

CITY OF NIAGARA FALLS, NEW YORK

**Financial Statements as of
December 31, 2016
Together with
Independent Auditor's Report**

CITY OF NIAGARA FALLS, NEW YORK

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SECTION A

BASIC FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

June 20, 2017

To the Honorable Members of City Council of
City of Niagara Falls, New York:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Niagara Falls, New York (the City), as of and for the year ended December 31, 2016, 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, which represents approximately 1%, 1% and 77%, 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 Niagara Falls Public 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

(Continued)

INDEPENDENT AUDITOR'S REPORT

(Continued)

Opinions

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2016, 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.

Correction of an Error

As described in Note 2 to the financial statements, the City corrected an error related to the anticipated reimbursement of grant related administrative costs to the General Fund which were recorded as a liability in the Community Development Fund. Our opinion is not modified with respect to this matter.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedules of funding progress, contributions-pension plans, and proportionate share of the net pension liability (asset) 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.

Report on Supplementary 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 combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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 is also not a required part of the basic financial statements. The schedule of state transportation assistance expended is presented for purposes of additional analysis as required by Draft Part 43 of the New York State Codes, Rules, and Regulations, and is not a required part of the basic financial statements.

(Continued)

INDEPENDENT AUDITOR'S REPORT

(Continued)

Report on Supplementary Information (Continued)

The combining non-major fund financial statements, schedule of expenditures of federal awards and the schedule of state 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 combining non-major fund financial statements, schedule of expenditures of federal awards and the schedule of state 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 20, 2017 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 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 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.

CITY OF NIAGARA FALLS, NEW YORK

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016 (UNAUDITED)

INTRODUCTION

It is a privilege to present the financial picture of The City of Niagara Falls, New York (the City). This discussion and analysis includes an overall review of the City's financial activities for the year ended December 31, 2016. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the City's financial position and results of activities.

FINANCIAL HIGHLIGHTS

- As of the date of the Auditor's report, the City had collected \$221,998,377 in Casino funds for the period of 2003 through December 31, 2016. 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 remainder of \$160,377,197 of discretionary funds were used for City capital equipment, economic development, infrastructure, neighborhood revitalization and health and public safety.
- 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 and a very small 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 2016.
- 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 and lasting through at least June 15, 2016, 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. In the 2015 Proposed Budget, the Mayor issued a tax levy for the first time since the Real Property Tax Law was enacted that was over the tax cap; however, the governing body would not adopt the local law to allow the excess nor would the Council decrease the tax levy. As a result, the 2015 Budget tax levy was adopted with a property tax levy that exceeded the allowable levy amount by \$280,485. The City has placed the excess amount in a reserve and will have to deduct the excess (including interest) from the 2016 property tax levy calculation. The City did exceed the allowable property tax cap in the 2016 Budget by \$699,999, however City Council did vote to override the cap. The 2016 Adopted Budget property tax levy was \$28,032,191.

FINANCIAL HIGHLIGHTS (Continued)

- 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 2015/2016 and 2016/2017 the City fully funded the ERS and Police & Fire retirement expense. The City prepays the expense on December 15 rather than the alternative date of February 1, to save additional interest expense.
- The City’s 2016 Constitutional Tax Limit was 78.57% of the percentage of tax limit exhausted with a \$6,105,960 constitutional tax margin remaining. In the past several years, the tax limit percentage has been decreasing indicating the City has had minimal increases in taxes.
- The City’s 2016 taxable assessed value is \$1,274,907,936 with an 84% equalization rate. The taxable full value is \$1,517,747,543.
- In 2016 the City’s Constitutional Debt Limit was 60.02% of the percentage of debt limit exhausted with a total of outstanding principal on existing debt at the end of the year of \$63,761,876 leaving a \$42,480,452 debt margin. Since 2011, the City has not borrowed any funds. The debt percentage has been decreasing as a result of using Casino funds as “Pay/Go” rather than borrowing. At the time of the 2016 audit, the City has issued and approved two bond resolutions totaling \$8,093,305 for reconstruction and improvements to the City’s Indoor Ice Pavilion, construction of various City owned buildings to comply with the Americans with Disabilities Act (ADA), and the purchase of various vehicles and equipment. The open bond resolutions are included in the total principal balance at December 31, 2016. Borrowing for this bond resolution is anticipated in 2017.
- In 2016, new development in the downtown area was the construction and completion of a new Double Tree by Hilton and Fairfield Inn. Construction continues on a new Courtyard by Marriot, Comfort Inn & Suites, and The Hyatt Place, which anticipate opening in 2017 or 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.
- Construction of a new facility for the Tulip Corp was performed in 2016. The over \$10,000,000 project retained an estimated 84 jobs in the City. Additionally, the Olin Corp on Buffalo Avenue undertook the construction of new facilities on their property representing an investment just shy of \$1,000,000. The City’s Urban Renewal Agency continued its progress on a \$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 test facility on 24th Street.
- Starting in 2013, the City partnered with USA Niagara and Empire State Development to develop the City’s Third Street downtown area. The commitment to Third Street was over \$1,000,000 to renovate buildings to assist in the start of new businesses and creating new market-rate apartments. A number of small locally-owned businesses opened along Third Street in downtown Niagara Falls in 2016 and that investment is starting to increase development in other downtown locations near Third Street.

FINANCIAL HIGHLIGHTS (Continued)

- The City's Parking Fund is not an Enterprise Fund. The 2016 City's General Fund's budget included a revenue transfer from the Parking Funds in the amount of \$551,316. The City Council approved the installation of parking meters in downtown Niagara Falls in 2016. Parking rates vary during peak and non-peak times with rates fluctuating between \$1.00 and \$3.00 per hour. Parking meter revenue for 2016 was \$554,356. The actual transfer from the Parking Funds to the General Fund was in the amount of \$1,280,720. The Parking Funds 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 2016 City Budget included transfers of \$290,498 from the General Fund and \$200,000 from the Tourism Fund, resulting in a total of \$490,498. The 2016 City's General Fund actual transfer of expense to the Golf Course Fund was \$204,586. An additional transfer of \$200,000 was made by the Tourism Fund, resulting in a total of \$404,288 in transfers. Golf Course revenues slightly decreased in 2016 when compared to 2015, however the expenses were also down.
- The homestead base increased, in large measure because of placing city-owned properties back onto the hands of private owners and the non-homestead base decreased as a result of numerous demolitions and grievances. The 2016 Budget included a 20% shift in the homestead/non-homestead base proportions to continue to equalize the tax rates from the City's two tier tax system.
- 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.

OVERVIEW OF THE FINANCIAL STATEMENTS

Using this Annual Report

This annual report consists of a series of financial statements and the notes to those statements. The financial statements are organized so that the reader can understand the City as a financial whole.

Two statements portray information about the City as an entire operating entity with a broad overview of finances similar to a private sector business. The focus of these statements is a long-term view. Fund financial statements provide the next level of detail. These statements provide a detailed look at the most significant governmental activities at the fund level. The fund statements show how services were financed in the short term as well as what remains for future spending. The remaining statement provides financial information about activities for which the City acts solely as an agent for the benefit of those outside the government.

Reporting on the City as a Whole (City-wide)

There are two statements that present an aggregate view of the City: the Statement of Net Position and the Statement of Activities. Both of these City-wide financial statements distinguish functions of the City defined as governmental activities. These are activities principally supported by property taxes, sales tax, capital grants and contributions, and other intergovernmental revenues such as state and federal grants, along with charges for services and sales. These statements also include the City's three component units, which are shown in a separate column and described in detail in the notes to the financial statements. Although legally separate, these component units are important because the City is financially accountable for them. N.F.C. Development Corporation and the Niagara Falls Public Library each issue separate, stand-alone financial statements. Bellevue Local Development Corporation does not issue separate financial statements.

Statement of Net Position - presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflow of resources using the accrual basis of accounting, with the difference reported as net position. The most important aspect of accrual accounting is that all of the year's revenues and expenses are reported regardless of when the related cash is received or paid. Increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

Statement of Activities - presents information showing how net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, there may be revenues and expenses reported in this statement for items that will result in cash flows in future fiscal periods.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Reporting on the City's Most Significant Funds (Fund Level)

Governmental Funds

The governmental funds financial statements provide detail at the fund level, which is in contrast to the previously described City-wide reporting. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. The City uses fund accounting in its financial records to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds are used to account for most of the same functions reported as governmental activities in the City-wide financial statements. However, the governmental funds financial statements focus on how money flows in and out of the funds and the balances remaining at the end of the fiscal year available for future spending. The funds are reported using the modified accrual basis of accounting that measures cash and all other financial assets that can be readily converted to cash. Therefore, these statements provide a detailed short-term view of City operations and the services it can provide.

There are relationship differences between the governmental funds and governmental activities reported in the Statement of Net Position and the Statement of Activities. These differences are the result of two distinct bases of accounting (accrual versus modified-accrual) and have been reconciled within the financial statements.

The City's financial statements provide detailed information about the funds. Under the GASB definition of major versus nonmajor funds, the City's major funds have been presented separately with the other funds grouped together as nonmajor and presented in total in one column.

Proprietary Funds

The City maintains one type of proprietary fund, which is an internal service fund. Internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its postage, stationary, telephone, and central garage services. Because these services benefit solely the governmental functions, they have been included within the governmental activities in the government-wide financial statements. The City's internal service funds are presented in the form of combining statements in the proprietary fund financial statements.

Fiduciary Funds

The City is an agent, or fiduciary, for assets that belong to others, such as performance deposits and payroll and other third party withholdings. 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. All of the City's fiduciary activities are reported in a separate Statement of Net Position – Fiduciary Funds. These activities have been excluded from the City's other financial statements because the assets cannot be used to finance City operations.

Notes to Financial Statements

The notes to the financial statements follow the City-wide and fund financial statements in the report. They complement the financial statements by describing pertinent details as of year-end and other changes that occurred during the fiscal year. The notes are essential to a full understanding of the financial information provided in the statements.

Required Supplementary Information

This information further explains and supports the financial statements and includes budgetary comparisons of the general fund and other major operating funds.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Statements of Net Position For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS:		
Current and other assets	\$ 81,461,326	\$ 86,350,563
Capital assets, net	<u>164,619,476</u>	<u>156,135,794</u>
Total assets	<u>246,080,802</u>	<u>242,486,357</u>
DEFERRED OUTFLOWS OF RESOURCES		
	<u>35,051,007</u>	<u>9,579,841</u>
LIABILITIES:		
Long-term liabilities	231,973,246	185,813,063
Other Liabilities	<u>34,562,396</u>	<u>24,884,207</u>
Total liabilities	<u>266,535,642</u>	<u>210,697,270</u>
DEFERRED INFLOWS OF RESOURCES		
	<u>4,784,148</u>	<u>361,231</u>
NET POSITION:		
Net investment in capital assets	108,950,906	96,653,013
Restricted	2,826,032	3,142,749
Unrestricted	<u>(101,964,919)</u>	<u>(58,788,065)</u>
Total net position	<u>\$ 9,812,019</u>	<u>\$ 41,007,697</u>

The largest portion of the City's total assets (67% at 2016 and 64% at 2015) represents its investment in capital assets (land, buildings, improvements, machinery and equipment). Liabilities consist primarily of long-term debt. The City uses these capital assets to provide services and, as such, these assets are not available for future use. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

Long-term obligations relating to the increase in the valuation of actuarially determined liabilities for retirement systems which the City participates in resulted in an increase in long term debt of approximately \$24.6 million. The City also 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 \$28.9 million. These large increases were offset by regular payments of debt obligations, with the total effect of the Long-term obligations resulting in an increase of approximately \$51.0 million.

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 future debt service. These funds can only be used for expenditures for their respective purpose.

