

**CITY OF NIAGARA FALLS, NEW YORK**

**Financial Statements as of  
December 31, 2010  
Together with  
Independent Auditors' Report**

**Bonadio & Co., LLP**  
Certified Public Accountants

# CITY OF NIAGARA FALLS, NEW YORK

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**SECTION A**

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

## INDEPENDENT AUDITORS' REPORT

June 22, 2011

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Niagara Falls, New York (the City), as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 1% of the total assets and total net assets, and 94% of the total revenues of the component units. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, in so far as it relates to amounts included for Niagara Falls Public Library, is based on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditor provide a reasonable basis for our opinions.

In our opinion, based on our report and the report of the other auditor, the financial statements referred to previously 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, 2010, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2011, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

(Continued)

## INDEPENDENT AUDITORS' REPORT

(Continued)

Accounting principles generally accepted in the United States require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 48 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, which consisted of inquiries of management about the method 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments, and Not-for-Profit Organizations*, and the accompanying schedule of state transportation assistance expended is presented for purposes of additional analysis as required by Draft Part 43 of the New York Code of Rules and Regulations, and both are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

# **CITY OF NIAGARA FALLS, NEW YORK**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2010 (UNAUDITED)**

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### **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, 2010. 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.

Management's Discussion and Analysis (MD&A) is an element of required supplementary information specified in the Governmental Accounting Standard Board (GASB) Statement No. 34 - Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments.

### **FINANCIAL HIGHLIGHTS**

Overall, net assets increased by \$4,542,561 (or 7%).

The City does not generally experience huge swings in revenues and expenses. Due to this, the City can maintain a healthy, but not excessive balance in unrestricted net assets, allowing for available funds to deal with unexpected problems, pay for routine capital equipment acquisitions, and to help keep tax rates stable.

- The City continues to update its 3-year financial plan, which is filed annually with New York State
- The City has maintained, and in 2010 increased, its "unreserved, unappropriated" fund balance by \$1.0 million resulting in an ending balance of \$5.1 million.
- Major economic development projects in hotels, a new culinary school, major restaurant chains, and new housing all opened in 2010.
- The City implemented a "spending freeze" in the fall of 2010, resulting in savings of over \$1.0 million to cover the cuts in State Aid previously budgeted.

### **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.

## OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

### 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 Assets 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.

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

**Statement of Activities** - presents information showing how net assets changed during the fiscal year. All changes in net assets 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.

### 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 Assets 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. All of the City's internal service funds are combined into a single presentation in the proprietary fund financial statements. Individual data for the internal service funds is provided in the form of combining statements elsewhere in the financial statements.

## OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

### 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 Fiduciary Net Assets. 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

### Statement of Net Assets

	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 125,535,879	\$ 138,381,849
Capital assets	<u>86,514,280</u>	<u>68,354,492</u>
Total assets	<u>212,050,159</u>	<u>206,736,341</u>
Long-term liabilities outstanding	115,690,229	111,421,534
Other liabilities	<u>29,042,842</u>	<u>32,540,280</u>
Total liabilities	<u>144,733,071</u>	<u>143,961,814</u>
Net assets:		
Invested in capital assets, net of related debt	18,462,138	5,437,092
Restricted	1,732,166	3,668,045
Unrestricted	<u>47,122,784</u>	<u>53,669,390</u>
Total net assets	<u>\$ 67,317,088</u>	<u>\$ 62,774,527</u>

The largest portion of the City's total assets (40.8% at 2010 and 33.1% at 2009) represents its net 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.

Restricted net assets represent 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.

## FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (Continued)

Unrestricted net assets 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.

### Statement of Activities

	Governmental Activities	
	<u>2010</u>	<u>2009</u>
Revenues		
Program revenues		
Charges for services	\$ 12,865,986	\$ 7,870,927
Operating grants and contributions	31,481,033	9,540,803
Capital grants and contributions	2,907,353	23,750,061
General revenues		
Taxes and related items	48,688,199	48,233,413
State aid not received for a specific purpose	14,852,672	39,529,326
Interest and other	<u>5,185,483</u>	<u>2,647,187</u>
Total revenue	<u>115,980,726</u>	<u>131,571,717</u>
Program expenses		
General government	18,535,968	19,849,756
Public safety	46,832,726	47,852,588
Transportation	13,053,733	9,886,148
Economic assistance and opportunity	8,319,773	9,946,386
Culture and recreation	4,478,084	5,117,623
Home and community service	16,999,316	13,806,300
Loss on sale of capital assets	-	113,456
Interest	<u>3,218,565</u>	<u>3,204,295</u>
Total expenses	<u>111,438,165</u>	<u>109,776,552</u>
Increase in net assets	4,542,561	21,795,165
Transfers	-	(7,275,214)
Net assets - beginning of year	<u>62,774,527</u>	<u>48,254,576</u>
Net assets - end of year	<u>\$ 67,317,088</u>	<u>\$ 62,774,527</u>

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 42% of total revenues (37% in 2009). Charges for services, approximating 11.1% of total revenues (5.9% in 2009), consist mainly of parking tickets, permits and City Clerk fees.

