

**AUDITED
BASIC FINANCIAL STATEMENTS**

CITY OF NIAGARA FALLS, NEW YORK

DECEMBER 31, 2017

CITY OF NIAGARA FALLS, NEW YORK
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FINANCIAL SECTION



Independent Auditor's Report

The Honorable Members of City Council
City of Niagara Falls, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Niagara Falls, New York (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Niagara Falls Public Library (the Library), which represents 1%, 1% and 88%, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Library, is based solely on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information, as listed in the table of contents, the Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the Schedule of New York State Department of Transportation Assistance Expended is presented for purposes of additional analysis, as required by Draft Part 43 of NYCRR, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information, as listed in the table of contents, the Schedule of Expenditures of Federal Awards and the Schedule of New York State Department of Transportation Assistance Expended are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information, as listed in the table of contents, the Schedule of Expenditures of Federal Awards and the Schedule of New York State Department of Transportation Assistance Expended are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Freed Maxick CPAs, P.C.

Buffalo, New York
June 18, 2018

Management's Discussion and Analysis

City of Niagara Falls, New York

Fiscal Year ended December 31, 2017

This section of City of Niagara Falls, New York's (the City) annual financial report presents its discussion and analysis of the City's financial performance during the fiscal year ended December 31, 2017. Please read it in conjunction with the City's financial statements, which immediately follow this section. **ALL AMOUNTS ARE EXPRESSED IN THOUSANDS OF DOLLARS, UNLESS OTHERWISE INDICATED.**

Financial Highlights

- In June 2011, New York State enacted Chapter 97, Laws of 2011 Real Property Tax Levy Cap and Mandated Relief Provisions, which includes a 2% property tax cap for municipalities. For fiscal years beginning in 2012, no local government is authorized to increase its property tax levy by more than 2% or the rate of inflation (whichever is less). Local governments can exceed the tax levy limit by a 60% vote of the governing body and annually adopting a local law. There are permitted exceptions and adjustments. The City did not exceed the allowable property tax cap in the 2017 Adopted Budget. The 2017 Adopted Budget property tax levy was \$29,104,014, an increase of \$371,823 from 2016.
- The final 2013-14 NYS Budget includes a new "Alternative Contribution Stabilization Program" that is similar to the pension amortization program currently available to State and local governments. Under the new program, municipalities will have the option to pay a portion of their annual pension contribution over time using a stable contribution rate system. Once a municipal employer decides to opt into the alternate program, they cannot withdraw from the program. The City did not elect to opt into the alternate program. In the State's fiscal year 2014/2015, the City did amortize its ERS and Police & Fire retirement expense under Chapter 57 (Laws of 2010). In the State's fiscal year of 2016/2017 and 2017/2018 the City fully funded the ERS and Police & Fire retirement expense. The City prepays the expense on December 15th rather than the alternative date of February 1st, to save additional interest expense.
- The City's 2017 Constitutional Tax Limit was 80.88% of the percentage of tax limit exhausted with a \$5,554,007 constitutional tax margin remaining.
- The City's 2017 taxable assessed value is \$1,281,107,685 with an 85% equalization rate. The taxable full value is \$1,507,185,512.
- The 2017 Budget included a 10% shift in the homestead/non-homestead base proportions to continue to equalize the tax rates from the City's two tier tax system.
- In 2017 the City's Constitutional Debt Limit was 58.59% of the percentage of debt limit exhausted with a total of outstanding principal on existing debt at the end of the year of \$59,584,607 leaving a \$42,105,167 debt margin.
- The City's Parking Fund is not an Enterprise Fund. During 2017, the Parking Surface Lots Fund (CE Fund) and Parking Ramp II Fund (CR Fund) were consolidated into a Parking Operations Fund (PO Fund). The 2017 General Fund's budget included a revenue transfer from the consolidated Parking Funds in the amount of \$1,029,397. The actual transfer from the consolidated Parking Funds to the General Fund was \$1,548,740. This was due to parking meter revenue and parking ramp revenue exceeding budgeted revenue figures. Parking meter revenue collected in 2017, which represents the first full year of operations for the current parking meter system, was \$877,571. The 2017 budget

included revenue of \$500,000. In 2017 the City's Parking Ramp exceeded the \$1,000,000 threshold for the first time ever, with total revenue earned of \$1,069,762. The budget included revenue of \$925,000. Net revenue collected via the Parking Operations fund help offset property taxes and/or other related expenditures in the General Fund.

- The City's Golf Course fund is not an Enterprise Fund and is subsidized by the City's General Fund through property taxes. The 2017 City Budget included a transfer of \$411,372 from the General Fund to offset the net loss for operations at the golf course. The 2017 City's General Fund actual transfer to the Golf Course fund to offset the net loss for operations was \$283,486. Golf Course revenues decreased in 2017 when compared to 2016, however expenses also decreased. Water expenses in 2016 were \$192,542 and in 2017 were \$60,583. This significant decrease is mainly a result of the amount of rain received in 2017 when compared to 2016. The wet weather conditions also impacted the overall revenue received by the golf course.
- The City continues to maintain its five-year financial, debt and capital plans. These plans are good tools that allow City officials to monitor the City's existing debt and plan for future major capital projects and to see how this will impact future budgets.

Economic Development Update

- In 2017 the City selected TM Montante of Kenmore, NY as the preferred developer for prime downtown development parcels located along 7th and Niagara Street. The multi-phase, \$5,000,000 project will transform the structures located at 610, 614 and 624-Niagara Street and the adjacent vacant parcels of 414 through 428 7th Street into a mixed-use facility in the heart of the downtown corridor. The commercial space will house Niagara University's Global Tourism Incubator.
- KeySourceUSA, a Cincinnati-based pharmaceutical distributor, expanded its sales operation into the city of Niagara Falls in 2017. KeySourceUSA was approved for a N.F.C. Commercial Assistance Grant in the amount of \$100,000 to be used towards the following costs; Construction, Furniture, Fixtures, Equipment, and IT Infrastructure build out. The total project cost, including renovations to the historic Power City Building is estimated to be \$426,000. The project has created 18 full-time, good-paying jobs in the first year, and KeySourceUSA is already making expansion plans.
- In 2017, new development in the downtown area was the construction and completion of a new Courtyard by Marriot and a Comfort Inn & Suites. Construction continued on the Hyatt Place Hotel which opened in May 2018. National restaurant chains continue to open primarily in the area where there is a major shopping center called the Prime Fashion Outlets (located in the Town of Niagara). The City benefits greatly in its general fund budget with additional sales tax revenue from any new hotel and restaurants opening within the City limits since it pre-empts its sales tax for hotels, restaurants and utilities.
- The City's Urban Renewal Agency completed its \$1,500,000 renovation of the Highland Avenue Business Park as it readies an abandoned industrial site to be the new home of Sandstone Springs, LLC, a research and development company currently operating out of a facility on 24th Street in Niagara Falls.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements.
- The governmental funds statements tell how basic services such as public safety and transportation were financed in the short term as well as what remains for future spending.
- Fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the City's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

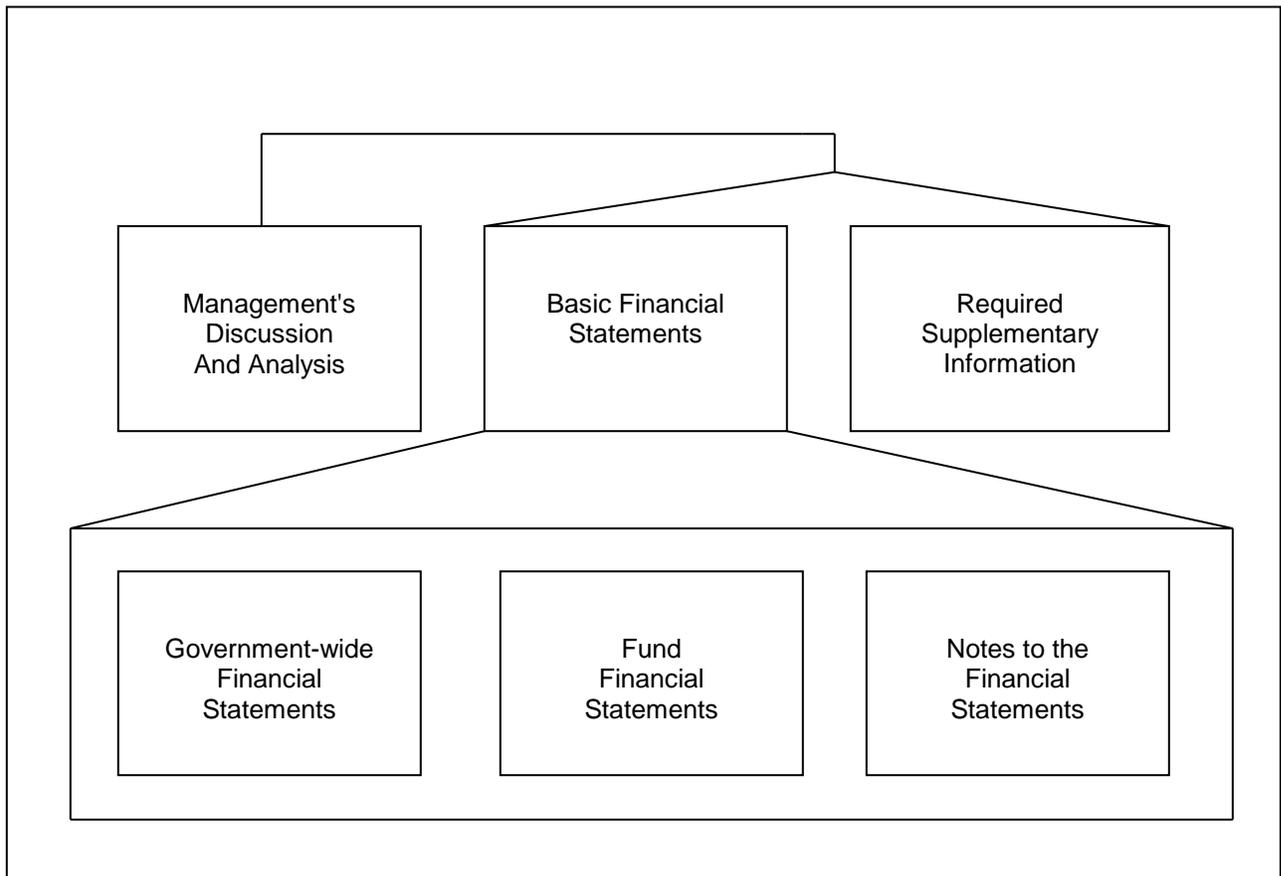


Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
		Fund Financial Statements	
	Government-wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire government (except Fiduciary funds)	The activities of the City that are not proprietary or fiduciary, such as public safety and transportation	The activities of the City in which the City charges for services
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses and Changes in Net Position • Statement of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and deferred outflows of resources and liabilities and deferred inflows of resources, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; generally no capital assets or long-term liabilities included	All assets and deferred outflows of resources and liabilities and deferred inflows of resources, both financial and capital, short-term and long-term
Type of inflow/out-flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The government-wide financial statements present the financial position of the City from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business type activities separately. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt).

The two government-wide statements report the City's net position and how they have changed. Net position - the difference between the City's assets and liabilities - is one way to measure the City's financial health or financial position.

- Over time, increases or decreases in the City's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the City's overall health, one needs to consider additional non-financial factors such as changes in the City's property tax base and the condition of the City's infrastructure and other facilities.

In the Statement of Net Position and the Statement of Activities, the City's activities are separated as follows:

Governmental activities - Most of the City's basic services are reported in this category, including the general government, police, fire, public safety, health, transportation, economic assistance, culture and recreation, home and community services, and refuse and recycling. Property and sales taxes, user fees, interest income, franchise fees, and state and federal grants finance these activities.

Business-type activities - The City's internal service activities are reported in this category.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's funds, focusing on its most significant or "major" funds - not the City as a whole. Some funds are required to be established by State law. However, the City Council establishes other funds to control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants or other money.

The City has three kinds of funds:

- **Governmental Funds:** Most of the City's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information provided with the governmental funds statements explains the relationship (or differences) between them.
- **Proprietary Funds:** These funds are generally used to account for services for which the City charges customers (both external and internal). These funds use accrual accounting, which is the same method used by the private sector. The City of Niagara Falls has one internal service fund.

- **Fiduciary Funds:** The City is the trustee, or fiduciary, for assets that belong to others, such as deposits. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The City excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the City as a Whole

<i>Condensed Statement of Net Position</i> <i>(in thousands of dollars)</i>			
	Governmental Activities		Increase (Decrease)
	2017	2016	
Current and other assets	\$ 62,144	\$ 81,461	\$ (19,317)
Capital assets, net	163,750	164,619	(869)
Total assets	225,894	246,080	(20,186)
Deferred outflows of resources	22,567	35,051	(12,484)
Long-term liabilities	263,193	231,973	31,220
Other liabilities	25,035	34,562	(9,527)
Total liabilities	288,228	266,535	21,693
Deferred inflow of resources	4,139	4,784	(645)
Net investment in capital assets	102,090	108,951	(6,861)
Restricted	1,965	2,826	(861)
Unrestricted	(147,961)	(101,965)	(45,996)
Total net position	\$ (43,906)	\$ 9,812	\$ (53,718)

Governmental Activities

The largest portion of the City's total assets (73% at 2017 and 67% at 2016) represents its investment in capital assets (land, buildings, improvements, vehicles, machinery, and equipment). The City uses these capital assets to provide necessary services.

Long-term obligations had a significant increase in other post employment benefits as a result of valuations of claims rather than premiums per Actuarial Standard of Practice (ASOP) No. 6 and an updated healthcare and administrative fee trend in the valuation. This resulted in an increase related to other post employment benefits of approximately \$29.7 million. Additionally, the City borrowed approximately \$8.1 million in 2017 to fund various equipment purchases and capital projects.

Restricted net position represents amounts required by law to be used for a specific purpose and include reserves for future capital projects and funds restricted for risk retention. These funds can only be used for expenditures for their respective purpose.

Unrestricted net position is in a deficit however, this does not mean that the City cannot fund City programs in the next fiscal year or that the City does not have sufficient resources to pay its bills next year. Rather, it is the result of having long-term commitments that are more than currently available resources.

