

*CITY OF MECHANICVILLE, NEW YORK
COMMUNITY DEVELOPMENT FUND*

FINANCIAL STATEMENTS

*DECEMBER 31, 2013 TO
DECEMBER 31, 2016*

CITY OF MECHANICVILLE, NEW YORK
COMMUNITY DEVELOPMENT FUND
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INDEPENDENT AUDITOR'S REPORT

To the Members of the
City Council of the
City of Mechanicville, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of the City of Mechanicville, New York Community Development Fund, which comprise the statements of assets, liabilities and fund equity and statements of revenues, expenditures, and changes in fund equity as of and for the years ended December 31, 2013, 2014, 2015 and 2016, and the related notes to the financial statements, which collectively comprise the City of Mechanicville, New York Community Development Fund's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the City of Mechanicville, New York Community Development Fund as of December 31, 2013, 2014, 2015 and 2016, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

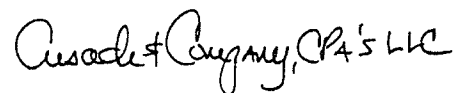
Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not modified with respect to this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2017 on our consideration of the City of Mechanicville, New York Community Development Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.



CUSACK & COMPANY, CPA'S LLC

Latham, New York
July 18, 2017

CITY OF MECHANICVILLE, NEW YORK
COMMUNITY DEVELOPMENT FUND
STATEMENTS OF ASSETS, LIABILITIES AND FUND EQUITY
DECEMBER 31, 2013 TO 2016

Assets

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Assets:				
Cash	\$ 174,702	\$ 171,022	\$ 170,699	\$ 168,232
Cash-Restricted	29,914	26,484	41,632	57,832
Federal Aid Receivable	-	9,333	-	-
Loans Receivable, Net	<u>59,033</u>	<u>66,197</u>	<u>51,049</u>	<u>34,849</u>
 Total Assets	 <u>\$ 263,649</u>	 <u>\$ 273,036</u>	 <u>\$ 263,380</u>	 <u>\$ 260,913</u>

Liabilities and Fund Equity

Liabilities:				
Accounts Payable	\$ 3,420	\$ -	\$ 56	\$ -
Due to General Fund	-	9,333	-	-
Due to Other Governments	<u>184,273</u>	<u>184,273</u>	<u>184,273</u>	<u>184,273</u>
 Total Liabilities	 <u>187,693</u>	 <u>193,606</u>	 <u>184,329</u>	 <u>184,273</u>
 Fund Equity:				
Unassigned Fund Deficit	(12,991)	(13,251)	(13,630)	(16,041)
Restricted Fund Balance	<u>88,947</u>	<u>92,681</u>	<u>92,681</u>	<u>92,681</u>
 Total Fund Equity	 <u>75,956</u>	 <u>79,430</u>	 <u>79,051</u>	 <u>76,640</u>
 Total Liabilities and Fund Equity	 <u>\$ 263,649</u>	 <u>\$ 273,036</u>	 <u>\$ 263,380</u>	 <u>\$ 260,913</u>

CITY OF MECHANICVILLE, NEW YORK
COMMUNITY DEVELOPMENT FUND
 STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2013 TO 2016

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Revenues:				
Use of Money and Property	\$ 134	\$ 177	\$ 141	\$ 134
Other Revenue	-	-	8,846	-
Federal Aid	<u>-</u>	<u>18,834</u>	<u>380,305</u>	<u>2,146</u>
Total Revenues	<u>134</u>	<u>19,011</u>	<u>389,292</u>	<u>2,280</u>
Expenditures:				
Contractual Expense	349	437	520	470
Grant Expenses	<u>-</u>	<u>15,100</u>	<u>389,151</u>	<u>4,221</u>
Total Expenditures	<u>349</u>	<u>15,537</u>	<u>389,671</u>	<u>4,691</u>
Excess (Deficiency) of Revenue Over Expenditures	(215)	3,474	(379)	(2,411)
Fund Equity - January 1	<u>76,171</u>	<u>75,956</u>	<u>79,430</u>	<u>79,051</u>
Fund Equity - December 31	<u>\$ 75,956</u>	<u>\$ 79,430</u>	<u>\$ 79,051</u>	<u>\$ 76,640</u>

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Mechanicville Community Development Fund (“Community Development Fund”) is governed by City law and other general laws of the State of New York and various local laws and ordinances. The City Council is the legislative body responsible for the overall operation of the Community Development Fund, which consists of a mayor and four council members.