Program expenses include an allocable share of insurance and depreciation on capital assets for each category presented. Interest expense and employee benefits are not allocated. The most significant category of expense is public safety at approximately 42% of total expenses in 2010 (44% in 2009), consisting principally of the City's police and fire departments. Total expenses increased by \$1,661,613 (or 1.5%).

## **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 experienced an increase in fund balance of approximately \$482,000 for 2010. Current year revenues were offset by expenditures and the additional operating transfers needed in the capital fund to cover capital projects. Additionally, sales tax and the sale of city owned property attributed to the surplus. The City tends to budget these revenue line items conservatively using 10-15 year averages, and grants are generally not budgeted as a revenue or expenditure until a specific grant is awarded. These items can be difficult to predict from one year to the next.

Expenditures in the General Fund were approximately \$1,700,000 lower than expected. This is a result of workers' compensation, health care, and a spending freeze put in place the 4<sup>th</sup> quarter of the fiscal year.

### Miscellaneous Special Revenue Fund

The Miscellaneous Special Revenue Fund is a special revenue fund supported fund from the Seneca Niagara Casino received in an allocation from NYS. The fund balance decreased by \$15,223,867 in 2010.

Revenues were \$63,288, while expenditures were \$5,229,367. The biggest outflow was the funding of capital projects in the amount of \$10,057,788 that was transferred to other funds during the year.

### Community Development Fund

The Community Development Fund is a special revenue fund supported by money from the US Department of Housing and Urban Development. The fund balance decreased by \$2,334,954 in 2010.

### Capital Projects Funds

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

### Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of interest and principal on, general governmental obligations.

### Other Governmental Funds

Non-major funds include the Debt Service, Golf Course, Parking Ramp, and Public Library funds. The decrease in fund balance of \$1,935,879 during 2010 was principally due to the use of excess debt service fund balance transferred to the General Fund for use in balancing the 2010 budget.

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS (Continued)

### GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were greater than budgeted by \$3,237,776. The largest variance was in nonproperty tax items, including sales tax, which was higher than expected by \$2,183,285. Sale of property was also a large variance, and was higher than expected of \$1,534,474.

Actual expenditures were lower than budgeted by \$1,730,277. Nearly all of these savings were directly related to a departmental spending freeze in the operating budget for the last quarter of 2010, and workers' compensation and incurred but not reported reserves offsetting health care costs.

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>2010</u>	<u>2009</u>
Land and land improvements	\$ 3,864,632	\$ 3,804,783
Buildings and improvements	5,124,302	3,963,517
Works of art	17,378	17,378
Infrastructure	38,453,363	28,704,642
Equipment and furniture	1,386,524	1,223,408
Vehicles	7,037,282	5,343,779
Construction in progress	<u>30,630,799</u>	<u>25,296,985</u>
	<u>\$ 86,514,280</u>	<u>\$ 68,354,492</u>

Net capital assets increased by \$18,159,788 during the current year. This reflects new improvement and infrastructure projects under construction of \$5,333,814, infrastructure additions of \$9,748,721, buildings and improvements of \$1,160,785, and reduced by current year depreciation expense of \$3,661,364.

#### Debt

A summary of the City's outstanding obligations are:

	<u>2010</u>	<u>2009</u>
Debt to Finance Capital Assets:		
Serial Bonds	\$ 68,049,142	\$ 70,905,067
Installment Purchase Debt	<u>-</u>	<u>247,599</u>
Total Debt to Finance Capital Assets	<u>\$ 68,049,142</u>	<u>\$ 71,152,666</u>

## **CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)**

At December 31, 2010, the City has total long-term obligations outstanding of \$68,049,142, of which \$2,933,203 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 City has entered into.

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-limitation for the City approximates \$5,121,569; 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 in 2010, Moody's Investors Service, Inc. ("Moody's") upgraded the City from a Baa2 to a rating of "A2" to the uninsured outstanding bonded indebtedness of the City.