Changes in Net Position from Operating Results <i>(in thousands of dollars)</i>			
	Governmental Activities		
	2017	2016	Increase (Decrease)
Program Revenues:			
Charges for services	\$ 6,873	\$ 6,883	\$ (10)
Operating grants and contributions	6,741	7,314	(573)
Capital grants and contributions	3,432	10,191	(6,759)
General Revenues:			
Property taxes, special assessments and property tax items	32,624	31,073	1,551
Non-property taxes	22,220	20,996	1,224
Interest earnings	601	643	(42)
State and federal sources	18,983	18,188	795
Miscellaneous	2,872	1,413	1,459
Seneca-Niagara casino funds, Section 190	-	16,778	(16,778)
Total revenues	<u>94,346</u>	<u>113,479</u>	<u>(19,133)</u>
Program Expenses:			
General government	21,624	27,271	(5,647)
Public safety	85,480	77,762	7,718
Transportation	11,734	11,633	101
Economic assistance	12,832	3,907	8,925
Culture and recreation	6,280	6,842	(562)
Home and community service	8,064	15,234	(7,170)
Interest on debt	2,050	2,025	25
Total expenses	<u>148,064</u>	<u>144,674</u>	<u>3,390</u>
Excess of revenues over expenses	(53,718)	(31,195)	(22,523)
Change in net position	(53,718)	(31,195)	(22,523)
Net position-beginning	<u>9,812</u>	<u>41,007</u>	<u>(31,195)</u>
Net position-ending	<u>\$ (43,906)</u>	<u>\$ 9,812</u>	<u>\$ (53,718)</u>

Overall net position decreased by \$53,717,912, resulting in a change from a net surplus of \$9,812,019 to a net deficit of (\$43,905,893) as of December 31, 2017. The primary support for the City's programs is local property taxes, State Aid, and sharing of sales tax from Niagara County and New York State. Taxes and related items represent 74% of total revenues (62% in 2016). A significant decrease of revenue collected in 2017 when compared to 2016 is from the Seneca Niagara Casino, representing a decrease of approximately \$12,640,000. Due to an ongoing dispute between the Seneca Nation of Indians and New York State, casino revenue sharing payments that are to be paid to New York State and then passed onto the local municipalities in accordance with the Laws of New York State Section 99h were not made for 2017 gaming activity. See additional details below in the "Factors Bearing on the City's Future" section.

Program expenses include an allocable share of employee benefits and depreciation on capital assets for each category presented. Interest expense is not allocated. The most significant category of expense is public safety at approximately 58% of total expenses in 2017 (54% in 2016), consisting principally of the City's police and fire departments. Total expenses increased by \$3.4 million (or 3%).

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

General Fund

The General Fund is the City's main operating fund. This fund is used to account for all City operations that are not financed by a special revenue source. It includes all general City offices, police, justice courts, recreation, safety inspection, other general services and self-insurance. The General Fund, which also includes all risk retention, tourism and grant fund activities, experienced a decrease in fund balance of \$3,736,250 for 2017. This decrease is explained in detail in the "General Fund Budgetary Highlights" section below.

Miscellaneous Special Revenue Fund

The Miscellaneous Special Revenue Fund is a special revenue fund supported from the Seneca Niagara Casino received in an allocation from New York State. The fund balance decreased by \$9,965,423 in 2017.

Revenues were \$4,150,352, while expenditures were \$14,115,775. Revenue recorded in 2017 represent the final quarterly payment received that related to calendar year 2016 gaming activity. The City has not received payment for 2017 gaming related activity due to a dispute, which is currently in the arbitration process, between the Seneca Nation of Indians and the State of New York. The increase in expenditures was due to the transfer out to other funds to support operations and other projects.

Community Development Fund

The Community Development Fund is a special revenue fund supported by money from the U.S. Department of Housing and Urban Development. The fund balance decreased by \$387,794 during 2017, resulting in an ending fund balance of \$556,959.

Capital Projects Funds

Used to account for financial resources to be used for the acquisition of construction of major capital facilities.

Debt Service Fund

Used to account for and report financial resources to be used in the acquisition and repayment of debt obligations.

Other Governmental Funds

Nonmajor funds include the Golf Course, Parking Operations, Train Station and Public Library funds. The decrease in fund balance of \$33,464 during 2017 was due to the operations of the Public Library fund.

General Fund Budgetary Highlights

Actual revenues earned, other than interfund transfers in and assigned fund balance, which was included in the adopted 2017 budget, were more than the budgeted amount by \$522,464 in 2017. The largest increase was in the non-property tax items, which accounted for a budget to actual increase of \$511,284. Included in the non-property tax items is sales tax collected from hotels, restaurants, and utilities (HRU Sales Tax) which saw an increase over the budgeted revenue figure of \$741,866.

Actual expenditures were more than budget by \$1,653,182. This was mainly due to retro payments resulting from new union contracts agreed to in 2017 that exceeded the amount reserved as of December 31, 2016. Total retro payments of approximately \$3,400,000 were paid in 2017 and approximately \$2,100,000 was reserved as of December 31, 2016. As a result, additional costs related to retro payments in the amount of approximately \$1,300,000 was incurred in 2017. Additionally, at the end of 2017 the City offered a retirement incentive which resulted in approximately \$615,000 in costs related to retirement buyouts.

In addition to net operating losses incurred by the General Fund, the Risk Retention fund incurred a decrease in its fund balance of \$906,055 due to several large settlement claims paid by the City.

Amendments to the budget occur throughout the year for a variety of reasons. These include reserves for encumbrances from prior year unexpended purchase orders which are added to the current year budget at time of closing of the prior year and grants or other forms of financial aid which were received during the year but not anticipated. Additionally, unavoidable expenditures and transfers of appropriations among object classes within department budgets are performed to address particular issues not anticipated at the level of object class totals within each department. The department heads and Controller have the authority to transfer appropriations among line items within each object class within departments. The reserve for encumbrances on prior year purchase orders are added to the budget as part of the annual financial closing process. All other budget amendments must be authorized by formal resolution of the City Council.

Capital Asset and Debt Administration

Capital Assets

Net capital assets decreased by \$869,736 during the current year. This reflects new improvement and infrastructure projects under construction of \$5,240,961 and machinery and equipment purchases of \$110,384 (described in Note 3.F), and reduced by current year depreciation expense of \$6,221,081.

Capital Assets Net of Depreciation		
<i>(in thousands of dollars)</i>		
	Governmental Activities	
	2017	2016
Land	\$ 2,891	\$ 2,891
Construction work in progress	42,015	44,772
Land improvement	1,335	1,335
Works of art/historical treasures	17	17
Land improvement-exhaustible	2,975	2,358
Buildings and building improvements	25,469	25,467
Furniture, office, and other equipment	896	1,089
Vehicles	4,939	6,181
Infrastructure	83,213	80,509
Total	<u>\$ 163,750</u>	<u>\$ 164,619</u>

Long-Term Obligations

The City has a bond rating of BBB+ from Standard and Poor's, BBB+ from Fitch Rating Services, and Baa3 rating from Moody's Investors Services, Inc. for the uninsured outstanding bonded indebtedness of the City.

At December 31, 2017, the City has total long-term debt outstanding of \$59,584,606 of which \$4,310,790 is estimated to be payable within the next year. The City has pledged its full faith and credit for the serial bonds that are outstanding. The remainder of the City's outstanding obligations arise out of contractual or other legal obligations.

The State of New York has a statutory limit for the amount of general obligation debt a local governmental entity may enter into. These limitations are applicable to the serial bonded debt of the City. In general the City may issue such obligations not to exceed 7% of its annual average five-year valuation. The current debt-margin for the City approximates \$42,105,167; therefore the City is in compliance with its constitutional debt limit.

More detailed information on the City's capital assets and long-term debt activity is provided in the Notes to the Financial Statements under 3.F and 3.I, respectively.

	Governmental Activities	
	2017	2016
	2017	2016
General obligation debt backed by the City	\$ 61,208	\$ 57,268
Installment purchase debt	452	591
Due to retirement system	4,040	4,670
Compensated absences	15,019	12,976
Workers' compensation	11,390	10,470
Other postemployment benefit obligations	152,297	122,629
Net pension liability	18,787	28,318
Total	<u>\$ 263,193</u>	<u>\$ 236,922</u>

Factors Bearing on the City's Future

During 2017 the City approved contracts with the following unions; Uniform Fire Fighters through June 30, 2026, Fire Department Officer's Association through December 31, 2024, Police Captains and Lieutenants Association through December 31, 2024, United Steelworkers of America Local 9434-00 and Local 9434-02 through December 31, 2024, Niagara County Building Trades Council through December 31, 2024, and all other employees who are not covered by collective bargaining agreements (i.e. exempt employees) through December 31, 2025. The only City union that did not negotiate an approved contract in 2017 is the Niagara Falls Police Club, Inc., which has a union contract that expires December 31, 2018. As health insurance costs continue to increase at rates well above the rate of inflation, the City was successful in securing healthcare concessions from each of the respective unions identified above. Under the terms of the new union contracts agreed to in 2017, all new hires will have a choice of either a 10% or 15% contribution to the health insurance plan, which represents an increase from the current 0% or 5% rate, depending on the employees original date of hire. Additionally, co-pays for prescriptions, doctor/specialist visits and emergency room visits have increased for all respective employees. Health insurance opt-out payments for new hires going forward have been reduced and capped at a certain level and all other employees who were hired prior to the ratification of the new contracts have also been capped at their current rates.

Impact of Seneca Nation / New York State Compact

In August of 2002, a Nation-State Gaming Compact was entered into by and between the Seneca Nation of Indians (Senecas) and the State of New York. This compact was to expire on December 31, 2016 and has now been extended until December 31, 2023. This compact permits the Senecas to operate Class III gaming facilities in certain geographic areas in Western New York. In consideration for this exclusivity, the Senecas agreed to pay New York State a percentage of the net drop from a certain type of gaming device. Legislation was enacted that provided New York State to pay a certain amount that it receives from the Senecas to the host communities. That Legislation is Section 99-h of the New York State Finance Law and the City of Niagara Falls is one of those host communities. Since the compact came into existence, the City has benefited from this compact and the legislation. Section 99-h provides for the City to pay certain amounts to various entities such as the Niagara Falls School District and the Niagara Falls Medical Center Hospital from its share of host community benefit revenues. The balance is retained by the City and is to be used for such public purposes as are determined, by the City, to enhance economic development, neighborhood revitalization, public health and safety, and infrastructure improvements.

Due to an ongoing dispute between the Seneca Nation of Indians and New York State, casino revenue sharing payments that are to be paid to New York State and then passed onto the local municipalities in accordance with the Laws of New York State Section 99h were not made for 2017 gaming activity. The two (2) payments the City of Niagara Falls received during calendar year 2017 related to 2016 gaming activity. As of the date of this Auditor's report, the City has collected \$221,998,377 in Casino funds for the period 2003 through December 31, 2017. Of this amount, \$61,621,180 was paid out to other entities or restricted for City road repair in accordance with the Laws of New York Section 99h. The remaining \$160,377,197 of discretionary funds were used for City capital equipment, economic development, infrastructure, neighborhood revitalization and health and public safety costs.

As of March 2017, the Senecas have taken the position that the casino revenue sharing section of the compact is no longer applicable. The Senecas claim that while the compact has been extended until December 31, 2023, the revenue sharing agreement was only intended to last through 2016. New York State and the Seneca Nation of Indians are currently in the arbitration process over this matter. Both New York State and the City of Niagara Falls believe that the extension of the compact from December 31, 2016 to December 31, 2023 also extended the casino revenue sharing agreement through December 31, 2023. The City of Niagara Falls anticipates collecting casino revenues based on a resolution of the Seneca's disagreement with the state either through arbitration or a negotiated settlement.

The City's annual local share of Casino funds from 2013 through 2016 has gradually decreased from \$20,138,918 in 2013 to \$16,794,680 in 2016. The continual decrease has created some concern since the City has been utilizing casino funds in its General Fund operating budget to help offset increases in debt service payments, loss of tax revenue from the land the Seneca Niagara Casino is located on, to offset increases in public safety overtime costs in the area of the Seneca Niagara Casino, increases in animal control costs, and utilizing a portion for property tax relief. The City has increased its use of Casino funds from \$6.6 million in 2014 to \$10.9 million in 2017.

Minimum Fund Balance Policy

Under the City's minimum fund balance policy, approximately 5% of the General Fund appropriations should be reported as unassigned fund balance. At December 31, 2017, the City was not in compliance with this policy as the City had a deficit of \$676,618. The City is reviewing all current sources of revenue to determine what adjustments can be made going forward. Additionally, the City is reviewing all of its expenses to identify where adjustments are necessary. The 2018 budget included an approved property tax cap override which was primarily utilized to help offset increases in personnel costs as a result of new union contracts. The City is also reviewing potential new revenue sources through various user fees.

Other than the Police Club union contract that expires on December 31, 2018, the City was able to agree on new long-term union contracts for all unions within the City. Due to this, the amount of retro payments to be made by the City going forward should be minimal. As indicated in the "General Fund Budgetary Highlights" section above, retro payments were one of the main causes of budget overruns in fiscal year 2017. The anticipation is that in 2018 the City should be able to keep its actual costs in line with its budgeted costs. This should help in eliminating the fund balance deficit and begin building up the unassigned fund balance so that it is in accordance with City policy.

Contacting the City's Financial Management

This financial report is designed to provide the City's citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Office of the City Controller, City of Niagara Falls, 745 Main Street, P.O. Box 69, Niagara Falls, New York.

CITY OF NIAGARA FALLS, NEW YORK
STATEMENT OF NET POSITION
DECEMBER 31, 2017

	<u>Governmental Activities</u>	<u>Component Units</u>
ASSETS		
Cash and cash equivalents	\$ 29,885,734	\$ 1,358,121
Accounts receivable, net	2,186,413	3,441
Taxes receivable, net	16,338,608	-
State and federal receivables	2,896,098	-
Due from other governments	997,205	307,757
Loans receivable	6,859,831	-
Inventory	708,403	-
Prepays items	2,271,578	49,451
Capital assets not being depreciated	46,257,972	-
Capital assets, net of accumulated depreciation	<u>117,491,768</u>	<u>31,453,130</u>
Total assets	<u>225,893,610</u>	<u>33,171,900</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension outflows	20,668,412	-
Deferred outflows on refunding	<u>1,898,624</u>	-
Total deferred outflows of resources	<u>22,567,036</u>	-
LIABILITIES		
Accounts payable	5,494,761	74,229
Accrued liabilities	116,604	44,359
Accrued interest payable	379,148	-
Due to fiduciary fund	1,750,111	-
Due to other governments	10,067,730	-
Unearned revenues	7,226,577	30,330
Noncurrent liabilities:		
Due and payable within one year	5,076,653	-
Due and payable after one year	<u>258,116,388</u>	-
Total liabilities	<u>288,227,972</u>	<u>148,918</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred pension inflows	<u>4,138,568</u>	-
Total deferred inflows of resources	<u>4,138,568</u>	-
NET POSITION		
Net investment in capital assets	102,089,888	31,453,130
Restricted -		
Risk retention	1,081,143	-
Trolley services	607,268	-
Tourism	276,861	-
Unrestricted	<u>(147,961,054)</u>	<u>1,569,852</u>
Total net position	<u>\$ (43,905,894)</u>	<u>\$ 33,022,982</u>

See notes to basic financial statements.