Unrestricted net position may be used to fund City programs in the next fiscal year. However, this does not mean that the City has significant surplus resources available to pay its bills next year. Rather, it is the result of having long-term commitments that are less than currently available resources.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (Continued)

**Statement of Activities
For The Years Ended
December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
REVENUES:		
Program revenues -		
Charges for services	\$ 6,882,845	\$ 6,217,557
Operating grants and contributions	7,314,602	6,970,550
Capital grants and contributions	10,191,281	13,511,539
General revenues -		
Real property taxes and tax items	52,068,899	52,100,057
State aid not received for a specific purpose	18,187,767	17,794,424
Seneca-Niagara casino funds, Section 99-H	16,777,924	16,978,163
Interest and other	<u>2,055,754</u>	<u>4,839,834</u>
Total revenues	<u>113,479,072</u>	<u>118,412,124</u>
EXPENSES:		
Program expenses -		
General government support	27,271,180	25,080,889
Public safety	77,761,557	67,660,435
Transportation	11,633,007	11,228,320
Economic assistance and opportunity	3,907,179	3,806,226
Culture and recreation	6,842,208	7,532,480
Home and community services	15,234,200	14,527,286
Interest expense	<u>2,025,419</u>	<u>2,495,829</u>
Total expenses	<u>144,674,750</u>	<u>132,331,465</u>
Change in net position	<u>(31,195,678)</u>	<u>(13,919,341)</u>
Net position - beginning of year	41,007,697	40,046,836
Cumulative effect of change in accounting principle	-	2,571,531
Prior period adjustment	<u>-</u>	<u>12,308,671</u>
Net position - beginning of year, as restated	<u>41,007,697</u>	<u>54,927,038</u>
Net position - end of year	<u>\$ 9,812,019</u>	<u>\$ 41,007,697</u>

Overall, net position decreased by \$31,195,678, or 76%. 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 46% of total revenues (44% in 2015). Charges for services, approximating 6% of total revenues (5% in 2015), consist mainly of parking tickets, permits and City Clerk fees.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (Continued)

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 54% of total expenses in 2016 (51% in 2015), consisting principally of the City's police and fire departments. Total expenses increased by \$12.3 million (or 9.33%). The significant decrease in net position of \$31.2 million is a result of the actuarially calculated change in retirement obligations.

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, exclusive of risk retention, tourism and grant fund activities, experienced a decrease in fund balance of \$1,541,548 for 2016. This decrease is directly related to the City not receiving as many transfers in from the casino funds as in the prior years.

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 \$5,614,328 in 2016.

Revenues were \$16,793,946, while expenditures were \$22,408,274. 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. A prior period adjustment within the fund to correct the amount due to the General Fund resulted in the Community Development Fund's adjusted beginning fund balance increasing to \$1,476,738. The fund balance decreased by \$531,985 during 2016, resulting in an ending fund balance of \$944,753.

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 Ramp, Train Station and Public Library funds. The decrease in fund balance of \$42,494 during 2016 was principally due to repayment of funds to the Niagara Falls Public Library, a component unit of the City.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were less than budget by \$1,835,396. The largest variance was in the real property tax items, which accounted for a budget to actual deficit of \$1,647,470. A majority of this was due to the budget considering an In-Rem Sales Auction, however the auction did not occur as a result of the large auction held during the 2015 year.

Actual expenditures were less than budgeted by \$70,254. This was due to employee retirements as well as departments controlling spending.

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, grants or other forms of financial aid which were received during the year but not anticipated in the original budget, appropriations of fund balances needed to offset unanticipated and unavoidable expenditures, and transfers of appropriations among object classes within department budgets to address particular requirements not anticipated at the level of object class totals within each department. The department heads and Comptroller 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 ASSETS AND DEBT ADMINISTRATION

Capital assets, net of depreciation, are as follows:

	<u>2016</u>	<u>2015</u>
Capital assets, not being depreciated:		
Land	\$ 2,891,293	\$ 2,891,293
Land improvements	1,334,807	1,334,807
Construction work in progress	44,772,122	55,810,487
Works of art/historical	<u>17,378</u>	<u>17,378</u>
Total capital assets, not being depreciated	49,015,600	60,053,965
Capital assets, being depreciated:		
Infrastructure	80,509,106	66,019,366
Land improvement - exhaustible	2,357,523	1,746,917
Building and building improvements	25,466,510	21,898,493
Furniture, office, and other equipment	1,089,489	851,236
Vehicles	<u>6,181,248</u>	<u>5,565,817</u>
Total capital assets, being depreciated	<u>115,603,876</u>	<u>96,081,829</u>
Total capital assets, net	<u>\$ 164,619,476</u>	<u>\$ 156,135,794</u>

Net capital assets increased by \$9,305,699 during the current year. This reflects new improvement and infrastructure projects under construction of \$12,009,455 and machinery and equipment of \$2,312,592 (described in Note 6), and reduced by current year depreciation expense of \$5,838,365.

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Debt

A summary of the City's outstanding obligations are:

	<u>2016</u>	<u>2015</u>
Serial bonds	\$ 55,077,593	\$ 58,752,331
Installment purchase debt	590,977	730,450
Bond premium	2,190,538	-
Due to retirement system	4,669,583	5,334,423
Compensated absences (A)	12,976,084	12,279,379
Workers' compensation	10,469,505	11,440,491
Net pension liability	28,318,132	3,634,036
Other postemployment benefits	<u>122,629,156</u>	<u>93,641,953</u>
Total outstanding obligations	<u>\$ 236,921,568</u>	<u>\$ 185,813,063</u>

At December 31, 2016, the City has total long-term debt outstanding of \$55,668,570, of which \$4,318,903 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. This limitation is 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 \$42,480,452; therefore the City is in compliance with its constitutional debt limit.

The City has a bond rating of BBB+ from Standard and Poor's, BBB from Fitch Rating Services, and Moody's Investors Service, Inc. Baa2 to the uninsured outstanding bonded indebtedness of the City.

FACTORS BEARING ON THE CITY'S FUTURE

In both 2016 and 2017, the City approved contracts with the following unions; Uniform Fire Fighters through June 30, 2026, Fire Department Brass through December 31, 2024, Police Club through December 31, 2018, and Police Brass through December 31, 2024. 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 all new hires will have a 15% contribution to the health insurance plan, which represents an increase from the current 5% rate. Additionally, co-pays for prescriptions, doctor/specialist visits and emergency room visits have increased for all respective employees. Health insurance opt-out payments have also been capped at current rates.

The City has been using a portion of its discretionary Casino funds in the City's General Fund as part of economic development property tax relief. The problem the City is facing is the decline in its annual share of Casino funds making less available in its General Fund. Since 2011, the City's local share has been declining. In 2011 the Casino local share of revenues was \$21.6 million and it is now at \$16.8 million.

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 at 12/31/2016 and has now been extended until 12/31/2023. 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 for 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 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 host community, the City, to pay certain amounts to various entities such as the Niagara Falls School District and the Niagara Falls Memorial Medical Center Hospital from its share of host community benefit revenues. The balance is retained by the City for economic development purposes.

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. 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 either a resolution of the Senecas disagreement with the state or negotiation of a new agreement.

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, 2016, the City was not in compliance with this policy as a result of a prior period adjustment discovered and discussed further at Note 2. The City is currently identifying steps through both the current 2017 budget and also in preparing the 2018 budget to increase fund balance to the minimum level required by policy.

CONTACT FOR CITY'S FINANCIAL MANAGEMENT

This report is designed for those interested parties to provide a general overview of the City's finances. Questions concerning any information within this report or requests for additional information should be addressed to the Office of the City Controller, City of Niagara Falls, 745 Main Street, P.O. Box 69, Niagara Falls, New York 14302.

CITY OF NIAGARA FALLS, NEW YORK

**STATEMENT OF NET POSITION
DECEMBER 31, 2016**

	Governmental <u>Activities</u>	Component <u>Units</u>
ASSETS		
Cash and cash equivalents	\$ 40,016,345	\$ 1,397,111
Accounts receivable	1,600,458	7,608
Due from federal and state governments	15,022,961	-
Loans receivable, net	4,511,206	397,782
Notes receivable	117,714	-
Taxes receivable, net	16,330,014	-
Due from other governments	1,053,967	126,043
Prepaid expenses	2,047,865	-
Inventory	760,796	-
Capital assets, net	<u>164,619,476</u>	<u>32,428,492</u>
Total assets	<u>246,080,802</u>	<u>34,357,036</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related	33,057,452	-
Deferred amount on refunding	<u>1,993,555</u>	<u>-</u>
Total deferred outflows of resources	<u>35,051,007</u>	<u>-</u>
LIABILITIES		
Accounts payable	8,803,744	38,113
Accrued liabilities	3,267,288	31,069
Due to other funds, net	1,545,303	-
Due to other governments	10,610,879	-
Unearned revenue	5,386,860	31,049
Long-term liabilities -		
Due within one year	4,948,322	-
Due in more than one year	<u>231,973,246</u>	<u>-</u>
Total liabilities	<u>266,535,642</u>	<u>100,231</u>
DEFERRED INFLOW OF RESOURCES		
Pension related	<u>4,784,148</u>	<u>-</u>
Total deferred inflow of resources	<u>4,784,148</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	108,950,906	32,428,492
Restricted -		
Risk retention	1,987,198	-
Trolley services	494,683	-
Tourism	344,151	-
Unrestricted	<u>(101,964,919)</u>	<u>1,828,313</u>
Total net position	<u>\$ 9,812,019</u>	<u>\$ 34,256,805</u>

The accompanying notes are an integral part of these statements.

CITY OF NIAGARA FALLS, NEW YORK

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Component Units
PRIMARY GOVERNMENT:						
Governmental activities -						
General governmental support	\$ 27,271,180	\$ 3,599,221	\$ -	\$ -	\$ (23,671,959)	
Public safety	77,761,557	877,829	741,641	-	(76,142,087)	
Transportation	11,633,007	1,026,282	-	10,191,281	(415,444)	
Economic assistance and opportunity	3,907,179	24,350	-	-	(3,882,829)	
Culture and recreation	6,842,208	945,216	24,850	-	(5,872,142)	
Home and community services	15,234,200	409,947	6,548,111	-	(8,276,142)	
Interest on long-term debt	2,025,419	-	-	-	(2,025,419)	
Total governmental activities	144,674,750	6,882,845	7,314,602	10,191,281	(120,286,022)	
COMPONENT UNITS	\$ 3,554,466	\$ 21,209	\$ 2,707,761	\$ -		\$ (825,496)
GENERAL REVENUES:						
Real property taxes and real property tax items					31,072,582	-
Nonproperty tax items					20,996,317	-
Use of money and property					642,758	401
Sale of property and compensation for loss					134,091	-
State aid not received for a specific purpose					18,187,767	-
Seneca-Niagara casino funds, Section 99-H					16,777,924	-
Miscellaneous					1,278,905	-
Total general revenues					89,090,344	401
Change in net position					(31,195,678)	(825,095)
Net position - beginning of year					41,007,697	35,081,900
Net position - end of year					\$ 9,812,019	\$ 34,256,805

The accompanying notes are an integral part of these statements.

CITY OF NIAGARA FALLS, NEW YORK

**BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	<u>General</u>	<u>Community Development</u>	<u>Capital Projects</u>	<u>Miscellaneous Special Revenue</u>	<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
ASSETS							
Cash and cash equivalents	\$ 10,445,575	\$ 2,642,193	\$ 6,847,114	\$ 19,068,142	\$ 761,700	\$ 224,227	\$ 39,988,951
Due from federal and state governments	2,733,806	381,411	3,366,876	4,419,716	-	-	10,901,809
Due from other governments	1,053,967	-	-	-	-	-	1,053,967
Loans receivable, net	2,083,002	2,428,204	-	-	-	-	4,511,206
Notes receivable	117,714	-	-	-	-	-	117,714
Taxes receivable, net	16,330,014	-	-	-	-	-	16,330,014
Accounts receivable	1,561,984	38,474	-	-	-	-	1,600,458
Prepaid expenditures	2,047,865	-	-	-	-	-	2,047,865
Due from other funds	561,860	-	-	-	-	-	561,860
Total assets	\$ 36,935,787	\$ 5,490,282	\$ 10,213,990	\$ 23,487,858	\$ 761,700	\$ 224,227	\$ 77,113,844
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCES							
LIABILITIES:							
Accounts payable	\$ 5,129,725	\$ 369,688	\$ 1,958,832	\$ 1,104,929	\$ -	\$ 165,429	\$ 8,728,603
Accrued liabilities	3,082,687	-	-	-	-	789	3,083,476
Due to other funds	1,462,185	550,991	-	-	-	48,880	2,062,056
Due to other governments	9,414,233	1,196,646	-	-	-	-	10,610,879
Unearned revenue	2,836,299	2,428,204	115,928	-	-	6,429	5,386,860
Total liabilities	21,925,129	4,545,529	2,074,760	1,104,929	-	221,527	29,871,874
DEFERRED INFLOW OF RESOURCES:							
Deferred property taxes	7,714,176	-	-	-	-	-	7,714,176
Total deferred inflow of resources	7,714,176	-	-	-	-	-	7,714,176
FUND BALANCES:							
Nonspendable	2,047,865	-	-	-	-	-	2,047,865
Restricted	2,826,032	944,753	-	22,382,929	761,700	-	26,915,414
Assigned							
Encumbrances	75,458	-	-	-	-	-	75,458
Assigned appropriated	2,347,127	-	-	-	-	2,700	2,349,827
Other spendable amounts	-	-	8,139,230	-	-	-	8,139,230
Unassigned	-	-	-	-	-	-	-
Total fund balances	7,296,482	944,753	8,139,230	22,382,929	761,700	2,700	39,527,794
Total liabilities, deferred inflow of resources and fund balances	\$ 36,935,787	\$ 5,490,282	\$ 10,213,990	\$ 23,487,858	\$ 761,700	\$ 224,227	\$ 77,113,844

The accompanying notes are an integral part of these statements.