## **FACTORS BEARING ON THE CITY'S FUTURE**

Health insurance costs continue to increase at rates well above the rate of inflation which makes budgeting difficult. The majority of the City's employees receive 100% of their health care coverage under collective bargaining agreements.

Retirement costs for employees as mandated by New York State Local Employees Retirement System and the New York State Police & Fire Retirement System are projected to remain at levels well above the average over the past 10 years.

The City is at 81.06% of its Constitutional Tax Limit, and therefore does not have the ability to raise taxes to cover all of the expected expense increases mentioned above.

State Aid has been cut \$713,364 over the past 2 years.

## **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 Comptroller, 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 ASSETS DECEMBER 31, 2010

	<u>Governmental Activities</u>	<u>Component Units</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 55,025,013	\$ 2,141,066
Accounts receivable	2,477,736	3,317
Due from Federal and State governments	42,980,827	-
Loans receivable, net	4,371,080	252,048
Notes receivable	883,792	-
Grants receivable	-	1,084,435
Taxes receivable, net	14,985,461	-
Due from other funds	383,620	-
Due from other governments	2,483,507	153,439
Prepaid expenses	1,354,856	-
Inventory	589,987	-
Capital assets, net	<u>86,514,280</u>	<u>38,324,843</u>
 Total assets	 <u>212,050,159</u>	 <u>41,959,148</u>
<b>LIABILITIES</b>		
Accounts payable	6,034,356	19,003
Accrued liabilities	6,184,269	16,651
Retainages payable	745,326	-
Due to other funds	1,103,278	-
Due to other governments	10,142,453	-
Deferred revenue	4,833,160	2,956,393
Long-term liabilities -		
Due within one year	4,210,888	-
Due in more than one year	<u>111,479,341</u>	<u>-</u>
 Total liabilities	 <u>144,733,071</u>	 <u>2,992,047</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	18,462,138	38,324,843
Restricted -		
Debt service	1,732,166	-
Unrestricted	<u>47,122,784</u>	<u>642,258</u>
 Total net assets	 <u>\$ 67,317,088</u>	 <u>\$ 38,967,101</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, 2010**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Component Units
<b>PRIMARY GOVERNMENT:</b>						
Governmental activities -						
General governmental support	\$ 18,535,968	\$ 1,502,605	\$ 22,542,364	\$ -	\$ 5,509,001	
Public safety	46,832,726	2,293,488	1,106,060	-	(43,433,178)	
Transportation	13,053,733	423,049	257,274	2,907,353	(9,466,057)	
Economic assistance and opportunity	8,319,773	21,500	-	-	(8,298,273)	
Culture and recreation	4,478,084	1,893,573	53,305	-	(2,531,206)	
Home and community services	16,999,316	6,731,771	7,522,030	-	(2,745,515)	
Interest on long-term debt	3,218,565	-	-	-	(3,218,565)	
Total governmental activities	111,438,165	12,865,986	31,481,033	2,907,353	(64,183,793)	
<b>COMPONENT UNITS:</b>	\$ 3,368,688	\$ 2,094,392	\$ -	\$ -		(1,274,296)
<b>GENERAL REVENUES AND TRANSFERS:</b>						
Real property taxes and real property tax items					30,354,914	-
Nonproperty tax items					18,333,285	-
Use of money and property					1,000,510	4,582
Sale of property and compensation for loss					1,638,351	-
State aid not received for a specific purpose					14,852,672	-
Miscellaneous					2,546,622	-
Transfers					-	(790,067)
Total general revenues and transfers					68,726,354	(785,485)
Change in net assets					4,542,561	(2,059,781)
Net assets - beginning of year					62,774,527	41,026,882
Net assets - end of year					\$ 67,317,088	\$ 38,967,101

The accompanying notes are an integral part of these statements.