**CITY OF NIAGARA FALLS, NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

Functions/Programs:	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Component Units
Governmental activities:						
General government	\$ 21,623,654	\$ 1,503,362	\$ -	\$ -	\$ (20,120,292)	\$ -
Public safety	85,479,653	1,555,118	285,372	-	(83,639,163)	-
Transportation	11,733,558	2,953,696	-	3,431,654	(5,348,208)	-
Economic assistance and opportunity	12,832,404	5,850	-	-	(12,826,554)	-
Culture and recreation	6,280,419	667,711	-	-	(5,612,708)	-
Home and community services	8,064,529	187,609	6,455,967	-	(1,420,953)	-
Interest on debt	2,050,046	-	-	-	(2,050,046)	-
Total governmental activities	<u>148,064,263</u>	<u>6,873,346</u>	<u>6,741,339</u>	<u>3,431,654</u>	<u>(131,017,924)</u>	<u>-</u>
Component units:						
Bellevue Local Development Corporation	\$ 995,332	\$ -	\$ -	\$ -		(995,332)
N.F.C. Development Corporation	420,837	279,226	-	-		(141,611)
Niagara Falls Public Library	2,228,434	2,149,954	-	-		(78,480)
Total component units	<u>\$ 3,644,603</u>	<u>\$ 2,429,180</u>	<u>\$ -</u>	<u>\$ -</u>		<u>(1,215,423)</u>
General revenues:						
Real property taxes					28,947,064	-
Real property tax items					3,677,528	-
Non-property taxes					22,219,710	-
Use of money and property					600,909	(18,520)
Sale of property and compensation for loss					924,564	-
Miscellaneous					1,947,009	-
State aid not received for a specific purpose					18,983,227	-
Total general revenues					<u>77,300,011</u>	<u>(18,520)</u>
Change in net position					(53,717,913)	(1,233,943)
Net position - beginning					<u>9,812,019</u>	<u>34,256,925</u>
Net position - ending					<u>\$ (43,905,894)</u>	<u>\$ 33,022,982</u>

See notes to basic financial statements.

CITY OF NIAGARA FALLS, NEW YORK
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	<u>General</u>	<u>Community Development</u>	<u>Capital Projects</u>	<u>Miscellaneous Special Revenue</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS							
Cash and cash equivalents	\$ 2,436,541	\$ 2,169,124	\$ 12,313,714	\$ 12,417,506	\$ 441,204	\$ 101,708	\$ 29,879,797
Accounts receivable	2,081,565	38,475	-	-	-	66,373	2,186,413
Taxes receivable, net	16,338,608	-	-	-	-	-	16,338,608
Due from other funds	1,198,505	-	-	-	-	-	1,198,505
State and federal receivables	1,415,315	486,229	994,554	-	-	-	2,896,098
Due from other governments	997,205	-	-	-	-	-	997,205
Loans receivable	4,500,000	2,359,831	-	-	-	-	6,859,831
Prepaid items	2,271,578	-	-	-	-	-	2,271,578
Total assets	<u>\$ 31,239,317</u>	<u>\$ 5,053,659</u>	<u>\$ 13,308,268</u>	<u>\$ 12,417,506</u>	<u>\$ 441,204</u>	<u>\$ 168,081</u>	<u>\$ 62,628,035</u>
LIABILITIES							
Accounts payable	\$ 4,327,312	\$ -	\$ 952,055	\$ -	\$ -	\$ 109,267	\$ 5,388,634
Accrued liabilities	107,960	-	-	-	-	8,644	116,604
Due to other funds	1,652,642	1,075,108	-	-	-	80,934	2,808,684
Due to other governments	9,005,969	1,061,761	-	-	-	-	10,067,730
Unearned revenues	4,760,558	2,359,831	106,188	-	-	-	7,226,577
Total liabilities	<u>19,854,441</u>	<u>4,496,700</u>	<u>1,058,243</u>	<u>-</u>	<u>-</u>	<u>198,845</u>	<u>25,608,229</u>
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue - property taxes	7,824,644	-	-	-	-	-	7,824,644
Total deferred inflows of resources	<u>7,824,644</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,824,644</u>
FUND BALANCES							
Nonspendable	2,271,578	-	-	-	-	-	2,271,578
Restricted	1,965,272	556,959	-	12,417,506	441,204	-	15,380,941
Assigned	-	-	12,250,025	-	-	-	12,250,025
Unassigned (deficit)	(676,618)	-	-	-	-	(30,764)	(707,382)
Total fund balances	<u>3,560,232</u>	<u>556,959</u>	<u>12,250,025</u>	<u>12,417,506</u>	<u>441,204</u>	<u>(30,764)</u>	<u>29,195,162</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 31,239,317</u>	<u>\$ 5,053,659</u>	<u>\$ 13,308,268</u>	<u>\$ 12,417,506</u>	<u>\$ 441,204</u>	<u>\$ 168,081</u>	<u>\$ 62,628,035</u>

See notes to basic financial statements.

**CITY OF NIAGARA FALLS, NEW YORK
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2017**

Amounts reported for governmental activities in the statement of net position (page 17) are different because:

Total fund balance - governmental funds (page 19)	\$ 29,195,162
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation	163,749,740
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds:	
Serial bonds payable (including unamortized premiums)	(61,208,414)
Installment purchase debt payable	(451,438)
Due to retirement system	(4,040,164)
Worker's compensation	(11,390,110)
Compensated absences	(15,019,397)
Other postemployment benefits	(152,296,559)
Net pension liability	(18,786,959)
Net accrued interest expense for bonds not reported in the funds	(379,148)
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds	7,824,644
Internal service net position which is due to governmental activities and related to charges for services provided	468,281
Deferred outflow and inflows are not assets or liabilities of the current period and therefore are not reported in the funds:	
Deferred outflows - bond refunding	1,898,624
Deferred pension outflows	20,668,412
Deferred pension inflows	<u>(4,138,568)</u>
Net position of governmental activities	<u>\$ (43,905,894)</u>

CITY OF NIAGARA FALLS, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>General</u>	<u>Community Development</u>	<u>Capital Projects</u>	<u>Miscellaneous Special Revenue</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES							
Real property taxes	\$ 28,836,596	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,836,596
Real property tax items	3,677,528	-	-	-	-	-	3,677,528
Non-property tax items	22,219,710	-	-	-	-	-	22,219,710
Departmental income	504,945	100,165	-	-	-	3,167,181	3,772,291
Intergovernmental charges	1,502,025	-	-	-	-	-	1,502,025
Use of money and property	583,209	5,257	-	12,443	-	12,468	613,377
Licenses and permits	730,659	-	-	-	-	-	730,659
Fines and forfeitures	665,208	-	-	-	-	-	665,208
Sale of property and compensation for loss	896,223	-	-	-	-	-	896,223
Miscellaneous	336,101	-	71,641	-	850,000	-	1,257,742
Interfund revenues	190,695	-	-	-	-	-	190,695
State sources	18,980,281	121,561	3,581,654	4,137,909	-	-	26,821,405
Federal sources	-	6,455,967	-	-	-	-	6,455,967
Total revenues	<u>79,123,180</u>	<u>6,682,950</u>	<u>3,653,295</u>	<u>4,150,352</u>	<u>850,000</u>	<u>3,179,649</u>	<u>97,639,426</u>
EXPENDITURES							
General government	11,401,184	-	71,014	899,101	-	812,085	13,183,384
Public safety	42,286,750	-	980,026	-	-	-	43,266,776
Transportation	4,094,286	-	5,699,271	-	-	-	9,793,557
Economic assistance and opportunity	3,135,029	-	1,461,500	-	-	-	4,596,529
Culture and recreation	2,510,715	-	1,356,224	-	-	1,868,790	5,735,729
Home and community services	6,593,229	7,371,643	-	-	-	-	13,964,872
Employee benefits	18,336,103	-	-	-	-	1,069,817	19,405,920
Debt service:							
Principal	-	-	-	-	4,177,269	-	4,177,269
Interest	-	-	-	-	1,875,071	-	1,875,071
Bond issuance costs	-	-	-	-	66,256	-	66,256
Total expenditures	<u>88,357,296</u>	<u>7,371,643</u>	<u>9,568,035</u>	<u>899,101</u>	<u>6,118,596</u>	<u>3,750,692</u>	<u>116,065,363</u>
Excess (deficit) of revenues over expenditures	<u>(9,234,116)</u>	<u>(688,693)</u>	<u>(5,914,740)</u>	<u>3,251,251</u>	<u>(5,268,596)</u>	<u>(571,043)</u>	<u>(18,425,937)</u>
OTHER FINANCING SOURCES (USES)							
Interfund transfers in	14,601,960	300,899	2,147,294	-	6,098,100	2,230,619	25,378,872
Interfund transfers out	(9,104,094)	-	(215,064)	(13,216,674)	(1,150,000)	(1,693,040)	(25,378,872)
Proceeds from issuance of debt	-	-	8,093,305	-	-	-	8,093,305
Total other financing sources (uses)	<u>5,497,866</u>	<u>300,899</u>	<u>10,025,535</u>	<u>(13,216,674)</u>	<u>4,948,100</u>	<u>537,579</u>	<u>8,093,305</u>
Net change in fund balances	(3,736,250)	(387,794)	4,110,795	(9,965,423)	(320,496)	(33,464)	(10,332,632)
Fund balances - beginning	7,296,482	944,753	8,139,230	22,382,929	761,700	2,700	39,527,794
Fund balances - ending	<u>\$ 3,560,232</u>	<u>\$ 556,959</u>	<u>\$ 12,250,025</u>	<u>\$ 12,417,506</u>	<u>\$ 441,204</u>	<u>\$ (30,764)</u>	<u>\$ 29,195,162</u>

See notes to basic financial statements.

**CITY OF NIAGARA FALLS, NEW YORK
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

Amounts reported for governmental activities in the statement of activities (page 18) are different because:

Net change in fund balances - total governmental funds (page 21)	\$	(10,332,632)
Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$6,221,081) exceeded capital outlays (\$5,351,345) in the current period. The internal service is excluded from these		(869,736)
Revenues that are not available to pay current obligations are not reported in the fund financial statements, but they are presented as revenues in the statement of activities.		110,468
Casino revenue earned, but not received at year-end related to State Finance Law Section 99-H are not considered revenue under the modified accrual basis of accounting. This amount represents the change in those receivables and related revenues under the full accrual basis of accounting.		(4,121,152)
Long-term liabilities, including bonds payable, compensated absences and other post employment benefits are not due and payable in the current period and therefore are not reported in the funds. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
Issuance of serial bonds	\$	(8,093,305)
Repayment of serial bonds		4,037,730
Repayment of installment purchase debt		139,539
Premium amortization		115,292
Change in due to retirement system		629,419
Change in Workers' Compensation liability		(920,605)
Change in compensated absences		(2,043,313)
Change in other post employment benefits		(29,667,403)
Change in net pension liability		<u>9,531,173</u>
		(26,271,473)
Interest on debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the fund when it is due and payable, and thus require current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		(195,336)
Change in the deferred outflow of bond refunding do not provide for or require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		(94,931)
Change in the proportionate share of the net deferred inflows and outflows reported in the statement of net position during the measurement period between the County's contributions and its proportionate share to the total contributions to the pension system subsequent to the measurement date do not provide for or require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		(11,743,460)
Internal service fund is used by management to charge the costs of the motor pool. The change in the net position for such services is reported with governmental activities.		<u>(199,661)</u>
Change in net position of governmental activities	\$	<u><u>(53,717,913)</u></u>

See notes to basic financial statements.

CITY OF NIAGARA FALLS, NEW YORK
STATEMENT OF NET POSITION - PROPRIETARY FUND - INTERNAL SERVICE FUNDS
DECEMBER 31, 2017

	<u>Internal Service Funds</u>
ASSETS	
Cash and cash equivalents	\$ 5,937
Inventory	708,403
Total assets	<u>714,340</u>
LIABILITIES	
Accounts payable	106,127
Due to other funds	139,932
Total liabilities	<u>246,059</u>
NET POSITION	
Unrestricted	<u>468,281</u>
Total net position	<u>\$ 468,281</u>

See notes to basic financial statements.

**CITY OF NIAGARA FALLS, NEW YORK
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
 PROPRIETARY FUND - INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Internal Service Funds</u>
REVENUES	
Charges for services	\$ 717,608
Total revenues	<u>717,608</u>
EXPENSES	
Contractual expenses	<u>917,269</u>
Total expenses	<u>917,269</u>
Operating loss	<u>(199,661)</u>
Change in net position	(199,661)
Net position - beginning	<u>667,942</u>
Net position - ending	<u>\$ 468,281</u>

See notes to basic financial statements.

**CITY OF NIAGARA FALLS, NEW YORK
 STATEMENT OF CASH FLOWS - PROPRIETARY FUND - INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from providing services	\$ 717,608
Cash payments for contractual expenses	(739,065)
Net cash used by operating activities	<u>(21,457)</u>
Net decrease in cash and cash equivalents	(21,457)
Cash and cash equivalents - beginning	<u>27,394</u>
Cash and cash equivalents - ending	<u>\$ 5,937</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (199,661)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Changes in assets and liabilities:	
Decrease in:	
Inventory	52,393
Increase in:	
Accounts payable	30,986
Due to other funds	<u>94,825</u>
Net cash used by operating activities	<u>\$ (21,457)</u>

See notes to basic financial statements.

CITY OF NIAGARA FALLS, NEW YORK
STATEMENT OF NET POSITION - COMPONENT UNITS
DECEMBER 31, 2017

	<u>Bellevue Local Development Corporation</u>	<u>N.F.C. Development Corporation</u>	<u>Niagara Falls Public Library</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ -	\$ 1,061,147	\$ 296,974	\$ 1,358,121
Accounts receivable	-	-	3,441	3,441
Loans receivable, net	-	307,757	-	307,757
Due from other governments	-	-	49,451	49,451
Capital assets, net of accumulated depreciation	<u>31,352,956</u>	<u>-</u>	<u>100,174</u>	<u>31,453,130</u>
Total assets	<u>31,352,956</u>	<u>1,368,904</u>	<u>450,040</u>	<u>33,171,900</u>
LIABILITIES				
Accounts payable	-	614	73,615	74,229
Accrued liabilities	-	-	44,359	44,359
Unearned revenue	-	-	30,330	30,330
Total liabilities	<u>-</u>	<u>614</u>	<u>148,304</u>	<u>148,918</u>
NET POSITION				
Net investment in capital assets	31,352,956	-	100,174	31,453,130
Unrestricted	-	1,368,290	201,562	1,569,852
Total net position	<u>\$ 31,352,956</u>	<u>\$ 1,368,290</u>	<u>\$ 301,736</u>	<u>\$ 33,022,982</u>

See notes to basic financial statements.