The City established the Community Development Fund to account for the operations of various grants received from the U.S. Department of Housing and Urban Development and others. These financial statements present the financial position and results of operations of only the Community Development Fund and are not intended to present fairly the financial position and results of operations of the City.

Accounting Method

The Community Development Fund’s financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) for government entities. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Basis of Accounting/Measurement Focus

The modified accrual basis of accounting is followed by the Community Development Fund. Revenues are recognized when susceptible to accrual, defined as being both measurable and available. Available means collectible within the current period or soon enough thereafter, within one year, to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level which, in management’s judgement, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management’s evaluation of the collectibility of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans and economic conditions. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Because of uncertainties associated with the regional economic conditions, collateral values and future cash flows on impaired loans, it is reasonably possible that management’s estimate of credit losses inherent in the loan portfolio and the related allowance may change materially in the near term. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries.

CITY OF MECHANICVILLE, NEW YORK
COMMUNITY DEVELOPMENT FUND
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2013 TO 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Management has evaluated subsequent events or transactions occurring through July 18, 2017, the date the financial statements were available to be issued. No such events or transactions were identified.

2. CASH

The Community Development Fund's investment policies are governed by State statutes. In addition, the City has its own written investment policy. Community Development Fund monies must be deposited in FDIC-insured commercial banks or trust companies located within New York State. The Mayor is authorized to use demand accounts, money market accounts and certificates of deposits. Permissible investments include obligations of the U.S. government and obligations of New York State. All funds except reserve funds may be invested in obligations of agencies of the federal government if principal and interest is guaranteed by the United States. Reserve funds may be invested in obligations of a local government.

Collateral is required for demand deposits and certificates of deposit not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, the principal and interest of which are guaranteed by the United States, and obligations of the State of New York or its local governments.

At December 31, 2016, the book amount and bank balance of the Community Development Fund's deposits were \$226,064. The entire bank balances were covered by federal deposit insurance.

3. LOANS RECEIVABLE, NET

Loans receivable, net consist of small business non-interest bearing loans made under a 2012 USDA-Rural Business Enterprise Grant that established a revolving loan fund.

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Loans Receivable	\$ 91,056	\$ 92,348	\$ 67,493	\$ 42,627
Allowance for Loan Losses	<u>(32,023)</u>	<u>(26,151)</u>	<u>(16,444)</u>	<u>(7,778)</u>
Loans Receivable, Net	<u>\$ 59,033</u>	<u>\$ 66,197</u>	<u>\$ 51,049</u>	<u>\$ 34,849</u>

CITY OF MECHANICVILLE, NEW YORK
COMMUNITY DEVELOPMENT FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013 TO 2016

4. DUE TO OTHER GOVERNMENTS

Due to other governments represents program income, interest income, unused grant funds and disallowed grant funds due to the U.S. Department of Housing and Urban Development (“HUD”) detailed as follows:

Program Income	\$ 74,748
Interest Earned on Grant Funds	10,206
Unused Grant Funds *	<u>99,319</u>
	<u><u>\$ 184,273</u></u>

* In correspondence dated in 2006, HUD disallowed approximately \$275,000 in grant expenditures, of that, only \$99,319 has been recognized. There has been no attempt by HUD to settle this claim in the past several years.

5. RESTATED FUND EQUITY

The December 31, 2012 fund balance was increased by \$88,947 to reflect the USDA - Rural Enterprise Grant revolving loan fund that had not previously been reported in error.

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

To the Members
of the City Council of the
City of Mechanicville, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Community Development Fund of the City of Mechanicville, New York (the "Community Development Fund"), which comprise the statements of assets, liabilities and fund equity as of December 31, 2013 to 2016, and the related statements of revenues, expenditures and changes in fund equity for the years then ended, and the related notes to the financial statements and have issued our report thereon dated July 18, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control that we consider to be a significant deficiency below:

Outsourcing of Financial Statement Preparation Process to Your Auditors

Statement on Auditing Standards “Communicating Internal Control Related Matters Identified in an Audit” issued by the American Institute of Certified Public Accountants requires the reporting of a significant deficiency if the Organization does not employ an individual with the necessary qualifications to prepare a complete set of financial statements and related footnotes in accordance with generally accepted accounting principles. The Community Development Fund does not employ such a person. A similar comment was made in the prior year. Governance and management have been advised of this and have concluded that the cost to rectify this comment would exceed the benefit.

Compliance and Other Matters

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

Purpose of this Report

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



CUSACK & COMPANY, CPA’S LLC

Latham, New York
July 18, 2017