**CITY OF NIAGARA FALLS, NEW YORK**

**BALANCE SHEET - GOVERNMENTAL FUNDS  
DECEMBER 31, 2010**

	<u>General</u>	<u>Community Development</u>	<u>Capital Projects</u>	<u>Miscellaneous Special Revenue</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 22,868,758	\$ 3,383,346	\$ 26,074,031	\$ 792,741	\$ 1,841,054	\$ 54,959,930
Due from Federal and State governments	7,086,413	-	22,334,577	-	144,683	29,565,673
Due from other governments	1,944,405	538,144	-	958	-	2,483,507
Loans receivable, net	-	4,371,080	-	-	-	4,371,080
Notes receivable	883,792	-	-	-	-	883,792
Taxes receivable, net	14,985,461	-	-	-	-	14,985,461
Accounts receivable	2,171,738	175,875	116,181	-	13,942	2,477,736
Prepaid expenses	1,346,298	-	-	-	8,558	1,354,856
Due from other funds	383,620	-	-	-	-	383,620
	<u>51,670,485</u>	<u>8,468,445</u>	<u>48,524,789</u>	<u>793,699</u>	<u>2,008,237</u>	<u>111,465,655</u>
Total assets	<u>\$ 51,670,485</u>	<u>\$ 8,468,445</u>	<u>\$ 48,524,789</u>	<u>\$ 793,699</u>	<u>\$ 2,008,237</u>	<u>\$ 111,465,655</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES:</b>						
Accounts payable	\$ 3,564,224	\$ 502,292	\$ 1,519,426	\$ 260,613	\$ 103,987	\$ 5,950,542
Accrued liabilities	5,785,750	-	-	-	11,304	5,797,054
Retainages payable	20,339	-	724,987	-	-	745,326
Due to other funds	679,385	233,580	-	-	160,780	1,073,745
Due to other governments	8,885,617	1,256,836	-	-	-	10,142,453
Deferred revenues	8,023,595	4,717,232	115,928	-	-	12,856,755
	<u>26,958,910</u>	<u>6,709,940</u>	<u>2,360,341</u>	<u>260,613</u>	<u>276,071</u>	<u>36,565,875</u>
Total liabilities	<u>26,958,910</u>	<u>6,709,940</u>	<u>2,360,341</u>	<u>260,613</u>	<u>276,071</u>	<u>36,565,875</u>
<b>FUND BALANCES:</b>						
<b>Reserved -</b>						
Encumbrances	76,530	-	13,723,567	-	-	13,800,097
Debt service reserve	-	-	-	-	1,732,166	1,732,166
Long-term receivables	352,646	-	-	-	-	352,646
Risk retention	3,478,166	-	-	-	-	3,478,166
Special events	64,603	-	-	-	-	64,603
Trolley services	427,164	-	-	-	-	427,164
Community development projects	-	1,758,505	-	-	-	1,758,505
<b>Unreserved -</b>						
Appropriated - ensuing fiscal year	5,951,042	-	19,392,773	-	-	25,343,815
Designated for special projects	9,253,390	-	-	-	-	9,253,390
Unappropriated	5,108,034	-	13,048,108	533,086	-	18,689,228
	<u>24,711,575</u>	<u>1,758,505</u>	<u>46,164,448</u>	<u>533,086</u>	<u>1,732,166</u>	<u>74,899,780</u>
Total fund balances	<u>24,711,575</u>	<u>1,758,505</u>	<u>46,164,448</u>	<u>533,086</u>	<u>1,732,166</u>	<u>74,899,780</u>
Total liabilities and fund balances	<u>\$ 51,670,485</u>	<u>\$ 8,468,445</u>	<u>\$ 48,524,789</u>	<u>\$ 793,699</u>	<u>\$ 2,008,237</u>	<u>\$ 111,465,655</u>

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 ASSETS  
DECEMBER 31, 2010**

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Total fund balance - governmental funds			\$ 74,899,780
Total net assets reported for governmental activities in the statement of net assets 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	175,032,842	
	Accumulated depreciation	<u>(88,518,562)</u>	86,514,280
Compensated absences are not reported in the funds under fund accounting, but are expensed in the statement of activities as the liability is incurred.			
			(10,984,278)
The net assets 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 assets.			
	Assets	655,070	
	Liabilities	<u>(113,347)</u>	541,723
Revenue related to the tax levy is recognized when earned in the statement of activities, but deferred in the fund statements if collection is anticipated to exceed sixty days after year-end.			
			8,023,595
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 assets when incurred.			
			(387,215)
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			
			13,415,154
Long-term debt, including serial bonds, is not due and payable in the current period and; therefore, is not reported as fund liabilities.			
			<u>(104,705,951)</u>
Total net assets of governmental activities			<u>\$ 67,317,088</u>

The accompanying notes are an integral part of these statements.