CITY OF NIAGARA FALLS, NEW YORK
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Bellevue Local Development Corporation</u>	<u>N.F.C. Development Corporation</u>	<u>Niagara Falls Public Library</u>	<u>Total</u>
OPERATING REVENUES				
Transfers from City of Niagara Falls	\$ -	\$ 250,000	\$ 1,906,580	\$ 2,156,580
Chargers for services	-	4,813	18,800	23,613
Grants and aid	-	-	184,629	184,629
Other revenues	-	24,413	39,945	64,358
Total operating revenues	<u>-</u>	<u>279,226</u>	<u>2,149,954</u>	<u>2,429,180</u>
OPERATING EXPENSES				
Contractual expense	-	110,624	2,205,664	2,316,288
Grant expense	-	310,213	-	310,213
Depreciation	995,332	-	22,770	1,018,102
Total operating expenses	<u>995,332</u>	<u>420,837</u>	<u>2,228,434</u>	<u>3,644,603</u>
Operating income (loss)	<u>(995,332)</u>	<u>(141,611)</u>	<u>(78,480)</u>	<u>(1,215,423)</u>
NONOPERATING REVENUES (EXPENSES)				
Transfer of property	-	(19,030)	-	(19,030)
Interest income	-	510	-	510
Total nonoperating revenues (loss)	<u>-</u>	<u>(18,520)</u>	<u>-</u>	<u>(18,520)</u>
Change in net position	(995,332)	(160,131)	(78,480)	(1,233,943)
Net position - beginning	<u>32,348,288</u>	<u>1,528,421</u>	<u>380,216</u>	<u>34,256,925</u>
Net position - ending	<u>\$ 31,352,956</u>	<u>\$ 1,368,290</u>	<u>\$ 301,736</u>	<u>\$ 33,022,982</u>

See notes to basic financial statements.

**CITY OF NIAGARA FALLS, NEW YORK
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
DECEMBER 31, 2017**

	<u>Private Purpose Trust</u>	<u>Agency</u>
ASSETS		
Cash and cash equivalents	\$ 71,953	\$ 1,134,107
Due from other funds	-	1,750,111
	<u>71,953</u>	<u>2,884,218</u>
Total assets	<u>71,953</u>	<u>2,884,218</u>
LIABILITIES		
Agency liabilities	<u>7,890</u>	<u>2,884,218</u>
Total liabilities	<u>7,890</u>	<u>\$ 2,884,218</u>
NET POSITION		
Held in trust for private purposes	<u>64,063</u>	
Total net position	<u>\$ 64,063</u>	

See notes to basic financial statements.

**CITY OF NIAGARA FALLS, NEW YORK
STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Private Purpose Trust</u>
ADDITIONS	
Interest and earnings	\$ <u>936</u>
DEDUCTIONS	
Economic assistance and opportunity	<u>8,790</u>
Change in net position	(7,854)
Net position - beginning	<u>71,917</u>
Net position - ending	<u>\$ <u>64,063</u></u>

See notes to basic financial statements.

**CITY OF NIAGARA FALLS, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Niagara Falls, New York (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units, except as otherwise noted. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. REPORTING ENTITY

PRIMARY GOVERNMENT

The City is a unit of local government created by the State of New York. The City operates under provisions of New York State law and with authority vested by those statutes and under the provisions of the City Charter adopted by the City Council. The City provides services and facilities in the areas of police, highway, sanitation, parks, recreation, storm sewers, library, community development, fire and general administration. The five-member City Council is the legislative body responsible for overall operations. The Mayor serves as Chief Executive and Officer. The City Administrator serves as the Chief Administrative Officer. The City Controller serves as the Chief Financial Officer. Independently elected officials of the City include the Mayor and five council members.

The County of Niagara, New York, is a unit of local government, whose boundaries include the City. Public education is provided by an independent school district within the City, the Niagara Falls City School District.

The financial reporting entity includes all organizational functions, and activities over which the City's elected officials exercise oversight responsibility. The oversight responsibility is derived from the governmental unit's power and includes, but is not limited to, financial interdependency, a selection of government authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

COMPONENT UNITS

In conformity with accounting principles generally accepted in the United States of America, the financial statements of three component units have been included in the financial reporting entity as discretely presented component units. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government.

The N.F.C. Development Corporation's (NFC) purpose is to identify and develop business opportunities within the City, to package needed financing and to develop financial programs to support business development. The governing body of NFC is comprised of the Mayor, the five members of the City Council, four members appointed by the Mayor and nine at large members elected by the existing NFC Board. Additionally, NFC is managed by the City; therefore, the City is able to impose its will on NFC. Complete financial statements for NFC may be obtained at their offices located at 1022 Main Street, Niagara Falls, New York.

The Bellevue Local Development Corporation's (Bellevue) purpose was to develop and construct a new public safety facility, plus other functions related to the administration of justice for the City. The governing body of Bellevue is comprised of the Mayor and additional Board members appointed by the Mayor. Additionally, Bellevue is managed by the City; therefore, the City is able to impose its will on Bellevue. Upon the completion of the facility the asset was to be transferred to the City. The facility has been completed, but it is awaiting approval related to environmental matters before being transferred to the City. Bellevue does not issue stand-alone financial statements.

CITY OF NIAGARA FALLS, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

The Niagara Falls Public Library's (the Library) purpose is to provide the citizens of the City with quality library service, access to excellent collections, assistance in using emerging technologies in a pleasing, safe environment. The Library operates two city-owned buildings, one of which is commonly referred to as the Main Library or Earl W. Brydges Public Library and the other which is commonly known as the LaSalle Library. Complete financial statements for the Library can be obtained from their offices located at 1425 Main Street, Niagara Falls, New York.

B. BASIS OF PRESENTATION

1. GOVERNMENT-WIDE FINANCIAL STATEMENTS

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As discussed earlier, the City has three discretely presented component units. None of these component units consisting of the N.F.C Development Corporation, Bellevue Local Development Corporation and Niagara Falls Public Library are considered to be a major component unit, therefore they are shown in one component unit column in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water and transit functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

2. FUND FINANCIAL STATEMENTS

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories.

Governmental Funds:

Governmental funds are those through which most governmental functions are financed. The acquisition, use and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus of the governmental funds is based upon determination of financial position and changes in financial position. The City reports the following major governmental funds:

- a. General Fund - the principal operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. Community Development Fund - this is used to account for the various programs of financial assistance (principally federal aid) for urban development. Community Development administers programs directly, as well as acting as a conduit to pass-through funds to sub-recipients whose goal is also to benefit the community.
- c. Capital Projects Fund - used to account for and report financial resources to be used in the acquisition, construction or renovation of major capital facilities.

CITY OF NIAGARA FALLS, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

- d. Debt Service Fund - used to account for and report financial resources to be used in the acquisition and repayment of debt obligations.
- e. Miscellaneous Special Revenue Fund - used to account for the receipts and disbursements of the Seneca Niagara Casino money received by the City.

The City reports the following nonmajor governmental funds consolidated into the nonmajor governmental funds column:

- a. Special Revenue Funds (Train Station, Golf Course, Public Library, and Parking Ramp) - To account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes or for which separate accounting is required by administrative action.

Proprietary Funds:

These funds are used to account for ongoing operations or activities, which are similar to those often found in the private sector. The measurement focus is based upon determination of net income, financial position and cash flows. The City applies all applicable GASB pronouncements, as well as, Financial Accounting Standards Board's (FASB) Accounting Standards Codification unless these standards conflict with or contradict GASB pronouncements.

- a. Internal Service Fund – used to account for copying, postage, stationary, telephone and central garage services provided to other departments or agencies of the City on a cost reimbursement basis.

Fiduciary Fund Types

Fiduciary Fund Types include Private Purpose Trust Funds and Agency Funds. The Private Purpose Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and other governments.

Private Purpose Trust are accounted for on the accrual basis. Agency Funds are custodial in nature (assets equal liabilities) and generally are accounted for on the cash basis, which approximates the accrual basis of accounting.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of 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 as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible with 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 sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in the governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

CITY OF NIAGARA FALLS, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within sixty days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the City.

D. REVENUES AND EXPENDITURES/EXPENSES

1. PROGRAM REVENUES

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. PROPERTY TAXES

The City property taxes are levied in December of each year, based on the assessed valuation as of the preceding July 1. On January 1 of each year, property taxes become a lien on property.

Tax payments are due and payable in equal installments on January 31 and May 31, after which it becomes delinquent and interest and penalties accrue. The City also bills for relieved sewer and water user charges and for unpaid school taxes.

The State Constitution limits the amount that may be raised by the City tax levy on real estate in any fiscal year to two percent (2%) of the last five-year average full valuation of taxable real estate of the City plus (1) the amounts required for principal and interest on all capital indebtedness, and (2) current appropriations for certain capital purposes. The City is responsible for collection of delinquent City school taxes. In the event that school taxes are not collected from the City's relevy, the City is obligated to remit taxes in full to the school district.

A provision for uncollectible taxes is estimated based on historical collection experience.

3. CASINO REVENUES

In accordance with State Finance Law Section 99-H (Section 99-H), the City is authorized to receive an allocation of casino revenue directly from New York State. This revenue is restricted for various purposes as determined by law. Amounts are recognized when received in the fund financial statements. Within the government-wide financial statements, revenues are recorded when earned. No allowance has been recorded, as the City is legally authorized to receive the allocation.

4. COMPENSATED ABSENCES

The City labor agreements and City Council rules and regulations provide for sick and vacation leave. Upon retirement, certain eligible employees qualify for partially paid medical and dental insurance premiums and/or payment for fractional values of unused sick leave. These payments are budgeted annually without accrual.

Consistent with GASB Statement No. 16, Accounting for Compensated Absences, an accrual for accumulated sick leave is included in compensated absences at year-end. The compensated absences liability is calculated based on the contractually negotiated rates in effect at year-end.

Compensated absences for governmental fund type employees are reported as a fund liability and as an expenditure in the government-wide financial statements. A portion of the compensated absences liability recognized is attributed to the value of sick leave converted to pay the employees' share of postemployment health insurance premiums.

**CITY OF NIAGARA FALLS, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

The compensated absences liability for the Governmental fund at the year-end totaled \$15,019,397. A liability for those amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Payment of compensated absences recorded in the government-wide financial statements is dependent upon many factors; therefore timing of future payments are not readily determinable. However, management believes that sufficient resources will be made available for the payment of compensated absences when such payments become due.

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE

1. CASH AND CASH EQUIVALENTS

The City's cash and cash equivalents consists of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of purchase.

2. RESTRICTED ASSETS

Certain assets are classified on the balance sheet as restricted because their use is limited. The proceeds of bond sales can only be used for the stated purpose of the borrowing.

3. INVENTORY

All inventories are valued at cost using the first-in/first-out (FIFO) method for proprietary funds. Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed.

4. PREPAID ITEMS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. ACCOUNTS RECEIVABLE

Accounts receivable, with the exception of taxes receivable, are shown gross, with uncollectible amounts recognized under the direct write-off method. Generally accepted accounting principles require the establishment of an allowance for doubtful accounts; however, no allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

6. TAXES RECEIVABLE

The City accounts for taxes receivable at outstanding billed amounts, net of the allowance for uncollectible taxes. Accounts for which no payments have been received for one year are considered delinquent and further collection efforts are begun. After all collection efforts are exhausted, the account is written off. As of December 31, 2017, the allowance for uncollectible taxes was \$3,572,842, which is estimated based on historical collection experience.

7. DUE TO/FROM OTHER FUNDS

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds."

The amounts reported on the Statement of Net Assets for due to and due from other funds represents amounts due between different fund types (governmental and business-type activities, and fiduciary funds). Eliminations have been made for amounts due to and due from within the same fund type. A detailed description of the individual fund balances at year-end is provided in Note 3.K.

8. CAPITAL ASSETS

Government-wide statements:

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Prior to January 1, 1980, governmental funds' infrastructure assets were not capitalized. The City has elected to adopt the more liberal provisions of GASB Statement No. 34 which allows retroactive reporting of only major general infrastructure assets acquired, significantly reconstructed or that received significant improvements in fiscal years ending after December 31, 1979. Capital assets are reported at actual cost for acquisitions subsequent to January 1, 2003.

All capital assets are valued at historical cost or estimated historical cost if actual cost is unavailable, except for donated assets which are recorded at their estimated fair value at the date of donation. Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the Government-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and building improvements	\$ 100,000	straight-line	25-50 years
Land improvements - exhaustible	100,000	straight-line	20-100 years
Infrastructure	100,000	straight-line	30-50 years
Machinery and equipment	5,000	straight-line	3-10 years

Fund Financial Statements:

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

9. INSURANCE

The City is self-insured for general liability including but not limited to property damage and personal injury, workers' compensation and medical insurance.

The City has purchased reinsurance agreements to reduce exposure to large losses. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated.

10. UNEARNED REVENUES

Unearned revenues arise when potential revenues do not meet both the measurable and available criteria for recognition in the current period. This occurs when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the City has legal claim to resources, the liability for deferred revenues is removed and revenues are recognized.

11. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualified for reporting in this category. These are related to pensions and debt charge of refunding reported in the government-wide Statement of Net Position. In relation to the pension, this represents the effect of the net change in the City's proportion of the collective net pension liability and the difference during the measurement period between the City's contributions and its proportional share of total contributions to the pension system not included in pension

CITY OF NIAGARA FALLS, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

expense. Also included is the City's contributions to the pension system subsequent to the measurement date. See details of deferred pension outflows in Note 3.G. The deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items that qualify for reporting in this category. One item is related to pension activity reported in the government-wide Statement of Net Position. This represents the effect of the net change in the City's proportion of the collective net pension liability and difference during the measurement period between the City's contributions and its proportional share of total contributions to the pension system not included in pension expense. See details of deferred pension inflows in Note 3.G. The other item is unavailable revenue related to property taxes and is reported in the Balance Sheet – Governmental Funds.

13. LONG-TERM OBLIGATIONS

All long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term liabilities consists primarily of serial bonds payable, installment purchase debt, due to retirement system, workers' compensation, compensated absences and other postemployment benefits.

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal, interest and other long-term obligations are reported as expenditures.

14. POSTEMPLOYMENT BENEFITS

In addition to providing pension benefits, the City provides health insurance coverage for certain retired employees as discussed in Note 3.H

15. INTERFUND TRANSFERS

The operations of the City give rise to certain transactions between funds, including transfers of expenditures and revenues to provide services and construct assets as discussed in Note 3.K.

16. FUND BALANCE POLICIES

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

17. NET POSITION FLOW ASSUMPTION

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net

CITY OF NIAGARA FALLS, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

18. FUND BALANCE FLOW ASSUMPTIONS

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied.

The City Council adopted a formal spending policy under the provisions of GASB Statement No. 54 stating that the City Council will assess the current financial condition of the City and then determine the order of application of expenditures to which fund balance classification will be charged.

F. USE OF ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

G. ACCOUNTING PRONOUNCEMENTS

During the fiscal year ended December 31, 2017, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that Are Not within the Scope of GASB Statement No. 68, and Amendments to certain Provisions of GASB Statements No. 67 and 68*; Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*; Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*; Statement No. 81, *Split-Interest Agreements*; and Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, 68 and 73*.

