
Loans payable (ACDA)	399,000	200,000	(21,535)	577,465
Total	<u>\$ 119,707,405</u>	<u>\$ 30,358,803</u>	<u>\$ (9,189,604)</u>	<u>\$ 140,876,604</u>

(a) Bonds

During 1993, the City issued \$39,847,849 in General Obligation Refunding Bonds with an average interest rate of 4.35% to advance refund \$2,030,000 of outstanding 1986 General Obligation Bonds with an average interest rate of 7.5%, \$3,910,000 of outstanding 1986 General Obligation Refunding Bonds with an average interest rate of 6.5%, \$7,300,000 of outstanding 1987 Public Improvement Bonds with an average interest rate of 6% and \$22,240,000 of outstanding 1990 General Obligation Serial Bonds with an average interest rate of 7% (the 1986, 1987 and 1990 bonds). The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the aforementioned bonds. As a result, the 1986, 1987 and 1990 bonds are considered to be defeased. The amount of the defeased bonds outstanding at December 31, 2004 is \$215,000, none, and \$6,735,000, for the 1986, 1987 and 1990 bonds, respectively.

During September 2001, the City issued \$6,675,000 in General Obligation Refunding Bonds with an average interest rate of 4.45% to advance refund \$6,210,000 of outstanding 1994 General Obligation Bonds with an average interest rate of 6.10%. The net proceeds were deposited in an irrevocable trust with an escrow agent. The escrow agent subsequently purchased non-callable direct obligations of the United States of America ("Governmental Obligations"). The principal of and investment income on the portfolio of Government Obligations together with other available cash on deposit in the irrevocable trust are expected to provide for all future debt service payments on the aforementioned bonds. As a result, the 1994 bonds are considered to be defeased. The amount of the defeased bonds outstanding at December 31, 2004 for the 1994 bonds is approximately \$4,750,000.

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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

During July 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 \$1,565,352 to \$1,638,000. Proceeds are being used for ongoing and additional capital projects.

During 2004 the City issued \$10,700,000 in federally taxable BANS at an interest rate of 3.57% to finance additional retirement participation costs of City employees participating in the New York State Retirement System. Of this expense, \$6.3 million is the 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 is the City's pension contribution in excess of seven percent of payroll that will be bonded pursuant to Chapter 260 of Laws of 2004 of New York State. In June 2005 this BAN was refinanced and is due June 2006. It is the City's intent to refinance this obligation and convert the obligation to long-term debt. As a result proceeds from this BAN have been 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 this obligation this BAN has been classified as bonds and loans payable in the government-wide statement of net assets at December 31, 2004.

During 2003 and 2002, ACDA issued \$500,000 and \$200,000, respectively, in General Obligation Bonds with an interest rate of 6.14%. The bond has a maturity date of October 2013. Bond proceeds will fund loans granted through the Albany Down Payment Assistance Program. Principal payments are required to be paid in conjunction with payments received from loan beneficiaries. As of December 31, 2004, the balance was \$604,876.

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.

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 13 — INDEBTEDNESS (Continued)

(a) Bonds, Continued

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, 2004:

<u>Interest Rate</u>	<u>Date Issued</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding December 31, 2004</u>	<u>Annual Principal Installments (Range)</u>
Serial Bonds					
7.20 - 7.75%	1986	2006	9,640,700	9,092	3,209 - 4,546
6.90 - 7.00%	1990	2010	29,750,000	125,000	20,000 - 115,000
2.70 - 5.70%	1993	2010	39,847,849	6,322,849	437,470 - 4,205,000
4.40 - 5.00%	1998	2017	11,375,000	5,615,000	190,000 - 1,065,000
4.90 - 5.50%	2000	2025	17,555,000	13,545,000	260,000 - 1,300,000
3.50 - 5.00%	2001	2014	6,675,000	4,750,000	355,000 - 665,000
3.50 - 5.00%	2001	2021	14,098,000	11,595,000	625,000 - 863,000
2.50 - 4.50%	2002	2013	10,085,000	7,330,000	785,000 - 1,160,000
6.14%	2002	2013	700,000	604,876	95,124
2.75 - 4.25%	2003	2018	21,908,218	20,765,000	1,143,218 - 1,880,000
3.00 - 4.00%	2004	2015	14,262,338	14,262,338	1,062,338 - 1,575,000
EFC Bonds					
3.75 - 5.35%	1998	2017	3,788,500	2,590,000	158,500 - 235,000
3.60 - 4.55%	1998	2007	51,338	15,000	5,000 - 6,338
4.31 - 5.74%	2000	2020	7,057,467	5,920,000	280,000 - 445,000
1.21 - 5.00%	2002	2022	4,641,106	4,206,106	280,000 - 445,000
Pension BAN					
3.57	2004	2005	10,700,000	10,700,000	158,500 - 235,000
				<u>\$ 108,355,261</u>	