**CITY OF NIAGARA FALLS, NEW YORK**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>General</u>	<u>Community Development</u>	<u>Capital Projects</u>	<u>Miscellaneous Special Revenue</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
<b>REVENUES:</b>						
Real property taxes and tax items	\$ 28,905,146	\$ -	\$ -	\$ -	\$ -	\$ 28,905,146
Nonproperty tax items	18,333,285	-	-	-	-	18,333,285
Departmental income	2,450,187	11,680	6,591,856	-	1,376,478	10,430,201
Use of money and property	815,426	6,637	1,521	63,288	113,638	1,000,510
Licenses and permits	554,206	-	-	-	-	554,206
Fines and forfeitures	787,665	-	-	-	-	787,665
Interfund revenue	182,575	-	-	-	-	182,575
Sale of property and compensation for loss	1,638,351	-	-	-	-	1,638,351
Miscellaneous	1,502,909	-	190,053	-	853,660	2,546,622
State aid	24,391,084	173,105	2,907,353	-	144,683	27,616,225
Federal aid	687,649	7,522,030	-	-	-	8,209,679
	<u>80,248,483</u>	<u>7,713,452</u>	<u>9,690,783</u>	<u>63,288</u>	<u>2,488,459</u>	<u>100,204,465</u>
<b>EXPENDITURES:</b>						
General governmental support	10,582,316	-	1,919,543	5,229,367	1,456,935	19,188,161
Public safety	33,795,444	-	1,867,751	-	-	35,663,195
Transportation	4,133,387	-	15,611,798	-	-	19,745,185
Economic assistance and opportunity	4,932,483	-	3,387,290	-	-	8,319,773
Culture and recreation	2,299,035	-	4,670,651	-	1,715,715	8,685,401
Home and community services	5,770,343	10,079,324	-	-	-	15,849,667
Employee benefits	10,817,668	-	-	-	-	10,817,668
Debt service -						
Principal	-	-	-	-	3,103,524	3,103,524
Interest	-	-	-	-	3,123,987	3,123,987
	<u>72,330,676</u>	<u>10,079,324</u>	<u>27,457,033</u>	<u>5,229,367</u>	<u>9,400,161</u>	<u>124,496,561</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>7,917,807</u>	<u>(2,365,872)</u>	<u>(17,766,250)</u>	<u>(5,166,079)</u>	<u>(6,911,702)</u>	<u>(24,292,096)</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Operating transfers - in	4,692,819	30,918	12,763,115	-	8,169,893	25,656,745
Operating transfers - out	(12,128,313)	-	(276,574)	(10,057,788)	(3,194,070)	(25,656,745)
	<u>(7,435,494)</u>	<u>30,918</u>	<u>12,486,541</u>	<u>(10,057,788)</u>	<u>4,975,823</u>	<u>-</u>
<b>CHANGE IN FUND BALANCE</b>	482,313	(2,334,954)	(5,279,709)	(15,223,867)	(1,935,879)	(24,292,096)
<b>FUND BALANCE - beginning of year</b>	<u>24,229,262</u>	<u>4,093,459</u>	<u>51,444,157</u>	<u>15,756,953</u>	<u>3,668,045</u>	<u>99,191,876</u>
<b>FUND BALANCE - end of year</b>	<u>\$ 24,711,575</u>	<u>\$ 1,758,505</u>	<u>\$ 46,164,448</u>	<u>\$ 533,086</u>	<u>\$ 1,732,166</u>	<u>\$ 74,899,780</u>

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, 2010

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Net change in fund balances - governmental funds \$ (24,292,096)

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	21,821,152	
Depreciation	<u>(3,661,364)</u>	
		18,159,788

Deferred tax revenues are recorded on the modified accrual basis,  
but are not reported in the government-wide financial statements. 1,449,768

Repayment of bond principal is an expenditure in the governmental funds,  
but the repayment reduces long-term liabilities in the statement of net  
assets. 3,103,524

Casino revenue is not reported in the modified accrual basis since the amounts  
were not received in time to pay current financial obligations. 13,415,154

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. (94,578)

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. (594,133)

To adjust long-term obligations not requiring the use of current financial  
resources. (408,326)

The amortization of the due to New York State Retirement System 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. 365,414

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. (6,735,174)

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 assets of the internal service funds  
is reported with governmental activities. 173,220

Change in net assets of governmental activities \$ 4,542,561

The accompanying notes are an integral part of these statements.