CITY OF NIAGARA FALLS, NEW YORK

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2016**

Total fund balance - governmental funds		\$ 39,527,794
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not current financial resources and; therefore, are not reported in the funds.		
Cost of capital assets	289,964,284	
Accumulated depreciation	<u>(125,344,808)</u>	164,619,476
The net position of the internal service funds are not included in the fund financial statements, but are included in the governmental activities of the statement of net position.		
Assets	788,190	
Liabilities	<u>(120,248)</u>	667,942
Deferred outflows/inflows of resources related to pensions are applicable to future periods and; therefore are not reported in the funds.		
Deferred outflow - pension related	33,057,452	
Deferred inflow - pension related	<u>(4,784,148)</u>	28,273,304
Net pension obligations are not due and payable in the current period and; therefore are not reported in the funds.		
		(28,318,132)
Revenue related to the tax levy is recognized when earned in the statement of activities, but recorded as a deferred inflow of resources in the fund statements if collection is anticipated to exceed sixty days after year-end.		
		7,714,176
Accrued interest on long-term debt, including serial bonds, is an expense in the funds when paid, but a liability in the statement of net position when incurred.		
		(183,812)
Casino revenue earned, but not received at year-end related to State Finance Law Section 99-H are not considered receivables under the modified accrual basis of accounting.		
		4,121,152
Deferred amounts on bond refunding are recorded under full accrual accounting, but are not recorded in the governmental funds.		
		1,993,555
Long-term liabilities, excluding the net pension liability, are not due and payable in the current period and; therefore, are not reported as fund liabilities.		
		<u>(208,603,436)</u>
Total net position of governmental activities		<u>\$ 9,812,019</u>

CITY OF NIAGARA FALLS, NEW YORK

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	General	Community Development	Capital Projects	Miscellaneous Special Revenue	Debt Service	Total Nonmajor Governmental Funds	Total
REVENUES:							
Real property taxes and tax items	\$ 31,178,831	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,178,831
Nonproperty tax items	20,996,317	-	-	-	-	-	20,996,317
Interdepartmental charges	1,478,236	-	145,406	-	1,868	-	1,625,510
Departmental income	516,676	288,066	-	-	-	2,663,157	3,467,899
Use of money and property	604,642	5,990	-	16,022	-	16,104	642,758
Licenses and permits	1,170,352	-	-	-	-	-	1,170,352
Fines and forfeitures	538,093	-	-	-	-	-	538,093
Interfund revenue	74,992	-	-	-	-	-	74,992
Sale of property and compensation for loss	134,091	-	-	-	-	-	134,091
Miscellaneous	311,089	814	-	-	850,000	1,710	1,163,613
State aid	19,179,578	-	3,832,721	16,777,924	-	-	39,790,223
Federal aid	62,512	6,548,111	6,070,728	-	-	-	12,681,351
Total revenues	76,245,409	6,842,981	10,048,855	16,793,946	851,868	2,680,971	113,464,030
EXPENDITURES:							
General governmental support	11,086,722	-	77,627	6,324,912	-	524,181	18,013,442
Public safety	39,930,781	-	1,357,597	-	-	-	41,288,378
Transportation	4,339,363	-	13,705,908	-	-	-	18,045,271
Economic assistance and opportunity	3,282,224	-	334,123	-	-	-	3,616,347
Culture and recreation	2,424,287	-	446,729	-	-	2,598,576	5,469,592
Home and community services	5,259,759	7,374,966	-	-	-	-	12,634,725
Employee benefits	17,605,903	-	-	-	-	469,058	18,074,961
Debt service -							
Principal	-	-	-	-	3,959,211	-	3,959,211
Interest	-	-	-	-	2,186,733	-	2,186,733
Total expenditures	83,929,039	7,374,966	15,921,984	6,324,912	6,145,944	3,591,815	123,288,660
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(7,683,630)	(531,985)	(5,873,129)	10,469,034	(5,294,076)	(910,844)	(9,824,630)
OTHER FINANCING SOURCES (USES):							
Proceeds from issuance of debt	-	-	-	-	37,490,000	-	37,490,000
Premium on debt issuance	-	-	-	-	2,305,830	-	2,305,830
Payments to escrow for advance refunding	-	-	-	-	(39,341,212)	-	(39,341,212)
Bond issuance costs	-	-	-	-	(453,143)	-	(453,143)
Operating transfers - in	15,019,143	-	4,646,056	-	6,229,832	2,296,170	28,191,201
Operating transfers - out	(8,819,172)	-	(978,847)	(16,083,362)	(850,000)	(1,427,820)	(28,159,201)
Total other financing sources (uses)	6,199,971	-	3,667,209	(16,083,362)	5,381,307	868,350	33,475
CHANGE IN FUND BALANCE	(1,483,659)	(531,985)	(2,205,920)	(5,614,328)	87,231	(42,494)	(9,791,155)
FUND BALANCE - beginning of year, as previously reported	10,618,416	(361,537)	10,345,150	27,997,257	674,469	45,194	49,318,949
PRIOR PERIOD ADJUSTMENT (Note 2)	(1,838,275)	1,838,275	-	-	-	-	-
FUND BALANCE - beginning of year, as restated	8,780,141	1,476,738	10,345,150	27,997,257	674,469	45,194	49,318,949
FUND BALANCE - end of year	\$ 7,296,482	\$ 944,753	\$ 8,139,230	\$ 22,382,929	\$ 761,700	\$ 2,700	\$ 39,527,794

The accompanying notes are an integral part of these statements.

CITY OF NIAGARA FALLS, NEW YORK

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

Net change in fund balances - governmental funds \$ (9,791,155)

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. Depreciation expense is recorded in the statement of activities over the estimated useful lives, but not as a change in fund balance of the governmental funds, since no expenditures are made.

Capital additions	14,322,047	
Depreciation	<u>(5,838,365)</u>	
		8,483,682

Unearned tax revenues are recorded on the modified accrual basis, but are not reported in the government-wide financial statements. (106,249)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 41,304,211

Proceeds from long-term debt is an other revenue in the governmental funds, but the proceeds increase long-term liabilities in the statement of net position. (37,490,000)

Amortization of premiums associated with long-term debt is not recorded as a revenue in the governmental funds, but is recorded in the statement of activities. 115,292

Bond premium is an other finance source in the governmental funds, but is recorded as part of long-term liabilities in the statement of net position. (2,305,830)

Deferred amount on refunding is an expenditure in the governmental funds, but is recorded as a deferred outflow of resources in the statement of net position. 1,993,555

The change in accrued interest on bonds is an expenditure in the statement of activities of the government-wide statement, but is not reported as an expenditure in the governmental funds. 161,314

The change in accrued compensated absences is reported in the statement of activities, but does not require the use of current financial resources and; therefore, this is not reported as an expenditure in the governmental funds. (696,705)

The change in accrued workers' compensation is reported in the statement of activities, but does not require the use of current financial resources and; therefore, this is not reported as an expenditure in the governmental funds. 970,986

The accompanying notes are an integral part of these statements.

(Continued)

CITY OF NIAGARA FALLS, NEW YORK

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016 (Continued)**

Amortization of the amounts owed to the New York State Retirement System do not require the use of current financial resources and; therefore, these are not reported as expenditures in the governmental funds.		664,840
The change in other post employment benefits is reported in the statement of activities, but does not require the use of current financial resources and; therefore, this is not reported as an expenditure in the governmental funds.		(28,987,203)
Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned, net of employer contributions is reported as pension expense:		
Pension contributions	8,180,286	
Cost of benefits earned, net of employee contributions	<u>(13,809,688)</u>	(5,629,402)
Internal service funds are used by management to charge the cost of certain activities, such as self insurance and workers' compensation claims, to individual funds. The change in net position of the internal service funds is reported with governmental activities.		<u>116,986</u>
Change in net position of governmental activities		<u>\$ (31,195,678)</u>

CITY OF NIAGARA FALLS, NEW YORK

**COMBINING STATEMENT OF NET POSITION - PROPRIETARY FUNDS - INTERNAL SERVICE FUNDS
DECEMBER 31, 2016**

	<u>Postage</u>	<u>Stationary</u>	<u>Telephone</u>	<u>Central Garage</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 4,129	\$ 319	\$ 22,946	\$ -	\$ 27,394
Inventory	<u>1,567</u>	<u>1,895</u>	<u>-</u>	<u>757,334</u>	<u>760,796</u>
Total assets	<u>5,696</u>	<u>2,214</u>	<u>22,946</u>	<u>757,334</u>	<u>788,190</u>
LIABILITIES					
Accounts payable	4,300	2,042	-	68,799	75,141
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,107</u>	<u>45,107</u>
Total liabilities	<u>4,300</u>	<u>2,042</u>	<u>-</u>	<u>113,906</u>	<u>120,248</u>
NET POSITION					
Unrestricted	<u>1,396</u>	<u>172</u>	<u>22,946</u>	<u>643,428</u>	<u>667,942</u>
Total net position	<u>\$ 1,396</u>	<u>\$ 172</u>	<u>\$ 22,946</u>	<u>\$ 643,428</u>	<u>\$ 667,942</u>

The accompanying notes are an integral part of these statements.

CITY OF NIAGARA FALLS, NEW YORK

**COMBINING STATEMENT OF ACTIVITIES - PROPRIETARY FUNDS - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Postage</u>	<u>Stationary</u>	<u>Telephone</u>	<u>Central Garage</u>	<u>Total</u>
REVENUES:					
Charges for services	\$ 47,956	\$ 2,646	\$ 24,597	\$ 666,139	\$ 741,338
Total revenues	<u>47,956</u>	<u>2,646</u>	<u>24,597</u>	<u>666,139</u>	<u>741,338</u>
EXPENSES:					
Contractual expenses	<u>47,956</u>	<u>2,625</u>	<u>25,384</u>	<u>516,387</u>	<u>592,352</u>
Total expenses	<u>47,956</u>	<u>2,625</u>	<u>25,384</u>	<u>516,387</u>	<u>592,352</u>
OPERATING INCOME (LOSS)	<u>-</u>	<u>21</u>	<u>(787)</u>	<u>149,752</u>	<u>148,986</u>
OTHER FINANCING USES:					
Operating transfers - out	<u>-</u>	<u>-</u>	<u>(32,000)</u>	<u>-</u>	<u>(32,000)</u>
Total other financing uses	<u>-</u>	<u>-</u>	<u>(32,000)</u>	<u>-</u>	<u>(32,000)</u>
CHANGE IN NET POSITION	-	21	(32,787)	149,752	116,986
NET POSITION - beginning of year	<u>1,396</u>	<u>151</u>	<u>55,733</u>	<u>493,676</u>	<u>550,956</u>
NET POSITION - end of year	<u>\$ 1,396</u>	<u>\$ 172</u>	<u>\$ 22,946</u>	<u>\$ 643,428</u>	<u>\$ 667,942</u>

The accompanying notes are an integral part of these statements.