Future maturities of general long-term debt as of December 31, 2004 are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 20,152,990	\$ 2,224,679	\$ 22,377,669
2006	8,784,546	1,840,914	10,625,460
2007	8,850,000	1,663,888	10,513,888
2008	7,457,343	2,159,040	9,616,383
2009	7,543,036	2,021,804	9,564,840
2010-2014	33,487,346	5,257,091	38,744,437
2015-2019	18,070,000	1,588,954	19,658,954
2020-2024	3,750,000	234,262	3,984,262
2025	260,000	7,150	267,150
	<u>\$ 108,355,261</u>	<u>\$ 16,997,782</u>	<u>\$ 125,353,043</u>

Interest expense for bonds and loans payable was approximately \$3,985,000 for the period ending December 31, 2004.

Of the total outstanding indebtedness of the City in the sum of approximately \$113,460,385, the total amount was subject to the statutory debt limit and represented approximately 47.07% of the City's \$241,021,519 statutory debt limit.

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 13 — INDEBTEDNESS (Continued)

(b) Capital leases

IDA

The City entered into a capital lease with the IDA, whereby the City has agreed to rent the City of Albany Municipal Golf Course clubhouse and related parcel of land (collectively the "property"). The lease payments made under the agreement shall be in an amount equal to the amount payable as principal and interest on the IDA's Revenue Bonds, 1991 Series A and B. The lease payments are due monthly through 2012. The agreement qualifies as a capital lease. The interest portion of the future minimum lease payments is approximately \$437,148 and the net present value at December 31, 2004 is approximately \$950,000. Title of the property transfers to the City upon satisfaction of the outstanding debt service.

ACDA

ACDA amended its lease for office space at a facility located at 200 Henry Johnson Boulevard. The amended lease has a sixteen year term and the agreement requires ACDA to remit semi-annual payments to the City of Albany Local Development Corporation ("the ALDC") through 2018. The agreement qualifies as a capital lease. The interest portion of future minimum lease payments is \$819,219 and the net present value at December 31, 2004 is \$1,590,000.

A summary of future minimum lease payments and future minimum maturities of the capital lease obligation as of December 31, 2004 is as follows:

<u>Year Ending December 31</u>	<u>IDA</u>	<u>ACDA</u>	<u>Total</u>
2005	\$ 183,483	\$ 162,186	\$ 345,669
2006	186,189	162,698	348,887
2007	188,126	162,971	351,097
2008-2012	829,350	819,130	1,648,480
2013-2017	-	846,308	846,308
2018-2023	-	164,417	164,417
Total minimum lease payments	<u>\$ 1,387,148</u>	<u>\$ 2,317,710</u>	<u>\$ 3,704,858</u>

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 13 — INDEBTEDNESS (Continued)

(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 \$551,000 to allow for future claims on certain matters.

(2) *Self Insurance*

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

Under the program, the City utilizes a program administrator to process claims as they occur. A liability of approximately \$7,064,000 for unpaid claims based upon individual case estimates for claims incurred at December 31, 2004 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, 2003 resulted from the following:

	Balance as of December 31, 2003	Current Year Claims and Changes in Estimates	Claim Payments	Balance as of December 31, 2004
Workers' compensation liability	<u>\$ 6,651,981</u>	<u>\$ 2,571,502</u>	<u>\$ (2,159,470)</u>	<u>\$ 7,064,013</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, in accordance with grantor requirements, on a periodic basis. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amounts, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City believes, based upon its review of current activity and prior experience, the amount of such disallowances, if any, will be minimal.