**CITY OF NIAGARA FALLS, NEW YORK**

**COMBINING STATEMENT OF NET ASSETS - PROPRIETARY FUNDS - INTERNAL SERVICE FUNDS  
DECEMBER 31, 2010**

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	<u>Postage</u>	<u>Stationary</u>	<u>Telephone</u>	<u>Central Garage</u>	<u>Total</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,839	\$ -	\$ 63,244	\$ -	\$ 65,083
Inventory	<u>4,555</u>	<u>2,146</u>	<u>604</u>	<u>582,682</u>	<u>589,987</u>
Total assets	<u>6,394</u>	<u>2,146</u>	<u>63,848</u>	<u>582,682</u>	<u>655,070</u>
<b>LIABILITIES</b>					
Accounts payable	5,000	-	4,924	73,890	83,814
Due to other funds	<u>-</u>	<u>2,221</u>	<u>-</u>	<u>27,312</u>	<u>29,533</u>
Total liabilities	<u>5,000</u>	<u>2,221</u>	<u>4,924</u>	<u>101,202</u>	<u>113,347</u>
<b>NET ASSETS</b>					
Unrestricted	<u>1,394</u>	<u>(75)</u>	<u>58,924</u>	<u>481,480</u>	<u>541,723</u>
Total net assets	<u>\$ 1,394</u>	<u>\$ (75)</u>	<u>\$ 58,924</u>	<u>\$ 481,480</u>	<u>\$ 541,723</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, 2010**

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	<u>Postage</u>	<u>Stationary</u>	<u>Telephone</u>	<u>Central Garage</u>	<u>Total</u>
REVENUES					
Charges for services	\$ 62,184	\$ 2,141	\$ 77,370	\$ 952,219	\$ 1,093,914
Total revenues	<u>62,184</u>	<u>2,141</u>	<u>77,370</u>	<u>952,219</u>	<u>1,093,914</u>
EXPENDITURES:					
Contractual expenses	<u>67,236</u>	<u>2,216</u>	<u>77,438</u>	<u>773,804</u>	<u>920,694</u>
Total expenditures	<u>67,236</u>	<u>2,216</u>	<u>77,438</u>	<u>773,804</u>	<u>920,694</u>
OPERATING INCOME (LOSS)	<u>(5,052)</u>	<u>(75)</u>	<u>(68)</u>	<u>178,415</u>	<u>173,220</u>
NET ASSETS - beginning of year	<u>6,446</u>	<u>-</u>	<u>58,992</u>	<u>303,065</u>	<u>368,503</u>
NET ASSETS - end of year	<u>\$ 1,394</u>	<u>\$ (75)</u>	<u>\$ 58,924</u>	<u>\$ 481,480</u>	<u>\$ 541,723</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, 2010**

	<u>Postage</u>	<u>Stationary</u>	<u>Telephone</u>	<u>Central Garage</u>	<u>Total</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>					
Cash received from providing services	\$ 62,184	\$ 2,141	\$ 77,370	\$ 952,219	\$ 1,093,914
Cash payments for contractual expenses	<u>(60,345)</u>	<u>(2,141)</u>	<u>(78,144)</u>	<u>(952,219)</u>	<u>(1,092,849)</u>
Net cash flow from operating activities	<u>1,839</u>	<u>-</u>	<u>(774)</u>	<u>-</u>	<u>1,065</u>
 CHANGE IN CASH AND CASH EQUIVALENTS	 1,839	 -	 (774)	 -	 1,065
 CASH AND CASH EQUIVALENTS - beginning of year	 <u>-</u>	 <u>-</u>	 <u>64,018</u>	 <u>-</u>	 <u>64,018</u>
 CASH AND CASH EQUIVALENTS - end of year	 <u>\$ 1,839</u>	 <u>\$ -</u>	 <u>\$ 63,244</u>	 <u>\$ -</u>	 <u>\$ 65,083</u>
 <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES:</b>					
Operating income (loss)	\$ (5,052)	\$ (75)	\$ (68)	\$ 178,415	\$ 173,220
Adjustments to reconcile operating income (loss) to net cash used by operating activities:					
Changes in:					
Inventory	1,952	311	(604)	(127,520)	(125,861)
Accounts payable	5,000	(566)	(102)	6,130	10,462
Due to other funds	<u>(61)</u>	<u>330</u>	<u>-</u>	<u>(57,025)</u>	<u>(56,756)</u>
 NET CASH FLOW FROM OPERATING ACTIVITIES	 <u>\$ 1,839</u>	 <u>\$ -</u>	 <u>\$ (774)</u>	 <u>\$ -</u>	 <u>\$ 1,065</u>

The accompanying notes are an integral part of these statements.