CITY OF NIAGARA FALLS, NEW YORK

**COMBINING STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Postage</u>	<u>Stationary</u>	<u>Telephone</u>	<u>Central Garage</u>	<u>Total</u>
CASH FLOW FROM OPERATING ACTIVITIES:					
Cash received from providing services	\$ 47,956	\$ 2,646	\$ 24,597	\$ 666,139	\$ 741,338
Cash payments for contractual expenses	<u>(47,599)</u>	<u>(2,327)</u>	<u>(24,780)</u>	<u>(666,139)</u>	<u>(740,845)</u>
Net cash flow from operating activities	<u>357</u>	<u>319</u>	<u>(183)</u>	<u>-</u>	<u>493</u>
CASH FLOW FROM NON-OPERATING ACTIVITIES:					
Transfers out	<u>-</u>	<u>-</u>	<u>(32,000)</u>	<u>-</u>	<u>(32,000)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	357	319	(32,183)	-	(31,507)
CASH AND CASH EQUIVALENTS - beginning of year	<u>3,772</u>	<u>-</u>	<u>55,129</u>	<u>-</u>	<u>58,901</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 4,129</u>	<u>\$ 319</u>	<u>\$ 22,946</u>	<u>\$ -</u>	<u>\$ 27,394</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ -	\$ 21	\$ (787)	\$ 149,752	\$ 148,986
Adjustments to reconcile operating income (loss) to net cash used by operating activities:					
Changes in:					
Inventory	(643)	(820)	604	(159,768)	(160,627)
Accounts payable	1,000	2,042	-	(20,569)	(17,527)
Due to other funds	<u>-</u>	<u>(924)</u>	<u>-</u>	<u>30,585</u>	<u>29,661</u>
NET CASH FLOW FROM OPERATING ACTIVITIES	<u>\$ 357</u>	<u>\$ 319</u>	<u>\$ (183)</u>	<u>\$ -</u>	<u>\$ 493</u>

The accompanying notes are an integral part of these statements.

CITY OF NIAGARA FALLS, NEW YORK

**STATEMENT OF NET POSITION - FIDUCIARY FUNDS
DECEMBER 31, 2016**

	Private Purpose <u>Trust</u>	<u>Agency</u>
ASSETS:		
Cash and cash equivalents	\$ 71,917	\$ 2,604,385
Due from other funds	<u>-</u>	<u>1,545,303</u>
Total assets	<u>71,917</u>	<u>4,149,688</u>
LIABILITIES:		
Agency liabilities	<u>-</u>	<u>4,149,688</u>
Total current liabilities	<u>-</u>	<u>\$ 4,149,688</u>
NET POSITION:		
Held in trust for private purposes	<u>71,917</u>	
Total net position	<u>\$ 71,917</u>	

The accompanying notes are an integral part of these statements.

CITY OF NIAGARA FALLS, NEW YORK

**STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Private Purpose <u>Trust</u>
ADDITIONS:	
Interest and earnings	\$ <u>1,868</u>
DEDUCTIONS:	
Economic assistance and opportunity	<u>5,448</u>
CHANGE IN NET POSITION	(3,580)
NET POSITION - beginning of year	<u>75,497</u>
NET POSITION - end of year	<u><u>\$ 71,917</u></u>

The accompanying notes are an integral part of these statements.

CITY OF NIAGARA FALLS, NEW YORK

**COMBINING STATEMENT OF NET POSITION - COMPONENT UNITS
DECEMBER 31, 2016**

	Bellevue Local Development Corporation	N.F.C. Development Corporation	Niagara Falls Public Library	Total
ASSETS				
Cash and cash equivalents	\$ -	\$ 1,132,806	\$ 264,305	\$ 1,397,111
Accounts receivable	-	-	7,608	7,608
Loans receivable, net	-	397,782	-	397,782
Due from other governments	-	-	126,043	126,043
Capital assets, net	<u>32,348,288</u>	<u>-</u>	<u>80,204</u>	<u>32,428,492</u>
Total assets	<u>32,348,288</u>	<u>1,530,588</u>	<u>478,160</u>	<u>34,357,036</u>
LIABILITIES				
Accounts payable	-	2,167	35,946	38,113
Accrued liabilities	-	-	31,069	31,069
Unearned revenue	<u>-</u>	<u>-</u>	<u>31,049</u>	<u>31,049</u>
Total current liabilities	<u>-</u>	<u>2,167</u>	<u>98,064</u>	<u>100,231</u>
NET POSITION				
Net investment in capital assets	32,348,288	-	80,204	32,428,492
Unrestricted	<u>-</u>	<u>1,528,421</u>	<u>299,892</u>	<u>1,828,313</u>
Total net position	<u>\$ 32,348,288</u>	<u>\$ 1,528,421</u>	<u>\$ 380,096</u>	<u>\$ 34,256,805</u>

The accompanying notes are an integral part of these statements.

CITY OF NIAGARA FALLS, NEW YORK

**COMBINING STATEMENT OF ACTIVITIES - COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Bellevue Local Development Corporation	N.F.C. Development Corporation	Niagara Falls Public Library	Total
OPERATING REVENUE:				
Transfers from City of Niagara Falls	\$ -	\$ 605,000	\$ 1,855,033	\$ 2,460,033
Charges for services	-	2,258	18,951	21,209
Grants and aid	-	-	186,390	186,390
Other operating revenue	-	12,248	49,090	61,338
	<u>-</u>	<u>619,506</u>	<u>2,109,464</u>	<u>2,728,970</u>
OPERATING EXPENSES:				
Contractual expense	-	74,039	2,075,662	2,149,701
Grant expense	-	396,847	-	396,847
Depreciation	995,332	-	12,586	1,007,918
	<u>995,332</u>	<u>470,886</u>	<u>2,088,248</u>	<u>3,554,466</u>
OPERATING INCOME (LOSS)	<u>(995,332)</u>	<u>148,620</u>	<u>21,216</u>	<u>(825,496)</u>
NON-OPERATING REVENUE:				
Interest income	-	401	-	401
CHANGE IN NET POSITION	(995,332)	149,021	21,216	(825,095)
NET POSITION - beginning of year	<u>33,343,620</u>	<u>1,379,400</u>	<u>358,880</u>	<u>35,081,900</u>
NET POSITION - end of year	<u>\$ 32,348,288</u>	<u>\$ 1,528,421</u>	<u>\$ 380,096</u>	<u>\$ 34,256,805</u>

The accompanying notes are an integral part of these statements.

CITY OF NIAGARA FALLS, NEW YORK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

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.

Financial Reporting Entity

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, 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 Officer of the City. 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 decision to include a potential component unit in the City's reporting entity is based on several criteria set forth by the GASB including legal standing, fiscal dependency, and financial accountability. A component unit is included in the City's reporting entity if it is both fiscally dependent on the City and there is a potential for the component unit to provide specific financial benefits to or impose specific financial burdens on the primary government. Based on the application of these criteria, the N.F.C. Development Corporation, Bellevue Local Development Corporation, and the Niagara Falls Public Library are all considered component units.

Basis of Presentation

Component Units

In conformity with generally accepted accounting principles, the financial statements of the 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Component Units (Continued)

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.

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 and 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.

Government-Wide Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds and aggregate non-major funds). The Statement of Net Position and the Statement of Activities present financial information about the reporting government as a whole. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, intergovernmental revenues, and other exchange and nonexchange transactions. Operating grants include operating-specific and discretionary (either operation or capital) grants while the capital grants column reflects capital-specific grants. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct expenses and direct revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Direct revenues include charges paid by the recipients of goods or services offered by the City, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues that are not classified as direct revenues, including all taxes, are presented as general revenues.

The government-wide focus is on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five (5) percent of the corresponding total for all governmental and enterprise funds combined.

Major Governmental Funds

The City reports the following major governmental funds:

- **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.
- **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.
- **Capital Projects Fund** - used to account for and report financial resources to be used in the acquisition, construction or renovation 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.
- **Miscellaneous Special Revenue Fund** - used to account for the receipts and disbursements of the Seneca Niagara Casino money received by the City.

Nonmajor Governmental Funds

The City reports the following non-major governmental funds:

- **Special Revenue Funds** (Golf Course, Train Station, Public Library and Parking Ramp) - used to account for the proceeds of revenues that are legally restricted for specified purposes.

Proprietary Funds (Business-Type Activities)

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Fiduciary Funds (Trust and Agency Funds)

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 Funds 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.

Basis of Accounting/Measurement Focus

The Government-wide, proprietary funds, 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 at the time liabilities are incurred, regardless of when the related cash transaction takes place. Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 levied sewer and water user charges and for unpaid school taxes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes (Continued)

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 re-levy, 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.

Seneca Niagara Casino Revenue

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.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed as a control in preventing over-expenditure of established appropriations.

Open encumbrances are reported within the fund balance category from which their spending authorization has been recorded since they do not constitute expenditures or liabilities and will be honored through budget appropriations in the subsequent year.

Budgetary Basis of Accounting

The budgets are adopted annually on a cash basis, which is a basis of accounting other than generally accepted accounting principles. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year. The City is not legally required to adopt a budget for the miscellaneous special revenue fund. Therefore, budget comparison information for this fund is not included in the City's financial statements. Budgetary controls are established for the capital projects fund through ordinances as adopted by the City Council authorizing individual contracts, which remain in effect for the life of the project.

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 date of acquisition.

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. The proceeds from the State for the City's share of the casino revenue are restricted for various purposes, primarily capital projects, per State Finance Law Section 99-H.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2016, the allowance for uncollectible taxes was \$3,632,920, which is estimated based on historical collection experience.

Prepaid Expenditures

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.

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 Position 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.

Capital Assets

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. Prior to January 1, 1980, governmental funds' infrastructure assets were not capitalized. The City elected to retroactively report 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.

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
Furniture, office, and other equipment	\$ 5,000	Straight-line	3 - 10 years

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Unearned Revenue

Unearned revenue arises 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 revenue received in advance is removed and revenue is recognized.

Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the Statement of Net Position will sometimes report a separate section for deferred outflows/inflows of resources. The separate financial statement element, *deferred outflows of resources*, represents a use of resources that applies to a future period and so will be recognized as an outflow (expense/expenditure) until then. The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then.

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 consist of serial bonds payable, installment purchase debt, due to other governments, 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 proceeds from issuance of debt are reported as other financing sources and payment of principal, interest, and other long-term obligations are reported as expenditures.

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Postemployment Benefits

The City provides health insurance coverage for certain retired employees and their spouses who have met the minimum eligibility criteria as established under the respective collective bargaining agreement or City Council rules. The City made no provision for the recognizing the cost of postemployment benefits which may eventually be paid to employees who have not yet retired, on the governmental funds statements. On the government-wide statements, these amounts attributable to past service have been recorded as a liability.

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.

Net Position - Government-Wide Financial Statements

The government-wide financial statements displays net position in three components as follows:

- **Net investment in capital assets**
Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bond anticipation notes, bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted net position**
Consists of net position with constraints on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- **Unrestricted net position**
All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balances - Fund Financial Statements

The governmental fund financial statements present fund balances according to classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable Fund Balances**

These are amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

- **Restricted Fund Balances**

These are amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

- **Committed Fund Balances**

These are amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through resolutions approved by the City Council, prior to the end of the year.

- **Assigned Fund Balances**

These are amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The City's policy is that the assignment of fund balances is at the discretion of the Mayor, subject to the majority vote of the City Council.

- **Unassigned Fund Balances**

These are all other spendable amounts.

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

The City has established a minimum fund balance policy for the General Fund whereby the unassigned fund balance should be equal to 5% of the City's total General Fund appropriations. At year ended December 31, 2016, the City was not in compliance with this policy as a result of the prior period adjustment discussed at Note 2.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Labor Relations

Some City employees are represented by collective bargaining units with the balance of employees governed by City Council rules and regulations.

2. PRIOR PERIOD ADJUSTMENT

The City restated its December 31, 2015 fund balances for the General and Community Development Funds to properly reflect the amounts due to the General Fund from the Community Development Fund in the amount of \$1,838,275. Amounts recorded as due to the General Fund represented administration costs, including salaries and benefits for individuals within the Community Development Fund responsible for administering the Community Development Block Grant and Section 8 Housing Choice Voucher programs. The actual administrative costs were greater than the federal funding allowed for administering these programs and additional federal funding will not be provided to reimburse the General Fund for these prior administration expenses. As a result, the City was required to write-off the costs that will not be reimbursed to the General Fund. The impact on the General and Community Development Funds are shown below:

	<u>General</u>	<u>Community Development</u>
Fund Balance - beginning of the year	\$ 10,618,416	\$ (361,537)
Prior Period Adjustment:		
Due to/from other funds	<u>(1,838,275)</u>	<u>1,838,275</u>
Fund Balance - beginning of the year, as restated	<u>\$ 8,780,141</u>	<u>\$ 1,476,738</u>

3. STEWARDSHIP

Budget Policies

The City adopts an annual formal budget for the General Fund on a basis consistent with generally accepted accounting principles; except that encumbrances are treated as budgeted expenditures in the year a commitment to purchase occurs. All unencumbered appropriations lapse at the end of the fiscal year. Budgetary comparisons presented in this report are on the budgetary basis and represent the budget as modified.