(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, 2004.

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 13 — INDEBTEDNESS (Continued)

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

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 \$4,600,000 at December 31, 2004, represent the cumulative amount reported to date based on the use of 100 percent of the estimated capacity of all previously closed landfills and 55 percent of the estimated capacity of the AIL and expansion currently being used as determined by an independent engineer. The estimated remaining life of this landfill is four to ten years. The City will recognize the remaining estimated cost of closure and postclosure care of \$909,000 as the remaining AIL and expansion estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2004. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The City currently has a cash reserve of approximately \$762,150 for the payment of post-closure care costs. The City makes deposits of approximately \$73,000 into the reserve annually.

(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 January 2005, the City issued \$10 million in Revenue Anticipation Notes (RANS) at a rate of 2.78% in anticipation of later than usual receipt of state aid, and PILOT payments from the State. The note will be paid off in its entirety on or before January 31, 2006. In June 2005, the City issued \$9 million in Bond Anticipation Notes at an interest rate of 2.94%. The notes are for the expenses of current capital projects, including some transportation projects for which there is state and federal reimbursement. The notes are callable and are due on June 13, 2006. Finally, the City renewed \$10.7 million in Federally taxable Bond Anticipation Notes at an interest rate of 4.1% for 2004 pension expenses (see Note 12). These notes are due on June 13, 2006.

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 15 — COMPONENT UNITS

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

(a) Financial Information

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

(b) Cash and Investments

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

	Category		Cost	Market
	1	2		
Parking Authority-				
Mortgage-backed Securities	-	3,570,126	3,570,126	3,570,126
Albany Port District Commission-				
Certificate of Deposit	884,730	-	884,730	858,019
Albany Local Development Corporation-				
Government Securities	1,921,542	-	1,921,542	1,921,542
Total	<u>\$ 2,806,272</u>	<u>\$ 3,570,126</u>	<u>\$ 6,376,398</u>	<u>\$ 6,349,687</u>

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

	Albany Water Board and Municipal Water Finance Authority	Albany Port District Commission	Albany Local Development Corporation	Totals
Amounts insured by Federal Deposit Insurance Corporation	\$ 181,613	\$ 201,484	\$ 592,000	\$ 975,097
Uncollateralized	-	-	3,024,000	3,024,000
	<u>\$ 181,613</u>	<u>\$ 201,484</u>	<u>\$ 3,616,000</u>	<u>\$ 3,999,097</u>

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 15 — COMPONENT UNITS (Continued)

(c) Capital Assets

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

	Albany Water Board and Municipal Water Finance Authority	Albany Parking Authority	Albany Industrial Development Agency	Albany Port District Commission	Albany Local Development Corporation	Other Component Units	Totals
Land, garages and improvements	\$ -	\$ 25,246,513	\$ -	\$ -	\$ 49,300	\$ 19,100	\$ 25,314,913
Buildings and improvements	-	-	-	-	297,502	180,479	477,981
Port marine facilities	-	-	-	59,557,348	-	-	59,557,348
Capital improvements, equipment, furniture, and fixtures	47,698,772	1,525,706	-	648,564	68,012	232,117	50,173,171
Water supply, distribution, and collection systems	22,170,389	-	-	-	-	-	22,170,389
Construction in progress	4,044,962	-	-	-	-	-	4,044,962
Other	7,210,000	-	154,090	-	-	-	7,364,090
Total	81,124,123	26,772,219	154,090	60,205,912	414,814	431,696	169,102,854
Less accumulated depreciation	(37,227,127)	(6,847,483)	(127,914)	(39,111,581)	(103,442)	(210,972)	(83,628,519)
Total	\$ 43,896,996	\$ 19,924,736	\$ 26,176	\$ 21,094,331	\$ 311,372	\$ 220,724	\$ 85,474,335