**CITY OF NIAGARA FALLS, NEW YORK**

**STATEMENT OF NET ASSETS - COMPONENT UNITS  
DECEMBER 31, 2010**

	<u>Bellevue Local Development Corporation</u>	<u>N.F.C. Development Corporation</u>	<u>Niagara Falls Public Library</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ 1,736,620	\$ 404,446	\$ 2,141,066
Accounts receivable	-	-	3,317	3,317
Loans receivable, net	-	252,048	-	252,048
Grant receivable	-	1,084,435	-	1,084,435
Due from other governments	-	-	153,439	153,439
Capital assets, net	<u>38,320,280</u>	<u>730</u>	<u>3,833</u>	<u>38,324,843</u>
Total assets	<u>38,320,280</u>	<u>3,073,833</u>	<u>565,035</u>	<u>41,959,148</u>
<b>LIABILITIES</b>				
Accounts payable	-	217	18,786	19,003
Accrued liabilities	-	-	16,651	16,651
Deferred revenue	<u>-</u>	<u>2,824,015</u>	<u>132,378</u>	<u>2,956,393</u>
Total current liabilities	<u>-</u>	<u>2,824,232</u>	<u>167,815</u>	<u>2,992,047</u>
<b>NET ASSETS</b>				
Investments in capital assets, net of related debt	38,320,280	730	3,833	38,324,843
Unrestricted	<u>-</u>	<u>248,871</u>	<u>393,387</u>	<u>642,258</u>
Total net assets	<u>\$ 38,320,280</u>	<u>\$ 249,601</u>	<u>\$ 397,220</u>	<u>\$ 38,967,101</u>

The accompanying notes are an integral part of these statements.

**CITY OF NIAGARA FALLS, NEW YORK**

**STATEMENT OF ACTIVITIES - COMPONENT UNITS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Bellevue Local Development Corporation	N.F.C. Development Corporation	Niagara Falls Public Library	Total
<b>OPERATING REVENUE:</b>				
Transfers from City of Niagara Falls	\$ -	\$ -	\$ 1,724,776	\$ 1,724,776
Charges for services	-	14,729	26,474	41,203
Grants and aid	-	-	208,478	208,478
Other operating revenue	-	105,413	14,522	119,935
	<u>-</u>	<u>120,142</u>	<u>1,974,250</u>	<u>2,094,392</u>
<b>OPERATING EXPENSES:</b>				
Contractual expense	-	28,815	1,842,327	1,871,142
Depreciation	1,492,998	4,200	348	1,497,546
	<u>1,492,998</u>	<u>33,015</u>	<u>1,842,675</u>	<u>3,368,688</u>
	<u>(1,492,998)</u>	<u>87,127</u>	<u>131,575</u>	<u>(1,274,296)</u>
<b>NON-OPERATING REVENUE:</b>				
Interest income	-	4,582	-	4,582
Transfers to City of Niagara Falls	-	(790,067)	-	(790,067)
	<u>-</u>	<u>(785,485)</u>	<u>-</u>	<u>(785,485)</u>
<b>CHANGE IN NET ASSETS</b>	<b>(1,492,998)</b>	<b>(698,358)</b>	<b>131,575</b>	<b>(2,059,781)</b>
<b>NET ASSETS - beginning of year</b>	<b><u>39,813,278</u></b>	<b><u>947,959</u></b>	<b><u>265,645</u></b>	<b><u>41,026,882</u></b>
<b>NET ASSETS - end of year</b>	<b><u>\$ 38,320,280</u></b>	<b><u>\$ 249,601</u></b>	<b><u>\$ 397,220</u></b>	<b><u>\$ 38,967,101</u></b>

The accompanying notes are an integral part of these statements.