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.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. On October 1, for the subsequent fiscal year beginning January 1, the Mayor submits to the Common Council a complete operating plan of proposed expenditures and estimated revenues for the City.
- b. The Council has the power to delete, reduce or add expenditure items to the budget except for debt service and other items required by law and an appropriation for a reserve for uncollected taxes, capital equipment and estimated deficit. The Council must act by December 1.
- c. The Mayor has a line item veto power which must be exercised within 10 days of Council action. The Council then has 5 days to override such vetoes.

3. STEWARDSHIP (Continued)

Budget Policies (Continued)

- d. Reallocation of the budget among municipal service categories must be approved by the Council.
- e. Appropriations generally expire at the end of the fiscal year except amounts administratively approved for reappropriation. These reappropriations are included in assigned fund balance for encumbrances in the fund financial statements.
- f. Expenditures for each department may not legally exceed the total appropriations for that department. During the year, several supplemental appropriations were necessary.

The City reports its budgetary status with the actual data including outstanding encumbrances as charges against budget appropriations. This data does not include revenues and expenditures in the Risk Retention fund, the tourism fund or the Grant fund, as these are combined into the General Fund on the financial statements, but is not included in the City's budgeted amounts. This results in the following reconciliation of fund balance as computed on a GAAP basis and budgetary basis.

	<u>General Fund</u>
GAAP Basis Fund Balance - December 31, 2016	\$ 7,296,482
Deduct Risk Retention fund balance - December 31, 2016	(1,987,198)
Deduct Tourism fund balance - December 31, 2016	(838,834)
Deduct Grant fund balance - December 31, 2016	(93,658)
Deduct outstanding encumbrances	<u>(75,458)</u>
 BUDGETARY BASIS - Fund balance - December 31, 2016	 <u>\$ 4,301,334</u>

Revenue Restrictions

The City has various restrictions placed over certain revenues from sources subject to state or local requirements. The primary restricted revenues sources are those revenues raised for the special revenue funds.

4. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents

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. Permissible investments include demand accounts and certificates of deposit, obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements and obligations of New York State or its localities.

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

4. CASH AND CASH EQUIVALENTS (Continued)

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 Controller of the City.

Investments (included in cash equivalents) consist of the following at December 31, 2016:

Money market funds	<u>\$ 6,649,207</u>
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The following deposits held with one financial institution represent five percent or more of the City's total cash and cash equivalents at December 31, 2016:

M&T Bank	<u>\$ 41,806,074</u>
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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 the 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 (FDIA) shall be secured by a pledge of securities with an aggregate value equal 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 the New York State and its localities.

4. CASH AND CASH EQUIVALENTS (Continued)

Custodial Credit Risk (Continued)

At December 31, 2016, the bank balance of the City's cash and cash equivalents of its primary government, including Internal Service Funds and Fiduciary Funds, was exposed to custodial credit risk as follows:

<u>Description</u>	<u>Bank Balance</u>	<u>Carrying</u>
Cash and cash equivalents	<u>\$ 41,806,074</u>	<u>\$ 42,692,647</u>
Category 1: Covered by FDIC insurance	\$ 500,000	
Category 2: Uninsured and collateral held by bank	<u>41,432,195</u>	
Total	<u>\$ 41,932,195</u>	

5. RECEIVABLES

Major revenues accrued by the City at December 31, 2016 include the following:

Accounts Receivable

General Fund:

Tourism - 4th quarter occupancy tax & hotel trolley service	\$ 450,100
Franchise fees	139,983
Gross utilities taxes	38,730
Other miscellaneous receivables	<u>933,171</u>
	1,561,984
Community Development	<u>38,474</u>
	<u>\$ 1,600,458</u>

5. RECEIVABLES (Continued)

State and Federal Receivables

Represents amounts due primarily from New York State and the federal government. Amounts accrued at December 31, 2016, consist of:

General Fund:	
NYS sales tax	\$ 348,347
NYS Capital Highway Improvement (CHIPS)	48,287
NYS arterial maintenance	200,812
Medicare Part D	42,022
Empire State Development	1,648,714
Other miscellaneous state and federal receivables	<u>445,624</u>
	<u>2,733,806</u>
Capital Projects Fund:	
DPW Capital Highway Improvement (CHIPS) 2016	760,908
Inter-modal Train Station	1,508,271
Lockport Street Project	44,165
Buffalo Avenue	1,050,532
Other miscellaneous state and federal receivables	<u>3,000</u>
	<u>3,366,876</u>
Community Development:	
HUD receivables	<u>381,411</u>
Miscellaneous Special Revenue:	
Seneca Casino	<u>4,419,716</u>
Total state and federal receivables	<u>\$ 10,901,809</u>

Due from Other Governments

Represents amounts due primarily from the County of Niagara, New York, and other governmental entities. Amounts accrued at December 31, 2016 consist of:

General Fund:	
Niagara Falls Water Board	\$ 11,666
Niagara Falls Board of Education - School tax fees	68,391
Niagara County - Sales tax	896,897
Other	<u>77,013</u>
Total due from other governments	<u>\$ 1,053,967</u>

5. RECEIVABLES (Continued)

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 County of Niagara (County), 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. Under the terms of the agreement, the Niagara Falls Water Board and the City receive 59.4% and 40.6% respectively. Upon receipt of its portion of the funds, the City retains 16.2% and distributes 17.6% to Niagara Falls Board of Education and 6.8% to the County. At December 31, 2016, the City's outstanding balance was \$117,714.

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, 2016 was \$2,083,002.

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, 2016 were as follows:

Community Development Fund:

Loans receivable - Community Development Block Grant	\$ 1,140,547
Loan receivable - Miscellaneous	1,024,981
Loan receivable - HOME	<u>262,676</u>
Total loans receivable	<u>\$ 2,428,204</u>

Taxes Receivable, net

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, 2016:

City taxes receivable - current	\$ 3,795,109
City taxes receivable - overdue	8,839,279
School taxes receivable	<u>7,328,546</u>
Total taxes receivable	19,962,934
Less: Allowance for uncollectible taxes	<u>(3,632,920)</u>
Total taxes receivable, net	<u>\$ 16,330,014</u>

5. RECEIVABLES (Continued)

Interfund Receivables, Payables, Revenues and Expenses

To improve cash management, all City disbursements are made from a consolidated account in the general fund. Also, the cash balances of certain capital funds are consolidated to maximize investment return. Both these cash management practices, as well as normal delays in processing interfund transfers and reimbursements, are the main reason why interfund receivables and payables exist. These receivables and payables 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 fund capital projects and debt service. They also facilitate contributions from the special revenue fund to capital projects funds.

Interfund receivables, payables and transfers as of and for the year ended December 31, 2016 are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Operating Transfers-in</u>	<u>Operating Transfers-out</u>
General Fund	\$ 561,860	\$ 1,462,185	\$ 15,019,143	\$ 8,819,172
Community Development Fund	-	550,991	-	-
Capital Projects Fund	-	-	4,646,056	978,847
Debt Service Fund	-	-	6,229,832	850,000
Miscellaneous Special Revenue Fund	-	-	-	16,083,362
Golf Course Fund	-	7,584	404,288	-
Public Library Fund	-	30,699	1,855,612	-
Parking Ramp Fund	-	7,307	-	1,427,820
Train Station Fund	-	3,290	36,270	-
Internal Service Funds	-	45,107	-	32,000
Agency Fund	<u>1,545,303</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,107,163</u>	<u>\$ 2,107,163</u>	<u>\$ 28,191,201</u>	<u>\$ 28,191,201</u>

6. CAPITAL ASSETS

Capital asset activity for the City for the year ended December 31, 2016 was as follows:

	Balance <u>01/01/16</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	Balance <u>12/31/16</u>
Capital assets, not being depreciated:					
Land	\$ 2,891,293	\$ -	\$ -	\$ -	\$ 2,891,293
Land improvements	1,334,807	-	-	-	1,334,807
Construction work in progress	55,810,487	12,009,455	-	(23,047,820)	44,772,122
Works of art/historical	<u>17,378</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,378</u>
Total capital assets, not being depreciated	<u>60,053,965</u>	<u>12,009,455</u>	<u>-</u>	<u>(23,047,820)</u>	<u>49,015,600</u>
Capital assets, being depreciated:					
Infrastructure	133,594,365	-	-	17,887,699	151,482,064
Land improvement - exhaustible	3,545,987	-	-	764,920	4,310,907
Building and building improvements	42,315,812	-	-	4,395,201	46,711,013
Furniture, office, and other equipment	8,946,840	470,923	(35,667)	-	9,382,096
Library/museum resources	9,072,896	-	-	-	9,072,896
Vehicles	<u>18,489,479</u>	<u>1,841,669</u>	<u>(341,440)</u>	<u>-</u>	<u>19,989,708</u>
Total capital assets, being depreciated	<u>215,965,379</u>	<u>2,312,592</u>	<u>(377,107)</u>	<u>23,047,820</u>	<u>240,948,684</u>
Less: Accumulated depreciation:					
Infrastructure	(67,574,999)	(3,397,959)	-	-	(70,972,958)
Land improvement - exhaustible	(1,799,070)	(154,314)	-	-	(1,953,384)
Building and building improvements	(20,417,319)	(827,184)	-	-	(21,244,503)
Furniture, office, and other equipment	(8,095,604)	(232,670)	35,667	-	(8,292,607)
Library/museum resources	(9,072,896)	-	-	-	(9,072,896)
Vehicles	<u>(12,923,662)</u>	<u>(1,226,238)</u>	<u>341,440</u>	<u>-</u>	<u>(13,808,460)</u>
Total accumulated depreciation	<u>(119,883,550)</u>	<u>(5,838,365)</u>	<u>377,107</u>	<u>-</u>	<u>(125,344,808)</u>
Total capital assets, being depreciated, net	<u>96,081,829</u>	<u>(3,525,773)</u>	<u>-</u>	<u>23,047,820</u>	<u>115,603,876</u>
Governmental activities capital assets, net	<u>\$ 156,135,794</u>	<u>\$ 8,483,682</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 164,619,476</u>

6. CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 110,592
Public safety	668,345
Transportation	3,992,051
Culture and recreation	752,145
Economic assistance	<u>315,232</u>
Total	<u>\$ 5,838,365</u>

7. PENSION PLAN

Plan Description

The City participates in the New York State and Local Employees' Retirement System (ERS), the New York State and Local Police and Fire Retirement System (PFRS) and the Public Employees' Group Life Insurance Plan (collectively, the Systems). These are cost-sharing multiple-employer, public employee retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12244.

Funding Policies

Membership, benefits, and employer and employee obligations to contribute are described in the NYSRSSL using the tier concept. Pension legislation established tier membership by the date a member last joined the Retirement System. They are as follows:

- Tier 1 - Those persons who last became members of the System before July 1, 1973.
- Tier 2 - Those persons who last became members on or after July 1, 1973, but before July 27, 1976.
- Tier 3 - Generally those persons who are State correction officers who last became members on or after July 27, 1976, and all others who last became members on or after July 27, 1976, but before September 1, 1983.
- Tier 4 - Generally, except for correction officers, those persons who last became members on or after September 1, 1983.
- Tier 5 - Those persons who last became members of the System on or after January 1, 2010.
- Tier 6 - Those persons who last became members of the System on or after April 1, 2012.

7. PENSION PLAN (Continued)

Contributions

The System is noncontributory for the employee who joined prior to July 27, 1976. For employees who joined the System after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary, except that employees in the System more than ten years are no longer required to contribute. For employees who joined after January 1, 2010 (ERS) of January 9, 2010 (PFRS), employees in the System generally contribute 3% of their salary throughout their active membership. Employees who join on or after April 1, 2012 will contribute 3% of their reportable salary. Beginning April 1, 2013, the contribution rate for Tier 6 members will vary based on each member's annual compensation varying between 3-6%. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly as used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31.

The required contributions for the current year and two preceding years were:

		<u>ERS</u>	<u>PFRS</u>
2014	\$	2,559,416	\$ 6,139,616
2015	\$	2,793,152	\$ 7,156,478
2016	\$	2,220,530	\$ 5,959,756

Chapter 57 of the Laws of 2010 of the State of New York allows local employers to amortize a portion of their retirement bill for up to 10 years in accordance with the following schedule:

- For SFY 2010-11, the amount in excess of the graded rate of 9.5 percent of employees' covered pensionable salaries, with the first payment of those pension costs not due until the fiscal year succeeding that fiscal year which the bonding/amortization was instituted
- For subsequent SFYs, the graded rate will increase or decrease by up to one percent depending on the gap between the increase or decrease in the Systems' average rate and the previous graded rate
- For subsequent SFYs in which the Systems' average rates are lower than the graded rates, the employer will be required to pay the graded rate. Any additional contributions made will first be used to pay off existing amortizations, and then any excess will be deposited into a reserve and will be used to offset future increases in contribution rates

The total unpaid liability at December 31, 2016 related to the City's amortization of Chapter 57, Laws of 2010 for both ERS and PFRS is \$4,669,583.