The primary objective of Statement No. 73 is to improve the usefulness of information about pensions included in the financial statements that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions.

The primary objective of Statement No. 74 is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

The primary objective of Statement No. 80 is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units.

The primary objective of Statement No. 81 is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

The primary objective of Statement No. 82 is to address certain issues that have been raised with respect to Statements No. 67, 68, and 73.

The City has evaluated Statements No. 73, 74, 80, and 81 have determined that they have no impact on the City's operations. Statement No. 82, however, does impact the proper presentation of the required supplementary information that is required under Statement No. 68.

CITY OF NIAGARA FALLS, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

The GASB has issued the following new pronouncements:

- Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits Other than Pensions*, which will be effective for the year ending December 31, 2018;
- Statement No. 83, *Certain Asset Retirement Obligations*, which will be effective for the year ending December 31, 2019;
- Statement No. 84, *Pension Issues-an amendment of GASB Statement No. 67, No. 68, and No. 73*, which will be effective for the year ending December 31, 2018;
- Statement No. 85, *Omnibus*, which will be effective for the year ending December 31, 2018;
- Statement No. 86, *Certain Debt Extinguishment Issues*, which will be effective for the year ending December 31, 2018; and
- Statement No. 87, *Leases*, which will be effective for the year ending December 31, 2020.

The City is currently reviewing these statements and plans on adoption, as required.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. LEGAL COMPLIANCE - BUDGETS

Budgets and Budgetary Accounting – The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- On October 1st, the Mayor submits a complete operating plan of proposed expenditures and estimated revenues for the City to the City Council for the fiscal year commencing the following January 1st.
- The City Council has the power to delete, reduce or add expenditure items to the budget except for debt service, other items required by law and an appropriation for a reserve for uncollected taxes, capital equipment and estimated deficit.
- The Mayor has a line item veto power which must be exercised within ten (10) days of City Council action. The Council then has five (5) days to override such vetoes.
- Reallocation of the budget among municipal service categories must be approved by the City Council.
- Appropriations generally expire at the end of the fiscal year except amounts administratively approved for reappropriation. These reappropriations are include in the assigned fund balance for encumbrances in the fund financial statements.
- Expenditures for each department may not legally exceed the total appropriations for that department. During the year, several supplemental appropriations were necessary.

B. DEFICIT FUND BALANCE

The City reported an unassigned deficit fund balance at December 31, 2017 in the General Fund in the amount of \$676,618. The deficit was created in relation to the excess of expenditures over revenues in the current year. The City is reviewing all current sources of revenue to determine what adjustments can be made going forward. Additionally, the city is reviewing all of its expenses to identify where adjustments are necessary. The 2018 budget included an approved property tax cap override which was primarily utilized to help offset increases in personnel costs as a result of new union contracts. The City is also reviewing potential new revenue sources through various user fees. Other than the Police Club union contract that expires on December 31, 2018, the City was able to agree on new long-term union contracts for all unions within the City. Due to this, the amount of retro payments to be made by the City going forward should be minimal. As indicated in the "Management's Discussion and Analysis" section, retro payments were one of the main causes of budget overruns in fiscal year 2017. The anticipation is that in 2018 the city should be able to keep its actual costs in line with its budgeted costs. This should help in eliminating the fund balance deficit and begin building up the unassigned fund balance.

The Library Fund reported deficit fund balance at December 31, 2017 in the amount of \$30,764. The deficit was created in relation to the excess of expenditures over revenues in the current year.

CITY OF NIAGARA FALLS, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 3 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS

A. DEPOSITS AND INVESTMENTS

The City's investment policies are governed by State statutes. In addition, the City has its own written investment policy. City monies must be deposited in FDIC-insured commercial banks or trust companies located within the State. The City Supervisor is authorized to use interest bearing demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. agencies, repurchase agreements and obligations of the State of New York and its localities.

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

The City's aggregate bank balances were fully collateralized at December 31, 2017.

Investment and Deposit Policy

The City follows an investment and deposit policy, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conformance with federal, state and other legal requirements; and provide sufficient liquidity of invested funds in order to meet obligations as they become due. Oversight of investment activity is the responsibility of the City Controller.

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. The City's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The City's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations. The City's investment and deposit policy authorizes the reporting entity to purchase the following types of investments:

- Interest bearing demand accounts.
- Certificates of deposit.
- Obligations of the United States Treasury and United States agencies.
- Obligations of New York State and its localities.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the City's investment and deposit policy, all deposits of the City including interest bearing demand accounts and certificates of deposit, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIC) shall be secured by a pledge of securities with an aggregate value equal to 102% of the aggregate amount of deposits. The City restricts the securities to the following eligible items:

- Obligations issued, fully insured or guaranteed as to the payment of principal and interest, by the United States Treasury and United States agencies.
- Obligations issued or fully insured or guaranteed by New York State and its localities.

B. ACCOUNTS RECEIVABLE

Significant revenues accrued by the City at December 31, 2017 include the following:

1. Accounts Receivables:

General Fund:

Tourism – 4 th quarter occupancy tax	\$ 532,116
Grants	11,273
PILOTs	147,090
Franchise fees	149,173
Gross utilities taxes	184,447
Other miscellaneous receivables	<u>1,057,466</u>
	2,081,565

**CITY OF NIAGARA FALLS, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

<u>Community Development Fund:</u>	
Miscellaneous	38,475
<u>Train Station Fund:</u>	
Miscellaneous	<u>66,373</u>
Total accounts receivable	<u>\$2,186,413</u>

2. Due from Other Governments - represents amounts due from other governmental entities at December 31, 2017:

<u>General Fund:</u>	
Niagara County – sales tax	\$ 883,097
Niagara County – miscellaneous	29,851
Niagara Falls Water Board	6,485
Niagara Falls Board of Education – school tax fees	77,422
Other miscellaneous receivables	<u>350</u>
Total due from other governments	<u>\$ 997,205</u>

3. State and Federal Receivables - represents amounts due primarily from New York State and the federal government at December 31, 2017:

<u>General Fund:</u>	
NYS sales tax	\$ 403,286
NYS arterial maintenance	401,625
Medicare Part D	33,793
NYS Power Authority	54,816
Other miscellaneous receivables	<u>521,795</u>
	<u>1,415,315</u>

<u>Community Development Fund:</u>	
HUD receivables	<u>486,229</u>

<u>Capital Projects Fund:</u>	
DPW Capital Highway Improvement (CHIPS)	488,227
Inter-modal Train Station	234,379
Lockport Street Project	93,606
Buffalo Avenue	28,613
Other miscellaneous receivables	<u>149,729</u>
	<u>994,554</u>
Total state and federal receivables	<u>\$2,896,098</u>

C. NOTE RECEIVABLE

During 1987, Nitec Paper Corporation filed for bankruptcy with several years of outstanding taxes and water and sewer charges due to the City, the City of Niagara (City), and the Niagara Falls Board of Education. The City obtained the deed in lieu of foreclosure and sold the plant to Cascades Company for outstanding taxes and charges totaling \$5,400,000. Upon closing, \$100,000 was paid to the City with the remaining \$5,300,000 to be paid over 30 years as follows: Commencing November 1, 1988 through October 1, 1997, monthly payments of interest only at 3% and beginning on November 1, 1997 through October 1, 2017, monthly payments of interest and principal of \$29,394. Upon receipt of funds, the City retains 16.2%, and distributes 59.4% to the Water Board, 17.6% to the Niagara Falls Board of Education, and 6.8% to the County. At December 31, 2017, the City's outstanding balance was \$0.

D. LOANS RECEIVABLE

The loans receivable recorded in the General Fund represent amounts owed to the City relating to the CB – Emmanuel Realty, LLC City Lofts project. The outstanding loan balance as of December 31, 2017 was \$4,500,000.

CITY OF NIAGARA FALLS, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

The loans receivable recorded in the Community Development Fund represent amounts owed to the City relating to the U.S. Department of Housing and Urban Development Community Development loan program. Loans outstanding as of December 31, 2017, were as follows:

<u>Community Development Fund:</u>	
Loans receivable – Community Development Block Grant	\$ 1,110,043
Loan receivable – Miscellaneous	811,184
Loan receivable – HOME	<u>438,604</u>
	\$ <u>2,359,831</u>

E. TAXES RECEIVABLE

The taxes receivable, net, recorded in the General Fund represents amounts owed to the City relating to real property taxes were as follows at December 31, 2017:

<u>General Fund:</u>	
City taxes receivable current	\$ 2,609,251
City taxes receivable overdue	9,988,388
School taxes receivable	<u>7,313,811</u>
Total taxes receivable	19,911,450
Less: allowance for uncollectibles	<u>3,572,842</u>
Total taxes receivable, net	\$ <u>16,338,608</u>

F. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended December 31, 2017, is as follows:

	<u>Balance</u> <u>01/01/17</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/17</u>
Capital assets, not being depreciated:				
Land	\$ 2,891,293	\$ -	\$ -	\$ 2,891,293
Land improvement - inexhaustible	1,334,807	-	-	1,334,807
Construction work in progress	44,772,122	5,240,961	7,998,589	42,014,494
Works of art/historical treasures	<u>17,378</u>	<u>-</u>	<u>-</u>	<u>17,378</u>
Totals capital assets, not being depreciated	<u>49,015,600</u>	<u>5,240,961</u>	<u>7,998,589</u>	<u>46,257,972</u>
Capital assets, being depreciated:				
Infrastructure	151,482,064	6,361,285	-	157,843,349
Land improvements - exhaustible	4,310,907	798,324	-	5,109,231
Buildings and building improvements	46,711,013	838,980	-	47,549,993
Furniture, office, and other equipment	9,382,096	48,137	2,140	9,428,093
Library/museum resources	9,072,896	-	-	9,072,896
Vehicles	<u>19,989,708</u>	<u>62,247</u>	<u>-</u>	<u>20,051,955</u>
Total capital assets, being depreciated	<u>240,948,684</u>	<u>8,108,973</u>	<u>2,140</u>	<u>249,055,517</u>
Less accumulated depreciation:				
Infrastructure	\$ 70,972,958	\$ 3,657,097	\$ -	\$ 74,630,055
Land improvements - exhaustible	1,953,384	180,924	-	2,134,308
Buildings and building improvements	21,244,503	836,954	-	22,081,457
Furniture, office, and other equipment	8,292,607	241,928	2,140	8,532,395
Library/museum resources	9,072,896	-	-	9,072,896
Vehicles	<u>13,808,460</u>	<u>1,304,178</u>	<u>-</u>	<u>15,112,638</u>
Total accumulated depreciation	<u>125,344,808</u>	<u>6,221,081</u>	<u>2,140</u>	<u>131,563,749</u>

**CITY OF NIAGARA FALLS, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

	Balance <u>01/01/17</u>	Increases	Decreases	Balance <u>12/31/17</u>
Total capital assets, being depreciated, net	<u>115,603,876</u>	<u>1,887,892</u>	<u>-</u>	<u>117,491,768</u>
Governmental activities capital assets, net	<u>\$ 164,619,476</u>	<u>\$ 7,128,853</u>	<u>\$ 7,998,589</u>	<u>\$ 163,749,740</u>

Depreciation expense was charged to functions as follows:

Governmental activities:		
General government		\$ 101,245
Public safety		721,651
Transportation		4,241,553
Culture and recreation		841,400
Home and community service		<u>315,232</u>
 Total		 <u>\$ 6,221,081</u>

G. PENSION OBLIGATIONS

New York State and Local Employees' Retirement System (ERS) and the New York State and Local Police and Fire Retirement System (PFRS) (the System)

PLAN DESCRIPTION

The City participates in the New York State and Local Employees' Retirement System (ERS) and the Local Police and Fire Retirement System (PFRS), which are collectively referred to as New York State and Local Retirement System (the System). This is a cost-sharing multiple-employer defined benefit retirement system. The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in fiduciary net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. System benefits are established under the provisions of the New York State Retirement and Social Security Law (NYSRSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The City also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. That report, including information with regard to benefit's provided, may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

FUNDING POLICY

The System is noncontributory, except for employees who joined the ERS after July 27, 1976 who contribute three percent (3%) of their salary for the first ten years of membership, and employees who joined on or after January 10, 2010 (ERS) or January 9, 2010 (PFRS), who generally contribute three percent (3%) to three and one half percent (3.5%) of their salary for their entire length of service. In addition, employee contribution rates under ERS Tier VI vary based on a sliding salary scale. The Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the System's fiscal year ending March 31st.

CITY OF NIAGARA FALLS, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

At December 31, 2017, the City reported the following liability for its proportionate share of the net pension liability to the System. The net pension liability was measured as of March 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2016. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. This information was provided by the ERS and PFRS System in reports provided to the City.

	<u>ERS</u>	<u>PFRS</u>
Measurement date	March 31, 2017	March 31, 2017
Net pension liability	\$ 4,126,895	\$ 14,660,064
City's portion of the Plan's total net pension liability	.0439208%	.7073095%
Change in proportion since the prior measurement date	(.0003824)	(.0089646)

For the year ended December 31, 2017, the City recognized pension expense of \$11,074,883. At December 31, 2017 the City's reported deferred outflows of resources and deferred inflows of resources related to pensions arose from the following sources:

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>ERS</u>	<u>PFRS</u>	<u>ERS</u>	<u>PFRS</u>
Differences between expected and actual experience	\$ 103,416	\$ 1,923,148	\$ 626,692	\$ 2,532,934
Changes of assumptions	1,409,899	7,222,397	-	-
Net difference between projected and actual earnings on pension plan investments	824,308	2,189,459	-	-
Changes in proportion and differences between the City's contributions and proportionate share of contributions	181,053	-	56,371	922,571
City's contributions subsequent to the measurement date	<u>1,701,170</u>	<u>5,113,562</u>	<u>-</u>	<u>-</u>
Total	<u>\$4,219,846</u>	<u>\$16,448,566</u>	<u>\$ 683,063</u>	<u>\$3,455,505</u>

The City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>ERS</u>	<u>PFRS</u>
Year ended:		
2018	\$ 832,321	\$ 2,678,816
2019	832,321	2,678,816
2020	707,301	2,515,403
2021	(536,330)	(270,815)
2022	-	277,279
Thereafter	-	-

CITY OF NIAGARA FALLS, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

ACTUARIAL ASSUMPTIONS

The total pension liability as of the March 31, 2017 was determined by using an actuarial valuation as of April 1, 2016, with update procedures used to roll forward the total pension liability to March 31, 2017. The actuarial valuation used the following actuarial assumptions:

	<u>ERS</u>	<u>PFRS</u>
Inflation	2.5%	2.5%
Salary increases	3.8	4.5
Investment rate of return (net of investment expense, including inflation)	7.0	7.0
Cost of living adjustments	1.3	1.3
Decrement tables	April 1, 2010 - March 2015	April 1, 2010 - March 2015

Annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System’s experience with adjustments for mortality improvements based on the Society of Actuaries’ Scale MP-2014. The actuarial assumptions used in the April 1, 2016 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

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

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2017 for both ERS and PFRS are summarized below:

<u>Asset Class:</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	36.0%	4.6%
International equity	14.0	6.4
Private equity	10.0	7.8
Real estate	10.0	5.8
Absolute return strategies	2.0	4.0
Opportunistic portfolio	3.0	5.9
Real assets	3.0	5.5
Bond and mortgages	17.0	1.3
Cash	1.0	(0.3)
Inflation-indexed bonds	4.0	1.5
Total	100.0%	

DISCOUNT RATE

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

CITY OF NIAGARA FALLS, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

SENSITIVITY OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY TO THE DISCOUNT RATE ASSUMPTION

The following tables present the City's proportionate share of the net pension liability calculated using the discount rate of 7.0%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate:

	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
<u>ERS</u>			
City's proportionate share of the net pension liability (asset)	\$13,180,486	\$ 4,126,895	(\$3,527,898)
<u>PFRS</u>			
City's proportionate share of the net pension liability (asset)	\$41,560,433	\$14,660,064	(\$7,902,759)

PENSION PLAN FIDUCIARY NET POSITION

The components of the current-year net pension liability of the employers as of March 31, 2017 were as follows:

	ERS	PFRS	Total
	(Dollars in Thousands)		
Employers' total pension liability	\$ 177,400,586	\$ 31,670,483	\$ 209,071,069
Plan net position	<u>168,004,363</u>	<u>29,597,830</u>	<u>197,602,193</u>
Employers' net pension liability	<u>\$ 9,396,223</u>	<u>\$ 2,072,653</u>	<u>\$ 11,468,876</u>
Ratio of Plan net position to the employers' total pension liability	94.7%	93.5 %	94.5%

PREPAIDS TO THE PENSION PLAN

For ERS and PFRS, employer contributions are paid annually based on the System's fiscal year which ends on March 31st. Prepaid retirement contributions as of December 31, 2017 represent the employer contribution for the period of January 1, 2018 through March 31, 2018 of the retirement invoice for the Plan year April 1, 2017 through March 31, 2018. Prepaid retirement contributions as of December 31, 2017 amounted to \$567,057 and \$1,704,521 for ERS and PFRS, respectively.