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 15 — COMPONENT UNITS (Continued)

(d) Long-term Debt

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

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

	December 31, 2003	Additions	Amortization of Discount/(Premium) and Accrued Interest on Capital Appreciation Bonds	Payments	December 31, 2004
<u>Bonds</u>					
Water Board/Municipal Water Finance Authority	\$ 78,129,162	\$ -	\$ -	\$ (708,347)	\$ 77,420,815
Albany Parking Authority	28,179,701	-	-	(575,090)	27,604,611
Albany Local Development Corporation	7,415,000	-	-	(213,868)	7,201,132
Total bonds	<u>113,723,863</u>	<u>-</u>	<u>-</u>	<u>(1,497,305)</u>	<u>112,226,558</u>
<u>Loan Payable</u>					
Albany Local Development Corporation	149,520	-	-	(42,720)	106,800
Total loan payable	<u>149,520</u>	<u>-</u>	<u>-</u>	<u>(42,720)</u>	<u>106,800</u>
<u>Notes Payable</u>					
Albany Local Development Corporation	37,200	-	-	(37,200)	-
Other component units	6,636	204,423	-	-	211,059
Total note payable	<u>43,836</u>	<u>204,423</u>	<u>-</u>	<u>(37,200)</u>	<u>211,059</u>
<u>Mortgage Payable</u>					
Albany Industrial Development Agency	646,240	-	-	(77,846)	568,394
Total mortgage payable	<u>646,240</u>	<u>-</u>	<u>-</u>	<u>(77,846)</u>	<u>568,394</u>
<u>Capital Lease/Advances</u>					
Albany Port District Commission	4,036,123	1,430,000	-	(1,728,480)	3,737,643
Total capital lease/advances	<u>4,036,123</u>	<u>1,430,000</u>	<u>-</u>	<u>(1,728,480)</u>	<u>3,737,643</u>
Total	<u>\$118,599,582</u>	<u>\$ 1,634,423</u>	<u>\$ -</u>	<u>\$ (3,383,551)</u>	<u>\$116,850,454</u>

Debt service requirements for bonds to maturity are:

	Water Board/ Municipal Water Authority	Albany Parking Authority	Albany Local Development Corporation	Totals
2005	\$ 948,817	\$ 827,025	\$ 227,455	\$ 2,003,297
2006	933,803	879,525	260,784	2,074,112
2007	916,966	1,040,000	230,113	2,187,079
2008	900,843	1,080,000	263,607	2,244,450
2009	1,425,455	1,220,000	280,830	2,926,285
Thereafter	68,845,000	22,558,061	5,938,343	97,341,404
Total	<u>73,970,884</u>	<u>27,604,611</u>	<u>7,201,132</u>	<u>108,776,627</u>
Plus unaccreted premium	2,213,766	-	-	2,213,766
Plus capital appreciation bond interest accrual	1,236,165	-	-	1,236,165
	<u>\$ 77,420,815</u>	<u>\$ 27,604,611</u>	<u>\$ 7,201,132</u>	<u>\$ 112,226,558</u>

CITY OF ALBANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 15 — COMPONENT UNITS (Continued)

(d) Long-term Debt, Continued

Future minimum capital lease/advance payments are as follows:

	<u>Albany Port District Commission</u>
2005	\$ 353,942
2006	364,323
2007	375,210
2008	416,623
2009	338,607
Thereafter	<u>1,888,938</u>
Total	<u>\$ 3,737,643</u>

(e) Accrued Interest

Compounded interest on capital appreciation bonds are accrued on a straight-line basis over 25 years, the life of the bonds. This interest will be paid by the Albany Parking Authority during the years 2004 through 2006 and 2013 through 2017. Accrued interest on capital appreciation bonds totaled approximately \$2,263,000 at December 31, 2004.