\$553,059 and \$1,494,806 of the cash paid for ERS and PFRS, respectively, represents amounts owed for the period of January 1 - March 31, 2017 and is shown as prepaid expenses on the accompanying statement of net position.

7. PENSION PLAN (Continued)

Contributions (Continued)

Chapter 49 of the Laws of 2003 of the State of New York was enacted which made the following changes to the Systems:

- Required minimum contributions by employers of 4.5% of payroll every year, including years in which the investment performance would make a lower contribution possible.
- Changed the cycle of annual billing such that the contribution for a given fiscal year will be based on the value of the pension fund on the prior April 1st (e.g. billings due February 2016 were based on the pension value as of March 31, 2015).

Chapter 260 of the Laws of New York State changed the annual payment due date for employers who participate in the ERS and the PFRS. The December 15 payment due date changed to February 1. The covered salary period (April 1 - March 31) did not change for the calculation.

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

At December 31, 2016, the City reported a net pension liability of \$7,110,780 and \$21,207,352 for its proportionate share of the ERS and PFRS net pension liability, respectively. The net pension liability was measured as of March 31, 2016, and the total pension liability used to calculate the net pension liability was determined by the actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of The City's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At December 31, 2016, the City's proportionate share was .0443032% and .7162741% for NYSERS and PFRS, respectively, which was a decrease of .0010866 and .0468804, respectively, from its proportionate share measured at December 31, 2015.

For the year ended December 31, 2016, the City recognized pension expense/(income) of \$5,567,909 and \$15,653,480 for ERS and PFRS, respectively. At December 31, 2016, The City reported deferred outflows/inflows of resources related to pensions from the following sources:

ERS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 35,933	\$ 842,864
Changes in assumptions	1,896,231	-
Net difference between projected and actual earnings on pension plan investments	4,218,505	-
Changes in proportion and differences between the City's contributions and proportionate share of contributions	146,158	58,563
Contributions subsequent to the measurement date	<u>1,391,330</u>	<u>-</u>
Total	<u>\$ 7,688,157</u>	<u>\$ 901,427</u>

7. **PENSION PLAN (Continued)**

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

PFRS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 190,211	\$ 3,206,297
Changes in assumptions	9,142,420	-
Net difference between projected and actual earnings on pension plan investments	11,885,006	-
Changes in proportion and differences between the City's contributions and proportionate share of contributions	-	676,424
Contributions subsequent to the measurement date	<u>4,151,658</u>	<u>-</u>
Total	<u>\$ 25,369,295</u>	<u>\$ 3,882,721</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense for ERS and PFRS, respectively:

<u>ERS</u>	<u>PFRS</u>
Plan's Year Ended March 31:	Plan's Year Ended March 31:
2017	2017
\$ 1,382,159	\$ 4,111,609
2018	2018
1,382,159	4,111,609
2019	2019
1,385,159	4,111,609
2020	2020
1,248,923	3,935,294
2021	2021
-	1,064,795
Thereafter	Thereafter
<u>\$ 5,398,400</u>	<u>\$ 17,334,916</u>

The City recognized \$1,391,330 and \$4,151,658 as a deferred outflow of resources related to ERS and PFRS, respectively, resulting from contributions made subsequent to the measurement date of March 31, 2016 which will be recognized as a reduction of the net pension liability in the year ended December 31, 2017.

7. PENSION PLAN (Continued)

Actuarial Assumptions

The total pension liability at March 31, 2016 was determined by using an actuarial valuation as of April 1, 2015, with update procedures used to roll forward the total pension liability to March 31, 2016.

The actuarial valuation used the following actuarial assumptions for both the NYSERS and PFRS:

ERS

Actuarial cost method	Entry age normal
Inflation	2.50%
Salary scale	3.8% in ERS, 4.5% in PFRS, indexed by service
Projected COLAs	1.3% compounded annually
Decrements	Developed from the Plan's 2015 experience study of the period April 1, 2010 through March 31, 2015
Mortality improvement	Society of Actuaries Scale MP-2014
Investment Rate of Return	7.0% compounded annually, net of investment expenses

Long-term Rate of Return

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.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Type</u>	<u>Target Allocations in %</u>	<u>Long-Term expected real rate of return in %</u>
Domestic Equity	38	7.30
International Equity	13	8.55
Private Equity	10	11.00
Real Estate	8	8.25
Absolute Return	3	6.75
Opportunistic Portfolio	3	8.60
Real Asset	3	8.65
Bonds & Mortgages	18	4.00
Cash	2	2.25
Inflation-Indexed Bonds	2	4.00
	<u>100%</u>	

7. PENSION PLAN (Continued)

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. Based upon the assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption

The following presents The City's proportionate share of the net pension liability calculated using the discount rate of 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% lower (6.0%) or 1% higher (8.0%) than the current rate:

	1% Decrease <u>6.0%</u>	Current Discount <u>7.0%</u>	1% Increase <u>8.0%</u>
<u>ERS</u>			
Proportionate Share of Net Pension liability (asset)	\$ 16,034,294	\$ 7,110,780	\$ (429,207)

	1% Decrease <u>6.0%</u>	Current Discount <u>7.0%</u>	1% Increase <u>8.0%</u>
<u>PFRS</u>			
Proportionate Share of Net Pension liability (asset)	\$ 47,368,852	\$ 21,207,352	\$ (721,654)

Pension Plan Fiduciary Net Position (000's)

The components of the current-year net pension liability of the employers as of March 31, 2016 for ERS and PFRS respectively follow:

Total pension liability	\$ 172,303,544
Net position	<u>(156,253,265)</u>
Net pension liability (asset)	<u>\$ 16,050,279</u>
ERS net position as a percentage of total pension liability	90.7%

Total pension liability	\$ 30,347,727
Net position	<u>(27,386,940)</u>
Net pension liability (asset)	<u>\$ 2,960,787</u>
PFRS net position as a percentage of total pension liability	90.2%

8. OTHER POSTEMPLOYMENT BENEFIT PLANS

Plan Description

The City administers the City of Niagara Falls Retiree Medical, Dental and Life Insurance Plan (the Plan) as a single-employer defined benefit Other Postemployment 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 City currently has 568 retirees eligible to receive benefits under the Plan at December 31, 2016. 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 vary depending on the applicable agreement. The City currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The amount paid by the City during 2016 was \$9,186,358. The costs of administering the Plan are paid by the City.

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost is calculated based on the Annual Required Contribution (ARC) of the employer, an amount actuarially determined in accordance with generally accepted accounting principles. 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, 2016:

Annual OPEB Cost and New OPEB Obligation

Normal Cost	\$ 15,636,285
Amortization of unfunded actuarial liability	23,581,470
Interest	<u>625,451</u>
Annual Required Contribution (ARC)	39,843,206
Interest on OPEB Obligation	3,745,678
Adjustment to ARC	<u>(5,415,323)</u>
Annual OPEB Cost	38,173,561
OPEB contributions made during the fiscal year	<u>(9,186,358)</u>
OPEB obligation for the current fiscal year	28,987,203
OPEB obligation at beginning of year	<u>93,641,953</u>
OPEB obligation at end of year	<u>\$ 122,629,156</u>
Percentage of OPEB cost contributed	<u>24.1%</u>

8. OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)

Trend Information

The following table provides trend information for the Plan:

	Annual OPEB Cost	Annual Contributions	Percent of Annual OPEB Cost Contributed	Net OPEB Obligation at December 31
2016	\$ 38,173,561	\$ 9,186,358	24.1%	\$ 122,629,156
2015	\$ 34,930,208	\$ 8,703,673	24.9%	\$ 93,641,953
2014	\$ 24,219,250	\$ 8,089,325	33.4%	\$ 67,415,418

Funded Status and Funding Progress

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.

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 that 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:

Actuarial cost method	Projected unit credit
Discount rate*	4.0%
Medical care cost trend rate	5.8% or 7.5% annually, based on age of retirees.
Prescription drug cost trend rate	10.5%
Unfunded actuarial accrued liability:	
Amortization period	30 years
Amortization method	Level dollar
Amortization basis	Open

*As the Plan is unfunded, the assumed discount rate considers that the City's investment assets are low risk in nature, such as money market funds or certificates of deposit.

9. LONG-TERM LIABILITIES

Serial Bonds

The City borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These long-term liabilities are full faith and credit debt of the City. The provision to be made in the future budgets for capital indebtedness represents the amount, exclusive of interest, authorized to be collected in future years from taxpayers and others for liquidation of the long-term liabilities.

Other Long Term Liabilities

In addition to the above long-term debt, the City had a non-current liability for compensated absences, which represents the value of the earned and unused sick days. The City has a non-current liability for installment purchase debt for the acquisition of various capital assets and an energy performance contract for the installation of equipment to improve energy efficiency. The City also has non-current long-term liabilities for estimated workers' compensation claims incurred and due to retirement system for the current and long-term obligation of amortized payments for the remaining amounts owed by the City to the State for the 2012, 2014 and 2015 ERS and PFRS.

The following is a summary of changes in long-term liabilities for the year ended December 31, 2016:

	Balance <u>1/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/2016</u>	Due Within <u>One Year</u>
Serial bonds	\$ 58,752,331	\$ 37,490,000	\$ (41,164,738)	\$ 55,077,593	\$ 4,179,364
Installment purchase debt	730,450	-	(139,473)	590,977	139,539
Bond premium	-	2,305,830	(115,292)	2,190,538	-
Due to retirement system	5,334,423	-	(664,840)	4,669,583	629,419
Compensated absences (A)	12,279,379	696,705	-	12,976,084	-
Workers' compensation	11,440,491	-	(970,986)	10,469,505	-
Net pension liability	3,634,036	24,684,096	-	28,318,132	-
Other postemployment benefits	<u>93,641,953</u>	<u>38,173,561</u>	<u>(9,186,358)</u>	<u>122,629,156</u>	<u>-</u>
	<u>\$ 185,813,063</u>	<u>\$ 103,350,192</u>	<u>\$ (52,241,687)</u>	<u>\$ 236,921,568</u>	<u>\$ 4,948,322</u>

(A) Increases and decreases in compensated absences are shown net, since it is impractical to determine these amounts separately.

9. LONG-TERM LIABILITIES (Continued)

The City had the following bonds and installment purchase debt payable obligations changes during the year and outstanding as of December 31, 2016:

<u>Fund and Purpose</u>	<u>Year of Issue</u>	<u>Year of Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Principal Outstanding 1/1/2016</u>	<u>Issued</u>	<u>Paid With Appropriations</u>	<u>Principal Outstanding 12/31/2016</u>	<u>Amounts Due in one year</u>
General:									
Serial Bonds:									
General Improvements - 1994	1994	2024	6.125% - 7.500%	\$ 7,682,000	\$ 1,128,611	\$ -	\$ 343,104	\$ 785,507	\$ 372,730
General Improvements - 2006	2006	2028	4.375% - 4.500%	9,364,000	6,695,000	-	6,285,000	410,000	410,000
General Improvements - 2007	2007	2037	4.500% - 4.625%	39,400,000	33,270,000	-	32,345,000	925,000	925,000
General Improvements - 2009	2009	2024	3.000% - 5.500%	8,190,000	5,275,000	-	540,000	4,735,000	555,000
General Improvements - 2011	2011	2026	3.000% - 4.000%	7,437,000	5,690,000	-	455,000	5,235,000	460,000
Refunding Serial Bonds - 2014									
Refunding 2003-2004	2014	2024	0.500% - 3.000%	7,355,000	6,265,000	-	1,055,000	5,210,000	1,220,000
Refunding Serial Bonds - 2016									
Refunding 2016	2016	2037	1.750% - 5.000 %	37,490,000	-	37,490,000	-	37,490,000	95,000
					58,323,611	37,490,000	41,023,104	54,790,507	4,037,730
Installment Purchase Debt:									
NYPAA Loan	2010	2021	0.53%	1,390,120	730,450	-	139,473	590,977	139,539
Total General Fund					<u>59,054,061</u>	<u>37,490,000</u>	<u>41,162,577</u>	<u>55,381,484</u>	<u>4,177,269</u>
Sewer Fund:									
Sewer Lines	1994	2024	5.300% - 7.500%	2,988,000	3,720	-	1,634	2,086	1,634
Total Sewer Fund					<u>3,720</u>	<u>-</u>	<u>1,634</u>	<u>2,086</u>	<u>1,634</u>
Parking Ramp I:									
Refunding Serial Bond - 2014	2014	2018	0.500% - 2.000%	565,000	425,000	-	140,000	285,000	140,000
Total Parking Ramp					<u>425,000</u>	<u>-</u>	<u>140,000</u>	<u>285,000</u>	<u>140,000</u>
Total Serial Bonds and Installment Purchase Debt					<u>\$ 59,482,781</u>	<u>\$ 37,490,000</u>	<u>\$ 41,304,211</u>	<u>\$ 55,668,570</u>	<u>\$ 4,318,903</u>