H. OTHER POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB)

PLAN DESCRIPTION

The City of Niagara Falls, New York (the City) administers the City of Niagara Falls Retiree Medical, Dental and Life Insurance Plan (the Plan) as a single-employer defined benefit Other Post Employment Benefit plan (OPEB). The Plan provides for continuation of medical, dental and life insurance benefits for certain retirees and their spouses and can be amended by action of the City subject to applicable collective bargaining and employment agreements. The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

FUNDING POLICY

The obligations of the plan members, employers and other entities are established by action of the City pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members varies depending on the applicable agreement. The employer currently contributes enough money to the plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the plan are paid by the City.

ACCOUNTING POLICY

The accrual basis of accounting is used. The fair market value of assets, if any, is determined by the market value of assets, if any, paid by a willing buyer to a willing seller.

CITY OF NIAGARA FALLS, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

ANNUAL OPEB COST AND NET OPEB OBLIGATION

The City's annual OPEB cost (expense) is calculated based on the annual required (ARC) contribution of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and the City's net OPEB obligation to the Plan at December 31, 2017.

<u>Annual OPEB Cost and Net OPEB Obligation</u>	Fiscal Year Ending <u>12/31/17</u>
ARC	\$ 41,835,478
Interest on OPEB obligation	4,905,166
Adjustment to ARC	<u>(7,091,656)</u>
OPEB Expense	39,648,988
Contributions made	<u>(9,981,585)</u>
Increase net OPEB obligation	29,667,403
Net OPEB obligation- beginning of year	<u>122,629,156</u>
Net OPEB obligation- end of year	<u>\$ 152,296,559</u>
Percentage of expense contributed	25.2%

The City's annual OPEB cost, contribution, percentage of OPEB cost contributed, and net postemployment benefit obligation for the plan for the current fiscal year ended December 31, 2017 and the two preceding years are as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2017	\$ 39,648,988	\$ 9,981,585	25.2%	\$ 152,296,559
2016	38,173,561	9,186,358	24.1%	122,629,156
2015	34,930,208	8,703,673	84.9%	93,641,953

FUNDED STATUS AND FUNDING PROGRESS

As of December 31, 2017, the actuarial accrued liability for benefits was \$430,974,073, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was not available, and the ratio of the unfunded actuarial accrued liability to the covered payroll was not available. The total post employment health insurance cost to the City for 568 retirees was \$9,981,585 for the year ended December 31, 2017.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information immediately following the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

METHODS AND ASSUMPTIONS

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to the point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following assumptions were made:

The December 31, 2017, actuarial valuation, utilized the entry age actuarial cost method. The actuarial assumptions included a four percent (4%) investment rate of return (net of administrative expenses), which is the expected short-term investment rate of the City's own assets since the plan currently has no assets at the valuation date in order to establish a plan investment rate, and an annual healthcare cost trend of twelve percent (12%) initially, reduced by decrements to an ultimate rate of five percent (5%) after 6 years. Both rates included a

CITY OF NIAGARA FALLS, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

three percent (3%) inflation assumption. The Unfunded Actuarial Accrued Liability (UAAL) is being amortized as a level percentage of projected payrolls on an open basis. The amortization period cannot exceed thirty years.

I. LONG-TERM LIABILITIES

In the government-wide financial statements, long-term debt and other long-term obligations are reported as noncurrent liabilities in the statement of net position.

In the fund financial statements, governmental funds recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Further, the unmatured principal of general long-term debt does not require current appropriations and expenditure of governmental fund financial resources.

The City's outstanding long-term liabilities include serial bonds, installment purchase debt, premium obligation on bond, amortization of obligation due to retirement system, compensated absences, workers' compensation, other postemployment benefits, and aggregate net pension liability.

A summary of changes in the City's long-term liabilities for the year ended December 31, 2017 are presented as follows:

	Balance 01/01/17	Additions	Reductions	Balance 12/31/17	Due within One year
Serial bonds	\$ 55,077,593	\$ 8,093,305	\$ 4,037,730	\$ 59,133,168	\$ 4,169,863
Installment purchase debt	590,977	-	139,539	451,438	140,927
Bond premium	2,190,538	-	115,292	2,075,246	115,292
Due to retirement system	4,669,583	-	629,419	4,040,164	650,571
Compensated absences*	12,976,084	2,043,313	-	15,019,397	-
Workers' compensation	10,469,505	3,764,067	2,843,462	11,390,110	-
Other postemployment liability	122,629,156	29,667,403	-	152,296,559	-
Net pension liability*	28,318,132	-	9,531,173	18,786,959	-
Total long-term liabilities	\$ 236,921,568	\$ 43,568,088	\$ 17,296,615	\$ 263,193,041	\$ 5,076,653

*Additions or reductions to net pension liability and compensated absences are presented net.

Long-term debt maturity schedule:

<u>Purpose</u>	<u>Original Issue Date</u>	<u>Original Borrowing</u>	<u>Interest Rates to Maturity</u>	<u>Final Maturity</u>	<u>Outstanding Balance 12/31/17</u>
<u>General obligation bonds:</u>					
Various – general fund / Sewer lines	1994	\$ 10,670,000	5.3-7.5%	2024	\$ 414,863
Various – general fund	2009	8,190,000	3.0-5.5%	2024	4,180,000
Various – general fund	2011	7,437,000	3.0-4.0%	2026	4,775,000
2014 Refunding – general fund	2014	7,355,000	0.5-3.0%	2024	4,130,000
2016 Refunding Bonds	2016	39,490,000	1.75-5.0%	2037	37,395,000
Various – general fund	2017	8,093,305	3.0-3.625%	2042	8,093,305
2014 Refunding – parking ramp	2014	565,000	0.5-3.0%	2024	145,000
Total general obligation bonds					<u>59,133,168</u>
<u>Installment purchase debt:</u>					
NYPA Loan	2010	1,390,120	0.53%	2021	<u>451,438</u>
Total governmental activities					\$ 59,584,606

Summary schedule of maturing debt - The following is a summary of maturing debt service requirements for the City's serial bonds and installment purchase debt:

**CITY OF NIAGARA FALLS, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

<u>Fiscal Year</u>	<u>Serial Bonds</u>		<u>Installment Purchase</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 4,169,863	\$ 2,003,027	\$ 140,927	\$ 4,102
2019	3,813,305	1,896,173	142,428	2,601
2020	4,110,000	1,771,049	143,945	1,084
2021	3,650,000	1,658,495	24,139	32
2022	3,785,000	1,520,820	-	-
2023-2027	15,830,000	5,691,033	-	-
2028-2032	11,110,000	3,013,188	-	-
2033-2037	11,660,000	1,186,269	-	-
2038-2042	<u>1,005,000</u>	<u>134,850</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 59,133,168</u>	<u>\$ 18,874,904</u>	<u>\$ 451,438</u>	<u>\$ 7,819</u>

DEFEASANCE OF DEBT

In prior years, the City defeased certain general obligations and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At December 31, 2017, a total amount of \$1,595,227 of bonds outstanding are considered defeased.

J. NET POSITION AND FUND BALANCE

NET POSITION

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

Net investment in capital assets – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and debt used to fund capital asset purchases reduce the balance in this category. The following presents a reconciliation of capital assets (net of accumulated depreciation), to net investment in capital assets:

	<u>Governmental Activities</u>
Capital assets, net of accumulated depreciation	\$ 163,749,740
Bonds payable used for capital assets	(61,208,414)
Installment purchase debt payable	<u>(451,438)</u>
Net investment in capital assets	<u>\$ 102,089,888</u>

Restricted net position – This category presents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – This category represents net position of the City not restricted for any project or other purpose.

FUND BALANCE

In the fund financial statements there are five classifications of fund balance:

Nonspendable – represents amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balances maintained by the City at December 31, 2017 include prepaid items related to payments to the retirement system.

Restricted – represents amounts with constraints placed on the use of resources and are either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

CITY OF NIAGARA FALLS, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

- *Restricted for capital projects* – represents funds to be used for construction, reconstruction and or acquisition of capital improvements and equipment.
- *Restricted for debt service* – represents unspent debt proceed funds to be used towards future debt service requirements.
- *Restricted for community development* – represents funds to be used for any future community development projects.
- *Restricted for risk retention* – represents funds to be used for any future risk financing activities.
- *Restricted for casino revenues* – represents revenues allocated from New York State. These funds are restricted for various purposes as determined by law
- *Restricted for Tourism and Trolley Services* – represents funds set aside to be used for the following these programs:

Committed – represents amounts that are subject to a purpose constraint imposed by a formal action of the City's highest level of decision-making authority. As of December 31, 2017, the City had no committed fund balance.

Assigned – represents amounts that are constrained by the City's intent to be used for the specified purposes noted below, but are neither restricted nor committed.

Unassigned – represents all amounts not included in other spendable classifications. The General Fund is the only fund that would report a positive amount in unassigned fund balance. Residual deficit amounts of governmental funds would also be reported as in this category.

DETAIL OF FUND BALANCES

As of December 31, 2017, the governmental fund's fund balances were classified as follows:

	<u>General</u>	<u>Community Development</u>	<u>Capital Projects</u>	<u>Miscellaneous Special Revenue</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Nonspendable:</u>							
Prepaid items	\$ 2,271,578	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,271,578
<u>Restricted:</u>							
Risk retention	1,081,143	-	-	-	-	-	1,081,143
Casino	-	-	-	12,417,506	-	-	12,417,506
Debt service	-	-	-	-	441,204	-	441,204
Community development	-	556,959	-	-	-	-	556,959
Trolley	607,268	-	-	-	-	-	607,268
Tourism	276,861	-	-	-	-	-	276,861
<u>Assigned:</u>							
Capital projects	-	-	12,250,025	-	-	-	12,250,025
<u>Unassigned:</u>							
Library	-	-	-	-	-	(30,764)	(30,764)
General fund	(676,618)	-	-	-	-	-	(676,618)
Total	\$ 3,560,232	\$ 556,959	\$12,250,025	\$ 12,417,506	\$ 441,204	\$ (30,764)	\$ 29,195,162

**CITY OF NIAGARA FALLS, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

K. INTERFUND ACTIVITIES

Interfund receivables, payables and transfers as of and for the year ended December 31, 2017, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Interfund Revenues</u>	<u>Interfund Expenditures</u>
General Fund	\$ 1,198,505	\$ 1,652,642	\$ 14,301,960	\$ 9,104,094
Self Insurance Fund	-	-	300,000	-
Community Development Fund	-	1,075,108	300,899	-
Misc. Special Revenue Fund	-	-	-	13,216,674
Parking Ramp Fund	-	10,642	-	1,693,040
Golf Course Fund	-	1,546	283,486	-
Train Station Fund	-	27,721	41,521	-
Public Library Fund	-	41,025	1,905,612	-
Capital Projects Fund	-	-	2,147,294	215,064
Debt Service Fund	-	-	6,098,100	1,150,000
Internal Service Fund	-	139,932	-	-
Agency Fund	<u>1,750,111</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,948,616</u>	<u>\$ 2,948,616</u>	<u>\$ 25,378,872</u>	<u>\$ 25,378,872</u>

Interfund payables to the Agency Fund are for payroll expenditures. To improve cash management, all City accounts are pooled into a consolidated bank account. The interfund receivables and payables arise due to a reclass of negative pooled cash and are short term in nature and are typically repaid in less than one year.

Transfers among funds are provided for as part of the annual budget process. They facilitate annual contributions from the operating budget to other funds. They also include transfers to close out capital projects for excess cash remaining after the termination of the project.

NOTE 4 – COMMITMENTS AND CONTINGENCIES

A. LANDFILL CLOSURE COSTS

The City has been identified by the United States Environmental Protection Agency (EPA) as a responsible party which can be held liable for a portion of the long-term maintenance and operation of a landfill site in Niagara County.

The City's portion for the long-term maintenance and operation of the landfill has been estimated to be approximately \$630,000. All parties designated as potentially responsible parties by the EPA participated in a Pilot Allocation Program. As a result of the Pilot Allocation Program, the City is required to make annual payments of \$28,000 for the long-term operation and maintenance of the landfill through 2024. Since 2004, the Niagara County Refuse Trust's administration has not requested payment from the City under this program. The liability recorded as Due to Other Governments at December 31, 2017 was \$398,899.

B. USA NIAGARA DEVELOPMENT CORPORATION MEMORANDUM OF UNDERSTANDING

In 2014, the City entered into a Memorandum of Understanding with USA Niagara Development Corporation ("USAN") for the City to pay USAN for the operating costs related to the Conference Center on Old Falls Street. USAN delegated Global Spectrum, LP to maintain, manage, and coordinate all activities at the Conference Center on Old Falls Street. The City agreed to pay from its annual share of casino revenues an amount not to exceed \$1,500,000 per year for the years 2014-2018. This is subject to the City reviewing the operating deficits and capital investments in the operating and capital investment budgets. The annual amount is contingent on the City receiving its annual share of the casino revenues.