(f) Deficit

The Albany Parking Authority has a deficit of approximately \$3,368,200 at December 31, 2004. In recent years the Parking Authority has implemented a long-term financial plan to reduce this deficit and establish positive retained earnings. This plan includes increasing parking revenues via rate increases and the operation of on-street parking meters (established during April 1998). In addition, the Parking Authority intends to refinance its existing revenue bonds, thereby reducing interest costs. The retained deficit has decreased by approximately \$1,548,900 since December 31, 2002.

The Albany Water Board and Municipal Finance Authority has a deficit of approximately \$12,572,900 at December 31, 2004. The Board's fund deficit, which principally relates to approximately \$37,000,000 in accumulated depreciation, increased by approximately \$1,908,500 during 2004. The Board is currently in process of implementing a rate increase and considering other revenue enhancement actions to address the deficit.

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, 2004**

	Governmental Fund Types			Special Revenue Funds*			
	Original Budget	Final Adopted Budget	Actual	Original Budget	Final Adopted Budget	Actual	Actual Over (Under) Final Budget
REVENUES							
Real property taxes	\$ 44,728,000	\$ 44,728,000	\$ 43,619,644	\$ -	\$ -	\$ -	\$ (1,108,356)
Sales and use taxes	27,275,000	27,275,000	27,143,332	-	-	-	(131,668)
Other taxes	3,190,000	3,190,000	3,353,075	-	-	-	163,075
Payments in lieu of taxes	12,492,000	14,593,014	18,769,230	-	-	-	4,176,216
Intergovernmental revenue	13,702,500	17,914,231	15,421,115	2,949,000	3,426,365	2,811,674	(2,493,116)
Charges for services	12,658,000	12,660,620	13,923,951	-	-	-	1,263,331
Fines, interest and penalties	3,224,000	3,225,000	4,068,352	-	-	-	843,352
Use of money and properties	712,000	712,000	523,932	-	-	-	(188,068)
Licenses and permits	1,265,000	1,265,000	1,163,931	-	-	-	(101,069)
Other revenues	3,685,500	3,798,559	4,450,122	-	-	494	651,563
Total revenues	122,932,000	129,361,424	132,436,684	2,949,000	3,426,365	2,812,168	(136,832)
EXPENDITURES							
Public safety and regulation	61,859,203	73,533,787	73,052,225	-	-	-	(481,562)
General government	19,642,401	21,907,526	21,572,454	-	-	-	(335,072)
Highways and streets	6,415,154	6,206,008	6,093,275	-	-	-	(112,733)
Recreation and culture	5,905,221	5,951,594	5,773,149	-	-	-	(178,445)
Community service	5,942,421	6,901,935	6,834,338	-	-	-	(67,597)
Employee benefits	11,802,000	12,744,815	12,425,394	-	-	-	(319,421)
Economic development and assistance	-	137,956	114,971	2,949,000	3,426,365	2,813,369	(22,985)
Debt service	12,865,600	12,765,439	12,485,023	-	-	-	(280,416)
Total expenditures	124,432,000	140,149,060	138,350,829	2,949,000	3,426,365	2,813,369	(135,631)
Excess (deficiency) of revenues and appropriated fund balance over expenditures	(1,500,000)	(10,787,636)	(5,914,145)	-	-	(1,201)	(1,201)
OTHER FINANCING SOURCES (USES)							
Proceeds from general obligation bonds and long-term notes payable	-	8,800,000	175,216	-	-	-	(8,624,784)
Proceeds from other debt	-	-	10,700,000	-	-	-	10,700,000
Transfers, net	-	(2,972,364)	(1,658,000)	-	-	-	1,314,364
Proceeds from sale of property	1,500,000	1,500,000	1,440,921	-	-	-	(59,079)
Total other financing sources (uses)	1,500,000	7,327,636	10,658,137	-	-	-	3,330,501
Excess (deficiency) of revenues, appropriated fund balance and other financing sources over expenditures and other financing uses	\$ -	\$ (3,460,000)	\$ 4,743,992	\$ -	\$ -	\$ (1,201)	\$ (1,201)

* Includes special grant and miscellaneous special revenue funds only.