9. LONG-TERM LIABILITIES (Continued)

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

	<u>Serial Bonds</u>		<u>Installment Purchase Debt</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 4,179,364	\$ 1,869,681	\$ 139,539	\$ 5,390
2018	4,169,863	1,708,915	140,927	4,102
2019	3,090,000	1,589,274	142,428	2,601
2020	3,170,000	1,487,511	143,945	1,084
2021	3,245,002	1,394,745	24,138	32
2022 - 2026	15,450,000	5,246,697	-	-
2027 - 2031	9,555,000	2,713,075	-	-
2032 - 2036	10,130,000	1,112,250	-	-
2037	<u>2,088,364</u>	<u>33,450</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 55,077,593</u>	<u>\$ 17,155,598</u>	<u>\$ 590,977</u>	<u>\$ 13,209</u>

Interest

Interest expense on long-term debt was \$2,025,419 in 2016. In 2016, cash paid for interest was \$2,186,733. The installment purchase debt has a variable interest rate, determined annually based on interest rates paid by the lender on its outstanding debt. The interest rate was 0.53% for the year ended December 31, 2016. The accrued interest on bonds for the year ended December 31, 2016 is \$183,812.

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, 2016, a total amount of \$1,764,657 of bonds outstanding is considered defeased.

Bond Refunding

A bond refunding resulted in the City incurring a bond premium of \$2,305,830. The bond premium is being amortized using the straight-line method through 2036. For the year ended December 31, 2016, the City recognized \$115,292 in amortization expense reducing the refunding bond premium balance to \$2,190,538 at December 31, 2016. As result of the refunding of the outstanding principal of the 2006 and 2007 general obligation funds, \$37,490,000 is considered to be defeased. The bond refunding resulted in a loss on refunding of \$1,993,555 and an economic benefit to the City with a present value savings of \$3,982,860.

10. RISK FINANCING ACTIVITIES

The City is exposed to various risks of loss 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, 2016 was \$730,880.

At December 31, 2016, 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.

	<u>Workers' Compensation</u>
Estimated claims December 31, 2015	\$ 11,440,491
Change in liability	<u>(970,985)</u>
Estimated claims December 31, 2016	<u>\$ 10,469,506</u>

The City provides hospitalization, medical and dental through various insurance programs to its employees. The claim liability is included in agency liabilities. These are paid as the claims are incurred by the employees and are based on invoices received from a third-party administrator. The City sets aside funds for current and future claims in the event that the insurance is terminated.

11. COMMITMENTS AND CONTINGENCIES

Landfill Closure Costs

In 1994, the City was identified by the United States Environmental Protection Agency (EPA) as a responsible party that could 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 was 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. As of December 31, 2016, a liability, Niagara County Refuse Trust, has been recorded in the Government-wide financial statements for future operation and maintenance costs. Since 2004, the Trust administration has not requested payment from the City under this program. The liability recorded as Due to Other Governments at December 31, 2016 was \$370,899.

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 and Old Falls Street. USAN delegated Global Spectrum, LP to maintain, manage, and coordinate all activities at the Conference Center and 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.

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.

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.

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.

12. FUND BALANCE

As of December 31, 2016, fund balances were composed of the following:

	General Fund	Community Development Fund	Capital Projects Fund	Miscellaneous Special Revenue Fund	Debt Service Fund	Nonmajor Governmental Funds
Nonspendable -						
Prepaid expenditures	\$ 2,047,865	\$ -	\$ -	\$ -	\$ -	\$ -
Total nonspendable	<u>2,047,865</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Restricted -						
Risk retention	1,987,198	-	-	-	-	-
Trolley services	494,683	-	-	-	-	-
Tourism	344,151	-	-	-	-	-
Grants	-	944,753	-	-	-	-
Casino	-	-	-	22,382,929	-	-
Debt	-	-	-	-	761,700	-
Total restricted	<u>2,826,032</u>	<u>944,753</u>	<u>-</u>	<u>22,382,929</u>	<u>761,700</u>	<u>-</u>
Assigned -						
Encumbrances	75,458	-	-	-	-	-
Assigned appropriated	2,347,127	-	8,139,230	-	-	2,700
Other spendable amounts	-	-	-	-	-	-
Total assigned	<u>2,422,585</u>	<u>-</u>	<u>8,139,230</u>	<u>-</u>	<u>-</u>	<u>2,700</u>
Unassigned	-	-	-	-	-	-
Total	<u>\$ 7,296,482</u>	<u>\$ 944,753</u>	<u>\$ 8,139,230</u>	<u>\$ 22,382,929</u>	<u>\$ 761,700</u>	<u>\$ 2,700</u>

13. 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.

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.

13. TAX ABATEMENTS

The following information summarizes the PILOT agreements entered into by the NCIDA relating to the City:

Year Began	Year Ending	Project Name	2016 Real Property Tax	2016 Pilot Payment Received	Taxes Abated
2007	2018	M&S Hotels, LLC	\$ 68,752	\$ 39,791	\$ 28,961
2008	2018	Seven Group, Inc.	\$ 52,997	\$ 30,442	\$ 22,555
2003	2019	G&A Warehouse LLC	\$ 25,222	\$ 14,452	\$ 10,770
2009	2020	Snow Park LLC	\$ 66,213	\$ 44,064	\$ 22,149
2009	2021	224 Group, LLC	\$ 57,440	\$ 32,140	\$ 25,300
2011	2022	Jai Devi Inc.	\$ 15,577	\$ 5,983	\$ 9,594
2013	2023	JSK International Corp.	\$ 48,830	\$ 17,281	\$ 31,549
2013	2024	Falls Hotel LLC	\$ 76,508	\$ 21,508	\$ 55,000
2013	2024	Maid of the Mist Hospitality LLC	\$ 102,933	\$ 102,933	\$ -
2013	2024	Plati Niagara Inc.	\$ 87,490	\$ 26,790	\$ 60,700
2012	2024	SAI Lodging, LLC	\$ 5,645	\$ 5,645	\$ -
2014	2025	Indian Ocean LLC	\$ 17,510	\$ 17,510	\$ -
2009	2025	LaSalle Hospitality, Inc.	\$ 122,563	\$ 55,193	\$ 67,370
2014	2025	Merani Holdings, LLC	\$ 1,725	\$ 1,725	\$ -
2014	2025	Niagara Falls Hospitality, Inc.	\$ 3,024	\$ 3,024	\$ -
2014	2025	Niagara Lodging, Inc.	\$ 15,131	\$ 5,951	\$ 9,180
2008	2026	Niagara Generation, LLC	\$ 1,139,362	\$ -	\$ 1,139,362
2012	2027	Franks Vacuum Truck Service Inc.	\$ 41,427	\$ 16,270	\$ 25,157
2012	2027	Olin Chlor Alkali	\$ 30,926	\$ 10,693	\$ 20,233
2014	2030	Covanta Niagara, L.P.	\$ 1,419,400	\$ 578,746	\$ 840,654
2009	2030	Merani Hospitality Inc.	\$ 65,530	\$ 23,882	\$ 41,648
2011	2033	Greenpac Mill LLC	\$ 1,252,642	\$ 505,481	\$ 747,161
2008	2038	Center Court LLC	\$ 253,808	\$ 22,561	\$ 231,247

The City is also subject to Mortgage and Sales tax abatements granted by the NCIDA in order to increase business activity and employment in the region. The amount of mortgage tax abated in the City for the year ended December 31, 2016 was \$159,765. The amount of sales tax abated in the City of for the year ended December 31, 2016 was \$275,887.

14. FUTURE GASB PRONOUNCEMENTS

In June 2015, the GASB issued Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 75 replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. The City is required to adopt the provisions of these Statements for the year ending December 31, 2018, with early adoption encouraged.

In March 2016, GASB issued Statement No. 82, *Pension Issues-An Amendment of GASB Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73 Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GAS 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The Statement addresses issues related to the presentation of payroll related measures in required supplementary information, selection of assumptions and the treatment of deviations and classification of payments made by employers to meet employee contribution requirements. The Statement takes effect for reporting periods beginning after June 15, 2016 except for the selection of assumptions in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end in which the effective date is on or after June 15, 2017. Earlier adoption is encouraged.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefore. The City is required to adopt the provisions of this Statement for the year ending December 31, 2019.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement apply to the financial statements of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The City is required to adopt the provisions of this Statement for the year ending December 31, 2019.

CITY OF NIAGARA FALLS, NEW YORK

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Original <u>Budget</u>	Final <u>Budget</u>	Actual Amounts <u>(Budgetary Basis)</u>	Variance with Final Budget Positive <u>(Negative)</u>
REVENUES:				
Real property taxes and tax items	\$ 32,826,301	\$ 32,826,301	\$ 30,898,346	\$ (1,927,955)
Nonproperty tax items	18,300,000	18,300,000	17,784,762	(515,238)
Departmental income	437,384	437,384	516,676	79,292
Intergovernmental charges	771,489	773,777	864,829	91,052
Use of money and property	623,427	623,427	603,987	(19,440)
Licenses and permits	1,136,137	1,136,137	1,170,351	34,214
Fines and forfeitures	642,500	642,500	538,093	(104,407)
Interfund revenue	242,235	242,235	74,992	(167,243)
Sale of property and compensation for loss	265,454	265,454	76,790	(188,664)
Miscellaneous	157,900	157,900	307,589	149,689
State aid	19,398,067	19,398,067	19,179,579	(218,488)
Federal aid	-	-	62,512	62,512
	<u>74,800,894</u>	<u>74,803,182</u>	<u>72,078,506</u>	<u>(2,724,676)</u>
EXPENDITURES:				
General governmental support	10,931,646	10,535,760	9,836,779	698,981
Public safety	37,797,477	38,071,908	39,418,992	(1,347,084)
Transportation	4,305,533	4,477,568	4,369,108	108,460
Economic assistance and opportunity	466,446	511,643	505,033	6,610
Culture and recreation	2,660,245	2,722,518	2,427,884	294,634
Home and community services	5,450,322	5,570,708	5,500,471	70,237
Employee benefits	18,217,961	18,228,420	17,843,417	385,003
	<u>79,829,630</u>	<u>80,118,525</u>	<u>79,901,684</u>	<u>216,841</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(5,028,736)</u>	<u>(5,315,343)</u>	<u>(7,823,178)</u>	<u>(2,507,835)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers - in	14,012,509	14,409,299	14,719,143	309,844
Operating transfers - out	(8,983,773)	(9,151,850)	(8,437,513)	714,337
	<u>5,028,736</u>	<u>5,257,449</u>	<u>6,281,630</u>	<u>1,024,181</u>
CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ (57,894)</u>	<u>(1,541,548)</u>	<u>\$ (1,483,654)</u>
FUND BALANCE - beginning of year, as previously reported			7,681,157	
PRIOR PERIOD ADJUSTMENT (Note 2)			<u>(1,838,275)</u>	
FUND BALANCE - beginning of year, as restated			<u>5,842,882</u>	
FUND BALANCE - end of year			<u>\$ 4,301,334</u>	

Note: This schedule does not include the Risk Retention Fund, Tourism Fund, or Grant Fund which do not have legally adopted budgets.

CITY OF NIAGARA FALLS, NEW YORK

**SCHEDULE OF FUNDING PROGRESS - OTHER POST EMPLOYMENT BENEFITS PLAN (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2016**

Actuarial Valuation Date	Fiscal Year Ended	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a percentage of Covered Payroll
January 1, 2016	12/31/2016	\$ -	\$ 407,771,559	\$ 407,771,559	0%	\$ 40,562,609	1005.3%
January 1, 2015	12/31/2015	\$ -	\$ 366,304,988	\$ 366,304,988	0%	\$ 38,456,806	952.5%
January 1, 2014	12/31/2014	\$ -	\$ 279,537,238	\$ 279,537,238	0%	\$ 40,785,237	685.4%

CITY OF NIAGARA FALLS, NEW YORK

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET) - (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2016**

NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN - ERS	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Proportion of the net pension liability (asset)	0.04%	0.05%								
Proportionate share of the net pension liability (asset)	\$ 7,111	\$ 1,533								
Covered-employee payroll	\$ 12,172	\$ 11,848								
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	58.42%	12.94%								
Plan fiduciary net position as a percentage of the total pension liability (asset)	90.70%	97.90%								

Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.