CITY OF NIAGARA FALLS, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

C. CB – EMMANUEL REALTY, LLC CITY LOFTS PROJECT

During 2017, the City was the recipient of a \$5 million Restore NY Communities grant from New York State Empire State Development. The grant monies were used by the City to loan funds to CB – Emmanuel Realty, LLC, an unrelated third-party, to be used in construction of the Niagara City Lofts housing project. Per the terms of the loan agreement, repayment of the \$5 million principal balance plus one percent interest annually for a term of 30 years, is due upon completion of the project. However, this is contingent on the annual net cash flows of the project. If the annual net cash flow of the project is not sufficient to make payment in any year, the accrued interest shall be deferred and payable with the final payment.

D. ASSESSMENTS

The City is a defendant in various litigation under Article 7 of the Real Property Tax Law of the State of New York to review tax assessments. While the City vigorously defends assessments, the likelihood of success is on a case by case basis, and is dependent upon various factors including market values and appraised amounts. Management believes that the level of potential losses on these cases, if any, would be immaterial and no provisions have been made within the financial statements.

E. OTHER

The City is also involved in litigation arising in the ordinary course of its operations. The City believes that its ultimate liability, if any, in connection with these matters will not have a material effect on the City's financial condition or results of operations.

NOTE 5 – RISK FINANCING

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has determined that it was not economically justifiable to carry insurance for risks or loss related to torts and other general liability claims except for amounts in excess of \$1,000,000. The City's insurance provides coverage of up to \$5,000,000 per occurrence and \$15,000,000 in the aggregate. The City is self-insured for unemployment insurance and certain employee health plans. Amounts paid for unemployment and general liability claims were not material to the City's financial statements. Claims settlements over the past four years have not exceeded the available insurance coverage. The City reports all of its risk management activities in its General Fund. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

The City's Corporation Counsel assesses liability for unpaid claims on a case-by-case basis. Resolution of outstanding unpaid claims is not expected to be material to the financial statements.

Total expenditures for claims and judgments recorded in the City's governmental funds for the year ended December 31, 2017 was \$1,234,817.

At December 31, 2017, the City has no liabilities relating to claims and judgments.

The workers' compensation plan maintains excess insurance, which insures against catastrophic claim losses for amounts over \$500,000, per occurrence, up to the limitations provided under the contract. The plan establishes reserve liabilities based on the estimated cost of individual claims incurred. Those estimates are determined based on many factors, one of the most significant being past experience. Since the reserve liability is an estimate it may not reflect the plan's ultimate liability.

The City's estimated claims since December 31, 2016 for the workers' compensation program are noted below.

	<u>Workers'</u> <u>Compensation</u>
Estimated claims December 31, 2016	\$ 10,469,505
Claims incurred and adjustments during 2016	3,764,067
Payments made during 2016	<u>(2,843,462)</u>
Estimated claims December 31, 2017	<u>\$ 11,390,110</u>

CITY OF NIAGARA FALLS, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

The City provides hospitalization, medical and dental through various insurance programs to its employees. The claim liability is included in agency liabilities. During the current year the claims paid exceeded the liabilities recorded in the Agency fund. The City has addressed this situation by increasing premiums and additional employee contributions. These are paid as the claims are incurred by the employees and are based on invoices received from a third-party administrator. The City maintains stop loss coverage for claims in excess of \$250,000 per occurrence.

NOTE 6 – TAX ABATEMENTS

The City has multiple real property tax abatement agreements entered into by the Niagara County Industrial Development Agency (NCIDA) under Article 18-A of the real property tax law. These agreements provide for abatement of real property taxes in exchange for a payment in lieu of taxes (PILOT) and are under one of the following two programs:

Industrial Real Property Tax Abatement

To increase economic development and job growth, the NCIDA has PILOT programs for commercial and industrial projects. Projects include a PILOT with real property tax abatement of 10 years for Commercial projects and 15 years for Industrial projects. The total amount of taxes abated under this program was \$3,572,020 for the year ended December 31, 2017.

Opportunity Zones Program

To increase investment within the distressed downtown areas of Niagara County, the Opportunity Zones program provides incentives for small retail related companies and commercial businesses to expand or relocate to Niagara County with a 5 year PILOT agreement. The City did not have any tax abatements under this program for the current year.

NOTE 7 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 18, 2018 which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF NIAGARA FALLS, NEW YORK
SCHEDULE OF FUNDING PROGRESS FOR RETIREE HEALTH PLAN
FOR THE YEAR ENDED DECEMBER 31, 2017**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
01/01/17	\$ -	\$ 430,974,073	\$ 430,974,073	0%	Unavailable	Unavailable
01/01/16	-	407,771,559	407,771,559	0%	\$ 40,562,609	1005.3%
01/01/15	-	366,304,988	366,304,988	0%	38,456,806	952.5%

Schedule of Employer Contributions

<u>Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Employer Contributions</u>	<u>Percentage Contributed</u>
December 31, 2017	\$ 41,835,478	\$ 9,981,585	23.86%
December 31, 2016	39,843,206	9,186,358	23.06%
December 31, 2015	36,132,231	8,703,673	24.09%

**CITY OF NIAGARA FALLS, NEW YORK
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
EMPLOYEES' AND POLICE AND FIRE RETIREMENT SYSTEMS
LAST THREE FISCAL YEARS ***

EMPLOYEES' RETIREMENT SYSTEM

	Year Ended December 31,		
	2015	2016	2017
Measurement date	March 31, 2015	March 31, 2016	March 31, 2017
City's proportion of the net pension liability	0.0453898%	0.0443032%	0.0439208%
City's proportionate share of the net pension liability	\$ <u>1,533,380</u>	\$ <u>7,110,780</u>	\$ <u>4,126,895</u>
City's covered-employee payroll	\$ 14,420,796	\$ 12,172,000	\$ 11,848,000
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	10.6%	58.4%	34.8%
Plan fiduciary net position as a percentage of the total pension liability	97.9%	90.7%	94.7%

POLICE AND FIRE RETIREMENT SYSTEM

	Year Ended December 31,		
	2015	2016	2017
Measurement date	March 31, 2015	March 31, 2016	March 31, 2017
City's proportion of the net pension liability	0.7631545%	0.7162741%	0.7073095%
City's proportionate share of the net pension liability	\$ <u>2,100,656</u>	\$ <u>21,207,352</u>	\$ <u>14,660,064</u>
City's covered-employee payroll	\$ 28,072,144	\$ 28,390,000	\$ 22,813,000
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	7.5%	74.7%	64.3%
Plan fiduciary net position as a percentage of the total pension liability	98.5%	90.2%	93.5%

*Pension Schedules in the Required Supplemental Information are intended to show information for ten years, additional years' information will be displayed as it becomes available.

**CITY OF NIAGARA FALLS, NEW YORK
SCHEDULE OF THE CITY'S PENSION CONTRIBUTIONS
LAST THREE FISCAL YEARS *
FOR THE YEAR ENDED DECEMBER 31,**

EMPLOYEES' RETIREMENT SYSTEM

	<u>Year Ended December 31,</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required contribution	\$ 2,202,000	\$ 1,882,000	\$ 2,268,227
Contributions in relation to the contractually required contribution	<u>2,202,000</u>	<u>1,882,000</u>	<u>2,268,227</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 11,848,000	\$ 12,172,000	\$ 14,420,796
Contributions as a percentage of covered-employee payroll	18.6%	15.5%	15.7%

POLICE AND FIRE RETIREMENT SYSTEM

	<u>Year Ended December 31,</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required contribution	\$ 5,909,000	\$ 5,960,000	\$ 6,818,083
Contributions in relation to the contractually required contribution	<u>5,909,000</u>	<u>5,960,000</u>	<u>6,818,083</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 22,813,000	\$ 28,390,000	\$ 28,072,144
Contributions as a percentage of covered-employee payroll	25.9%	21.0%	24.3%

*Pension Schedules in the Required Supplemental Information are intended to show information for ten years, additional years' information will be displayed as it becomes available.

**CITY OF NIAGARA FALLS, NEW YORK
 BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance With Final Budget</u>
REVENUES				
Real property taxes	\$ 28,541,009	\$ 28,541,009	\$ 28,836,596	\$ 295,587
Real property tax items	4,597,172	4,597,172	4,505,485	(91,687)
Non-property tax items	18,300,000	18,300,000	18,811,284	511,284
Departmental income	486,885	486,885	504,945	18,060
Intergovernmental charges	832,317	832,317	812,546	(19,771)
Use of money and property	602,584	602,584	582,786	(19,798)
Licenses and permits	839,960	839,960	730,659	(109,301)
Fines and forfeitures	632,000	632,000	665,208	33,208
Sale of property and compensation for loss	28,398	28,398	68,267	39,869
Miscellaneous local sources	157,500	158,000	307,760	149,760
Interfund revenues	370,000	370,000	190,695	(179,305)
State sources	19,085,723	19,085,723	18,980,281	(105,442)
Federal sources			-	-
Total revenues	<u>74,473,548</u>	<u>74,474,048</u>	<u>74,996,512</u>	<u>522,464</u>
EXPENDITURES				
Current:				
General government	10,738,300	10,725,169	10,165,956	559,213
Public safety	38,476,563	39,109,189	41,650,558	(2,541,369)
Transportation	4,433,647	4,409,422	4,094,286	315,136
Economic assistance and opportunity	511,446	511,446	57,676	453,770
Culture and recreation	2,662,626	2,652,413	2,510,715	141,698
Home and community services	5,802,462	5,834,658	6,593,229	(758,571)
Employee benefits	18,779,512	18,513,044	18,336,103	176,941
Total expenditures	<u>81,404,556</u>	<u>81,755,341</u>	<u>83,408,523</u>	<u>(1,653,182)</u>
Excess (deficit) of revenues over expenditures	(6,931,008)	(7,281,293)	(8,412,011)	(1,130,718)
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	13,408,348	13,746,840	14,301,960	555,120
Interfund transfers out	<u>(9,001,473)</u>	<u>(9,010,085)</u>	<u>(8,785,317)</u>	<u>224,768</u>
Total other financing sources (uses)	<u>4,406,875</u>	<u>4,736,755</u>	<u>5,516,643</u>	<u>779,888</u>
Net change in fund balance **	(2,524,133)	(2,544,538)	(2,895,368)	(350,830)
Fund balance - beginning	<u>7,296,482</u>	<u>7,296,482</u>	<u>7,296,482</u>	<u>-</u>
Fund balance - ending	<u>\$ 4,772,349</u>	<u>\$ 4,751,944</u>	<u>\$ 4,401,114</u>	<u>\$ (350,830)</u>

** The net change in fund balance is included in the budget as an appropriation (i.e spenddown) of fund balance and re-appropriation of prior year encumbrances.

NOTE 1 - BUDGETARY INFORMATION

BUDGETARY BASIS OF ACCOUNTING

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. The budgetary schedule for the general fund does not include the risk retention fund, tourism fund or grant fund which do not have legally adopted budgets. The capital projects fund is appropriated on a project-length basis. Other special revenue funds do not have appropriated budgets since other means control the use of these resources (e.g., grant awards and endowment requirements) and sometimes span a period of more than one fiscal year.

Capital Projects Fund appropriations are not included in the City's annual budget. Instead appropriations are approved through a City Council resolution at the project's inception and lapse upon termination of the project.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

SUPPLEMENTARY INFORMATION

CITY OF NIAGARA FALLS, NEW YORK
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	<u>Train Station</u>	<u>Golf Course</u>	<u>Public Library</u>	<u>Parking Ramp</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ -	\$ 46,769	\$ 28,421	\$ 26,518	\$ 101,708
Accounts receivable	66,373	-	-	-	66,373
Total assets	<u>\$ 66,373</u>	<u>\$ 46,769</u>	<u>\$ 28,421</u>	<u>\$ 26,518</u>	<u>\$ 168,081</u>
LIABILITIES					
Accounts payable	\$ 38,652	\$ 37,679	\$ 18,160	\$ 14,776	\$ 109,267
Accrued liabilities	-	7,544	-	1,100	8,644
Due to other funds	27,721	1,546	41,025	10,642	80,934
Total liabilities	<u>66,373</u>	<u>46,769</u>	<u>59,185</u>	<u>26,518</u>	<u>198,845</u>
FUND BALANCES					
Unassigned (deficit)	-	-	(30,764)	-	(30,764)
Total fund balances	<u>-</u>	<u>-</u>	<u>(30,764)</u>	<u>-</u>	<u>(30,764)</u>
Total liabilities and fund balances	<u>\$ 66,373</u>	<u>\$ 46,769</u>	<u>\$ 28,421</u>	<u>\$ 26,518</u>	<u>168,081</u>

**CITY OF NIAGARA FALLS, NEW YORK
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Train Station</u>	<u>Golf Course</u>	<u>Public Library</u>	<u>Parking Ramp</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES					
Departmental income	\$ 248,866	\$ 615,110	\$ -	\$ 2,303,205	\$ 3,167,181
Use of money and property	-	12,468	-	-	12,468
Total revenues	<u>248,866</u>	<u>627,578</u>	<u>-</u>	<u>2,303,205</u>	<u>3,179,649</u>
EXPENDITURES					
Current:					
General government	258,693	-	-	553,392	812,085
Culture and recreation	-	653,770	1,215,020	-	1,868,790
Employee benefits	31,694	257,294	724,056	56,773	1,069,817
Total expenditures	<u>290,387</u>	<u>911,064</u>	<u>1,939,076</u>	<u>610,165</u>	<u>3,750,692</u>
Excess (deficit) of revenues over expenditures	<u>(41,521)</u>	<u>(283,486)</u>	<u>(1,939,076)</u>	<u>1,693,040</u>	<u>(571,043)</u>
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	41,521	283,486	1,905,612	-	2,230,619
Interfund transfers out	-	-	-	(1,693,040)	(1,693,040)
Total other financing sources (uses)	<u>41,521</u>	<u>283,486</u>	<u>1,905,612</u>	<u>(1,693,040)</u>	<u>537,579</u>
Net change in fund balances	-	-	(33,464)	-	(33,464)
Fund balances - beginning	-	-	2,700	-	2,700
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (30,764)</u>	<u>\$ -</u>	<u>\$ (30,764)</u>

CITY OF NIAGARA FALLS, NEW YORK
COMBINING STATEMENT OF NET POSITION - PROPRIETARY FUNDS - INTERNAL SERVICE FUNDS
DECEMBER 31, 2017

	<u>Postage</u>	<u>Stationary</u>	<u>Telephone</u>	<u>Central Garage</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 2,927	\$ -	\$ 3,010	\$ -	\$ 5,937
Inventory	2,769	487	-	705,147	708,403
Total assets	<u>5,696</u>	<u>487</u>	<u>3,010</u>	<u>705,147</u>	<u>714,340</u>
LIABILITIES					
Accounts payable	-	-	-	106,127	106,127
Due to other funds	-	1,212	-	138,720	139,932
Total liabilities	<u>-</u>	<u>1,212</u>	<u>-</u>	<u>244,847</u>	<u>246,059</u>
NET POSITION (DEFICIT)					
Unrestricted (deficit)	<u>5,696</u>	<u>(725)</u>	<u>3,010</u>	<u>460,300</u>	<u>468,281</u>
Total net position (deficit)	<u>\$ 5,696</u>	<u>\$ (725)</u>	<u>\$ 3,010</u>	<u>\$ 460,300</u>	<u>468,281</u>

CITY OF NIAGARA FALLS, NEW YORK
COMBINING STATEMENT OF ACTIVITIES - PROPRIETARY FUNDS - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Postage</u>	<u>Stationary</u>	<u>Telephone</u>	<u>Central Garage</u>	<u>Total</u>
REVENUES					
Charges for services	\$ 49,398	\$ 1,836	\$ 81,178	\$ 585,196	\$ 717,608
Total revenues	<u>49,398</u>	<u>1,836</u>	<u>81,178</u>	<u>585,196</u>	<u>717,608</u>
EXPENDITURES					
Contractual expenses	45,098	2,733	101,114	768,324	917,269
Total expenses	<u>45,098</u>	<u>2,733</u>	<u>101,114</u>	<u>768,324</u>	<u>917,269</u>
Operating income (loss)	<u>4,300</u>	<u>(897)</u>	<u>(19,936)</u>	<u>(183,128)</u>	<u>(199,661)</u>
Change in net position	4,300	(897)	(19,936)	(183,128)	(199,661)
Net position - beginning	<u>1,396</u>	<u>172</u>	<u>22,946</u>	<u>643,428</u>	<u>667,942</u>
Net position (deficit) - ending	<u>\$ 5,696</u>	<u>\$ (725)</u>	<u>\$ 3,010</u>	<u>\$ 460,300</u>	<u>\$ 468,281</u>

CITY OF NIAGARA FALLS, NEW YORK
COMBINING STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Postage</u>	<u>Stationary</u>	<u>Telephone</u>	<u>Central Garage</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from providing services	\$ 49,398	\$ 1,836	\$ 81,178	\$ 585,196	\$ 717,608
Cash payments for contractual expenses	<u>(50,600)</u>	<u>(2,155)</u>	<u>(101,114)</u>	<u>(585,196)</u>	<u>(739,065)</u>
Net cash used by operating activities	<u>(1,202)</u>	<u>(319)</u>	<u>(19,936)</u>	<u>-</u>	<u>(21,457)</u>
Net decrease in cash and cash equivalents	(1,202)	(319)	(19,936)	-	(21,457)
Cash and cash equivalents - beginning	<u>4,129</u>	<u>319</u>	<u>22,946</u>	<u>-</u>	<u>27,394</u>
Cash and cash equivalents - ending	<u>\$ 2,927</u>	<u>\$ -</u>	<u>\$ 3,010</u>	<u>\$ -</u>	<u>\$ 5,937</u>
Reconciliation of operating income (loss) to net cash used by operating activities:					
Operating income (loss)	\$ 4,300	\$ (897)	\$ (19,936)	\$ (183,128)	\$ (199,661)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:					
Changes in assets and liabilities:					
Decrease (increase) in:					
Inventory	(1,202)	1,408	-	52,187	52,393
Increase (decrease) in:					
Accounts payable	(4,300)	(2,042)	-	37,328	30,986
Due to other funds	<u>-</u>	<u>1,212</u>	<u>-</u>	<u>93,613</u>	<u>94,825</u>
Net cash used by operating activities	<u>\$ (1,202)</u>	<u>\$ (319)</u>	<u>\$ (19,936)</u>	<u>\$ -</u>	<u>\$ (21,457)</u>

FEDERAL FINANCIAL ASSISTANCE

**CITY OF NIAGARA FALLS, NEW YORK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Federal Grantor/Pass Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Pass-Through to Subrecipients	Total Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>				
<i>Direct Programs:</i>				
<i>CDBG - Entitlement Grants Cluster</i>				
Community Development Block Grants/Entitlement Grants	14.218	N/A	\$ 886,795	\$ 2,532,416
<i>Total CDBG - Entitlement Grants Cluster</i>			886,795	2,532,416
Emergency Solutions Grant Program	14.231	N/A	211,845	230,078
Home Investment Partnerships Program	14.239	N/A	142,997	304,847
<i>Section 8 Project-Based Cluster</i>				
Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	14.856	N/A	-	53,458
<i>Total Section 8 Project-Based Cluster</i>			-	53,458
<i>Housing Voucher Cluster</i>				
Section 8 Housing Choice Vouchers	14.871	N/A	-	3,894,536
<i>Total Housing Voucher Cluster</i>			-	3,894,536
Total U.S. Department of Housing and Urban Development			1,241,637	7,015,335
<u>U.S. Department of Justice</u>				
<i>Passed through NYS Division of Criminal Justice Services</i>				
Legal Assistance for Victims	16.524	SV-1085-E02	-	66,750
Total U.S. Department of Justice			-	66,750
<u>U.S. Department of Transportation</u>				
<i>Passed through New York State Department of Transportation:</i>				
<i>Highway Planning and Construction Cluster</i>				
Highway Planning and Construction	20.205	D017307	-	371,264
Highway Planning and Construction	20.205	D024729	-	31,511
Highway Planning and Construction	20.205	D035642	-	77,483
Highway Planning and Construction	20.205	D035807	-	29,845
Highway Planning and Construction	20.205	D024732	-	1,024,797
Highway Planning and Construction	20.205	DO24782	-	152,917
Highway Planning and Construction	20.205	D035555	-	119,941
<i>Total Highway Planning and Construction Cluster</i>			-	1,807,758
Total U.S. Department of Transportation			-	1,807,758
Total Expenditures of Federal Awards			\$ 1,241,637	\$ 8,889,843

See notes to the Schedule of Expenditures of Federal Awards.

**CITY OF NIAGARA FALLS, NEW YORK
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Federal Awards (the Schedule) includes the federal grant activity of the City of Niagara Falls, New York (the City) under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

NOTE 2 – BASIS OF ACCOUNTING

Expenditures reported on the Schedule are reported using the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The amounts reported as federal expenditures were obtained from the City's financial reporting system, which is the source of the City's basic financial statements. Grant numbers are presented where available.

NOTE 3 – INDIRECT COST

The City has elected not to use the 10-percent de minimis indirect cost rate allowable under the Uniform Guidance.

INTERNAL CONTROL AND COMPLIANCE

**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**

INDEPENDENT AUDITOR'S REPORT

The Honorable Members of City Council
City of Niagara Falls, New York

We have audited, 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, the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Niagara Falls, New York (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 18, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Freed Maxick CPAs, P.C.

Buffalo, New York
June 18, 2018



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

INDEPENDENT AUDITOR'S REPORT

The Honorable Members of City Council
City of Niagara Falls, New York

Report on Compliance for Each Major Federal Program

We have audited the City of Niagara Falls, New York's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2017. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Freed Maxick CPAs, P.C.
Buffalo, New York
June 18, 2018

**CITY OF NIAGARA FALLS, NEW YORK
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED DECEMBER 31, 2017**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal control over major federal programs:

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

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes No

Identification of major federal programs:

CFDA Number(s)

14.218

Name of Federal Program or Cluster

Community Development Block Grants/
Entitlement Grants

Dollar threshold used to distinguish between Type A and type B program

\$ 750,000

Auditee qualified as low-risk auditee?

Yes No

**CITY OF NIAGARA FALLS, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017 (Continued)**

II. FINANCIAL STATEMENT FINDINGS

There were no findings related to the financial statement audit noted for the year ended December 31, 2017.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

2017-001 Pass-Through Entity Requirements

*CFDA No. 14.218 - Community Development Block Grants/Entitlement Grants
Direct Award for the Year Ended December 31, 2017
Federal Agency: U.S. Department of Housing and Urban Development*

Criteria: The City, as the pass-through entity, is required to provide subrecipients with certain information within the subrecipient agreements and continually monitor and assess the risk of their subrecipients in accordance with the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), Section 200.331.

Condition: Subaward agreements, selected for testing, did not contain all of the required information in accordance with the criteria noted above. In addition, the certain financial and performance reports that were supposed to be remitted to the City in accordance with the subaward agreement were not obtained and a risk assessment of the subrecipient was not consistently performed.

Cause: Controls related to the requirements as a pass-through entity and the proper monitoring of subrecipients, in accordance with the Uniform Guidance, have not been sufficiently established.

Effect: Noncompliance with the criteria noted above. Specifically, under Section 200.331(a), the subaward agreements omitted required information that was to be included by the pass-through entity. Also, under Sections 200.331(b) and (d), the City did not perform sufficient monitoring and risk assessment procedures as required. This noncompliance could result in a lack of internal controls over the City's activities and monitoring related to subrecipients and could impact the related federal funding.

Questioned costs: There were no questioned costs noted related to this finding.

Context: Overall inquiries of management related to the City's control structure over subrecipients, as well as, a review of a sample of subaward agreements. In addition, a sample of subrecipients were selected for testing and the related risk assessments, reporting, disbursements and other monitoring documents were requested to be reviewed, if available.

Recommendation: We recommend that the City ensure controls are established and structured to ensure compliance with the requirements of the Uniform Guidance related to their position as a pass-through entity. Additionally, training and continuing education related to the Uniform Guidance should be obtained by the City's personnel that are directly impacted by Federal awards.

Views of Responsible Officials and Planned Corrective Actions: *Community Development created a procedure for the identification of subrecipients for monitoring based on 200.331(b) in 2017, and completed an in-depth monitoring of a long-time subrecipient in 2017. This monitoring resulted in the de-funding of an organization that had received CDBG funds for decades.*

CD will complete several more monitoring's by the end of the 2017 program year, and several more in the first month of the 2018 program year.

The process of risk-assessment and monitoring will continue to be carried out each year. All future subrecipient agreements will be updated to include the subrecipient's unique entity identifier, and the appropriate Federal Award Identification Number (FAIN), per the Federal Funding Accountability and Transparency Act.

**CITY OF NIAGARA FALLS, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017 (Continued)**

2017-002 Policy Updates for Uniform Guidance

*CFDA No. 14.218 - Community Development Block Grants/Entitlement Grants
Direct Award for the Year Ended December 31, 2017
Federal Agency: U.S. Department of Housing and Urban Development*

Criteria: The City's policies must incorporate federal award activity within the process and procedures followed by the City in accordance with the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), Sections 200.112, 200.317-200.326. Under the Uniform Guidance, the procurement requirements were not required to be implemented until January 1, 2018 for federal award recipients, however, the City was required to elect this extension in writing to remain in compliance which did not occur.

Condition: The City's code of ethics, conflict of interest and procurement policies have not been properly updated to comply with the requirements in the Uniform Guidance.

Cause: The control environment related to the requirements of the Uniform Guidance has not be reviewed and incorporated into the City's control activities through the updating and documentation of the City's policies noted above.

Effect: The City was not in compliance with the requirements of the Uniform Guidance, Section 200.112, *Conflict of Interest* and Sections 200.317-200.326, *Procurement Standards*. This noncompliance could result in a lack of internal controls over the City's activities and monitoring related to these areas and could impact the related federal funding.

Questioned costs: There were no questioned costs noted related to this finding.

Context: This finding was identified during inquiries of management in regards to the control environment over the requirements of the Uniform Guidance and through the review of the related policies noted above.

Recommendation: We recommend that the City review their policies and establish/update such policies to ensure compliance with the Uniform Guidance.

Views of Responsible Officials and Planned Corrective Actions: *The City will review the policies indicated above and update as deemed necessary to be consistent with the Uniform Guidance. Additionally, the City will create a procedure in which an annual review of these policies are performed so that any necessary updates are completed.*

**CITY OF NIAGARA FALLS, NEW YORK
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

I. FINANCIAL STATEMENT AUDIT FINDINGS

There were no federal award findings or questioned costs noted for the year ended December 31, 2016.

II. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

There were no federal award findings or questioned costs noted for the year ended December 31, 2016.

**NEW YORK STATE DEPARTMENT OF TRANSPORTATION
FINANCIAL ASSISTANCE EXPENDED**



**REPORT ON COMPLIANCE FOR NEW YORK STATE
DEPARTMENT OF TRANSPORTATION ASSISTANCE EXPENDED
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH DRAFT PART 43 OF NYCRR**

INDEPENDENT AUDITOR'S REPORT

The Honorable Members of City Council
City of Niagara Falls, New York

Report On Compliance For Each Major State Transportation Assistance Program

We have audited the City of Niagara Falls, New York's (the City) compliance with the types of compliance requirements described in the preliminary Draft Part 43 of the New York State Codification of Rules and Regulations (NYCRR) that could have a direct and material effect on the major state transportation assistance program tested for the year ended December 31, 2017. The City's program tested is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for New York State transportation assistance expended.

Management's Responsibility

Management is responsible for compliance with requirements of laws, regulations, contracts and grants applicable to its major state transportation assistance program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major state transportation assistance programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the preliminary Draft Part 43 of NYCRR. Those standards and regulations require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state transportation assistance programs tested has occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

Opinion on Each Major State Transportation Assistance Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state transportation assistance programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major state transportation assistance program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state transportation assistance program and to test and report on the internal control over compliance in accordance with the preliminary Draft Part 43 of NYCRR, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the preliminary Draft Part 43 of NYCRR. Accordingly, this report is not suitable for any other purpose.

Freed Maxick CPAs, P.C.

Buffalo, New York
June 18, 2018

**CITY OF NIAGARA FALLS, NEW YORK
 SCHEDULE OF NEW YORK STATE DEPARTMENT OF TRANSPORTATION FINANCIAL
 ASSISTANCE EXPENDED
 FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>Grantor/Program Title</u>	<u>NYS DOT Contract/ Reference Number</u>	<u>NYS DOT Expenditures</u>
Consolidated Local Street and Highway Improvement Program (CHIPS)	001-01; 0001-02	\$ 1,238,750
PAVE-NY	---	45,503
Marchiselli Aid – highway Projects	D024729; D024732; D024782	<u>302,436</u>
Total New York State Department of Transportation Assistance Expenditures		<u>\$ 1,586,689</u>

See notes to the schedule of New York State Department of transportation financial assistance expended

**CITY OF NIAGARA FALLS, NEW YORK
NOTES TO THE SCHEDULE OF NEW YORK STATE DEPARTMENT OF
TRANSPORTATION ASSISTANCE EXPENDED
FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of New York State Department of Transportation Assistance Expended by the City of Niagara Falls, New York (the City), an entity as defined in Note 1 to the City's basic financial statements, presents the activity of all financial assistance programs provided by the New York State Department of Transportation.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying Schedule of New York State Department of Transportation Assistance Expended is presented using the modified accrual basis of accounting.