NEW YORK STATE POLICE AND FIRE RETIREMENT SYSTEM PLAN - PFRS	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Proportion of the net pension liability (asset)	0.72%	0.76%								
Proportionate share of the net pension liability (asset)	\$ 21,207	\$ 2,101								
Covered-employee payroll	\$ 28,390	\$ 22,813								
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	74.70%	9.21%								
Plan fiduciary net position as a percentage of the total pension liability (asset)	90.20%	99.00%								

Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.

CITY OF NIAGARA FALLS, NEW YORK

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS - PENSION PLANS - (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN - ERS										
Contractually required contribution	\$ 1,882	\$ 2,202								
Contributions in relation to the contractually required contribution	1,882	2,202								
Contribution deficiency (excess)	\$ -	\$ -								
Covered-employee payroll	\$ 12,172	\$ 11,848								
Contributions as a percentage of covered-employee payroll	15.46%	18.59%								

Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.

	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
NEW YORK STATE POLICE AND FIRE RETIREMENT SYSTEM PLAN - PFRS										
Contractually required contribution	\$ 5,960	\$ 5,909								
Contributions in relation to the contractually required contribution	5,960	5,909								
Contribution deficiency (excess)	\$ -	\$ -								
Covered-employee payroll	\$ 28,390	\$ 22,813								
Contributions as a percentage of covered-employee payroll	20.99%	25.90%								

Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.

CITY OF NIAGARA FALLS, NEW YORK

**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	<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	\$ 6,299	\$ 56,734	\$ 140,874	\$ 20,320	\$ 224,227
Total assets	<u>\$ 6,299</u>	<u>\$ 56,734</u>	<u>\$ 140,874</u>	<u>\$ 20,320</u>	<u>\$ 224,227</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 3,009	\$ 42,721	\$ 107,475	\$ 12,224	\$ 165,429
Accrued liabilities	-	-	-	789	789
Unearned revenue	-	6,429	-	-	6,429
Due to other funds	<u>3,290</u>	<u>7,584</u>	<u>30,699</u>	<u>7,307</u>	<u>48,880</u>
Total liabilities	<u>6,299</u>	<u>56,734</u>	<u>138,174</u>	<u>20,320</u>	<u>221,527</u>
FUND BALANCES:					
Assigned	<u>-</u>	<u>-</u>	<u>2,700</u>	<u>-</u>	<u>2,700</u>
Total fund balances	<u>-</u>	<u>-</u>	<u>2,700</u>	<u>-</u>	<u>2,700</u>
Total liabilities fund balances	<u>\$ 6,299</u>	<u>\$ 56,734</u>	<u>\$ 140,874</u>	<u>\$ 20,320</u>	<u>\$ 224,227</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, 2016**

	<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	\$ -	\$ 743,010	\$ -	\$ 1,920,147	\$ 2,663,157
Use of money and property	-	12,482	-	3,622	16,104
Miscellaneous local sources	-	-	-	1,710	1,710
Total revenues	<u>-</u>	<u>755,492</u>	<u>-</u>	<u>1,925,479</u>	<u>2,680,971</u>
EXPENDITURES:					
General governmental support	36,270	-	-	487,911	524,181
Culture and recreation	-	1,079,308	1,519,268	-	2,598,576
Employee benefits	-	80,472	378,838	9,748	469,058
Total expenditures	<u>36,270</u>	<u>1,159,780</u>	<u>1,898,106</u>	<u>497,659</u>	<u>3,591,815</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(36,270)</u>	<u>(404,288)</u>	<u>(1,898,106)</u>	<u>1,427,820</u>	<u>(910,844)</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers - in	36,270	404,288	1,855,612	-	2,296,170
Operating transfers - out	-	-	-	(1,427,820)	(1,427,820)
Total other financing sources (uses)	<u>36,270</u>	<u>404,288</u>	<u>1,855,612</u>	<u>(1,427,820)</u>	<u>868,350</u>
CHANGE IN FUND BALANCE	-	-	(42,494)	-	(42,494)
FUND BALANCE - beginning of year	<u>-</u>	<u>-</u>	<u>45,194</u>	<u>-</u>	<u>45,194</u>
FUND BALANCE - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,700</u>	<u>\$ -</u>	<u>\$ 2,700</u>

SECTION B

SINGLE AUDIT UNDER UNIFORM GUIDANCE

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

June 20, 2017

To the City Council of the
City of Niagara Falls, New York:

We have audited, in accordance with the 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, 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, 2016, 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 20, 2017. Our report includes a reference to other auditors, who audited the financial statements of the Niagara Falls Public Library, as described in our report on the City's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by the other auditor.

Internal Control Over Financial Reporting

In planning and performing our audit, 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 entity'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.

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(Continued)

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

(Continued)

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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

June 20, 2017

To the City Council of the
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's) 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, 2016. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, 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* 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 the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2016.

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(Continued)

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

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.

CITY OF NIAGARA FALLS, NEW YORK

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Federal Grantor/Pass Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures	Expenditures to Subrecipients
U.S. Department of Housing and Urban Development:				
Community Development Block Grants/Entitlement Grants	14.218	N/A	\$ 2,421,211	\$ 547,614
Emergency Solutions Grants Program	14.231	N/A	170,912	166,891
Home Investment Partnerships Program	14.239	N/A	482,311	186,504
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	N/A	51,368	-
Section 8 Housing Choice Vouchers	14.871	N/A	3,843,662	-
Passed through NYS Division of Housing and Community Renewal Section 8 Housing Choice Vouchers	14.871	NY904	<u>23,985</u>	<u>-</u>
<i>Total U.S. Department of Housing and Urban Development</i>			<u>6,993,449</u>	<u>901,009</u>
U.S. Department of Commerce:				
Foreign-Trade Zones in the United States	11.111	N/A	<u>41,849</u>	<u>-</u>
<i>Total U.S. Department of Commerce</i>			<u>41,849</u>	<u>-</u>
U.S. Department of Justice:				
Equitable Sharing Program	16.922	N/A	88,835	-
Edward J. Byrne Memorial Justice Assistance Grant Program	16.738	N/A	102,871	-
Public Safety Partnership and Community Policing Grants	16.710	N/A	62,512	-
Passed through NYS Division of Criminal Justice Services Legal Assistance for Victims	16.524	VW091168E00	<u>62,701</u>	<u>-</u>
<i>Total U.S. Department of Justice</i>			<u>316,919</u>	<u>-</u>
U.S. Department of Transportation:				
Passed through NYS Department of Transportation				
Highway Planning and Construction	20.205	D017307	4,112,211	-
Highway Planning and Construction	20.205	D022276	16,171	-
Highway Planning and Construction	20.205	D033381	1,947,190	-
Highway Planning and Construction	20.205	D024782	<u>48,768</u>	<u>-</u>
<i>Total U.S. Department of Transportation</i>			<u>6,124,340</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 13,476,557</u>	<u>\$ 901,009</u>

CITY OF NIAGARA FALLS, NEW YORK

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS DECEMBER 31, 2016

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Niagara Falls, New York (the City) under programs of the federal government for the year ended December 31, 2016. 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 or the respective changes in financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are presented in conformity with accounting principles generally accepted in the United States and the amounts presented are derived from the City's general ledger.

The City did not elect to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

3. PASS-THROUGH PROGRAMS

Where the City receives funds from a government entity other than the federal government (pass-through), the funds are accumulated based upon the Catalog of Federal Domestic Assistance (CFDA) number advised by the pass-through grantor.

Identifying numbers, other than the CFDA numbers, which may be assigned by pass-through grantors are not maintained in the City's financial management system. The City has identified certain pass-through identifying numbers and included them in the Schedule, as available.

4. INDIRECT COSTS

Indirect costs are included in the reported expenditures to the extent such costs are included in the federal financial reports used as the source for the data presented.

5. MATCHING COSTS

Matching costs, i.e., the City's or State's share of certain program costs, are not included in the schedule of expenditures of federal awards.

CITY OF NIAGARA FALLS, NEW YORK

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

Yes No

Significant deficiencies identified not considered to be material weaknesses?

Yes None reported

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

Yes No

Significant deficiencies identified not considered to be material weaknesses?

Yes None reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?

Yes No

Identification of major programs:

CFDA Number Name of Federal Program

14.871 Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

Yes No

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

SECTION C

NEW YORK STATE SINGLE AUDIT

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS OF THE STATE TRANSPORTATION ASSISTANCE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY DRAFT PART 43 OF THE NYSCRR

June 20, 2017

To the City Council of the
City of Niagara Falls, New York:

Report on Compliance of the 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 Draft Part 43 of the New York State Codification of Rules and Regulations (NYSCRR) that could have a direct and material effect on the City's state transportation assistance program tested for the year ended December 31, 2016. The City's state transportation assistance program tested is identified in the summary of audit results section of the accompanying schedule of findings and questioned costs for state transportation assistance expended.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's state transportation assistance program tested 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 Draft Part 43 of NYSCRR. Those standards and Draft Part 43 of NYSCRR 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 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 the state transportation assistance program tested. However, our audit does not provide a legal determination of the City's compliance.

Opinion on State Transportation Assistance Program Tested

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its state transportation assistance program tested for the year ended December 31, 2016.

(Continued)

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS OF THE STATE TRANSPORTATION ASSISTANCE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY DRAFT PART 43 OF THE NYSCRR

(Continued)

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 the state transportation assistance program tested to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the state transportation assistance programs and to test and report on internal control over compliance in accordance with Draft Part 43 of NYSCRR, 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 the 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 material noncompliance with a type of compliance requirement of the 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 the 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 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 Draft Part 43 of NYSCRR. Accordingly, this report is not suitable for any other purpose.

CITY OF NIAGARA FALLS, NEW YORK

**SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED
FOR THE YEAR ENDED DECEMBER 31, 2016**

<u>Program Title</u>	<u>NYS DOT Contract Reference Number</u>	<u>Expenditures</u>
Consolidated Local Street and Highway Improvement Program (CHIPS)	001-01/001-02	\$ <u>1,711,702</u>
Arterial Maintenance	N/A	<u>401,625</u>
Marchiselli Program - Bond Match for Federal Aid Highway Projects:		
Transportation Center	D017307	2,337,672
Buffalo Avenue	D0022276	3,032
Buffalo Avenue	D0024782	345,522
Lockport Street	D024782	<u>6,973</u>
Total Marchiselli Program		<u>2,693,199</u>
Total State Transportation Assistance		\$ <u>4,806,526</u>

CITY OF NIAGARA FALLS, NEW YORK

NOTES TO THE SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED DECEMBER 31, 2016

1. GENERAL

The accompanying Schedule of State Transportation Assistance Expended of the City of Niagara Falls, New York (the City) presents the expenditures of all financial assistance programs provided by the New York State Department of Transportation.

2. BASIS OF ACCOUNTING

The accompanying Schedule of State Transportation Assistance Expended is presented in conformity with accounting principles generally accepted in the United States.

3. INDIRECT COSTS

Indirect costs are included in the reported expenditures to the extent they are included in the New York State financial reports used as the source for the data presented.

4. MATCHING COSTS

Amounts identified as Marchiselli Program - Bond Match for Federal Aid Highway Projects represent matching costs for the federally aided program.

CITY OF NIAGARA FALLS, NEW YORK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR STATE TRANSPORTATION ASSISTANCE EXPENDED FOR THE YEAR ENDED DECEMBER 31, 2016

A. SUMMARY OF AUDIT RESULTS

1. Internal control over state transportation assistance expended:
 - No significant deficiencies or material weaknesses were identified.
2. The independent auditor's report on compliance with requirements of the state transportation assistance program and on internal control over compliance required by Draft Part 43 of the NYSCRR in accordance with *Government Auditing Standards* expressed an unmodified opinion and did not disclose any noncompliance with state transportation programs.
3. The program tested was:
 - Consolidated Local Street & Highway Improvement Program

B. FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

There were no current year findings and there were no prior year findings.

C. COMPLIANCE FINDINGS AND QUESTIONED COSTS

There were no current year findings.