**CITY OF NIAGARA FALLS, NEW YORK**

**STATEMENT OF CASH FLOWS - COMPONENT UNITS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Bellevue Local Development Corporation	N.F.C. Development Corporation	Niagara Falls Public Library	Total
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>				
Change in net assets	\$ (1,492,998)	\$ (698,358)	\$ 131,575	\$ (2,059,781)
Depreciation	1,492,998	4,200	348	1,497,546
Adjustments to reconcile change in net assets to net cash used by operating activities:				
Changes in:				
Accounts receivable, net	-	959	1,888	2,847
Loans receivable, net	-	318,463	-	318,463
Grant receivable	-	(431,255)	-	(431,255)
Due from other governments	2,889	-	37,657	40,546
Accounts payable	(2,889)	(569)	(19,076)	(22,534)
Accrued liabilities	-	-	3,471	3,471
Deferred revenue	-	1,285,920	(30,000)	1,255,920
Net cash flow from operating activities	<u>-</u>	<u>479,360</u>	<u>125,863</u>	<u>605,223</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>				
Purchases of property and equipment	<u>(99,965)</u>	<u>-</u>	<u>(4,181)</u>	<u>(104,146)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS EQUIVALENTS</b>	<b>(99,965)</b>	<b>479,360</b>	<b>121,682</b>	<b>501,077</b>
<b>CASH AND CASH EQUIVALENTS - beginning of year</b>	<b><u>99,965</u></b>	<b><u>1,257,260</u></b>	<b><u>282,764</u></b>	<b><u>1,639,989</u></b>
<b>CASH AND CASH EQUIVALENTS - end of year</b>	<b><u>\$ -</u></b>	<b><u>\$ 1,736,620</u></b>	<b><u>\$ 404,446</u></b>	<b><u>\$ 2,141,066</u></b>

The accompanying notes are an integral part of these statements.

**CITY OF NIAGARA FALLS, NEW YORK**

**STATEMENT OF NET ASSETS - FIDUCIARY FUNDS  
DECEMBER 31, 2010**

---

	Private Purpose <u>Trust</u>	<u>Agency</u>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 98,543	\$ 3,597,069
Due from other funds	<u>-</u>	<u>719,658</u>
Total assets	<u>98,543</u>	<u>4,316,727</u>
<b>LIABILITIES:</b>		
Accounts payable	178	15,510
Due to other governments	-	2,068
Agency liabilities	<u>-</u>	<u>4,299,149</u>
Total current liabilities	<u>178</u>	<u>\$ 4,316,727</u>
<b>NET ASSETS:</b>		
Held in trust for private purposes	<u>98,365</u>	
Total net assets	<u>\$ 98,365</u>	

The accompanying notes are an integral part of these statements.

**CITY OF NIAGARA FALLS, NEW YORK**

**STATEMENT OF CHANGE IN NET ASSETS - FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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	Private Purpose <u>Trust</u>
<b>ADDITIONS</b>	
Interest and earnings	\$ <u>4,727</u>
<b>DEDUCTIONS</b>	
Economic assistance and opportunity	<u>8,479</u>
<b>CHANGE IN NET ASSETS</b>	(3,752)
NET ASSETS - beginning of year	<u>102,117</u>
NET ASSETS - end of year	<u>\$ <u>98,365</u></u>

The accompanying notes are an integral part of these statements.

# CITY OF NIAGARA FALLS, NEW YORK

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

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### 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, storm sewers, library, community development, fire and general administration. The five-member City Council is the legislative body responsible for overall operations. The Mayor serves as Chief Executive and Officer of the City. The City Administrator serves as the Chief Administrative Officer. The City Comptroller 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 City reports related organizations under the guidance of the GASB. The Standards define the primary government, and redefine and establish the criteria for which potential component units are included in the reporting entity. The Standards also define financial accountability of the primary government as being determined on the basis of fiscal dependency, appointment of a voting majority of a governing board, ability to impose its will or potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. Based on the criteria under the Standards, there are three component units required to be included in the City's reporting entity including the N.F.C. Development Corporation, Bellevue Local Development Corporation, and the Niagara Falls Public Library.

#### **Basis of Presentation**

#### **Component Units**

In conformity with generally accepted accounting principles, the financial statements of three 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 the 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, the NFC is managed by the City; therefore, the City is able to impose its will on the NFC. The NFC is presented as an enterprise fund type. 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 is to develop and construct a new public safety facility, or 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. Bellevue is presented as an enterprise fund type. Upon the completion of the facility the asset will 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.

#### 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 Assets 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 assets 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, liabilities, 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, liabilities, 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.
- **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** (Debt Service, Golf Course, 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.

#### 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.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of Presentation (Continued)

#### Fiduciary Funds (Trust and Agency Funds, Continued)

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 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 one year 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.

#### Property Taxes

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

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

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

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

#### Seneca Niagara Casino Revenue

In accordance with State Finance Law Section 99-H, the City receives 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, or the minimum amount budgeted by the City in a given year, if not received in cash by year-end. No allowance has been recorded, as the City is legally authorized to receive the allocation.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of Presentation (Continued)

#### 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 as reservations of fund balance 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 non-GAAP. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year.

#### 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 is 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.

#### 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.

#### 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 Assets for due to and due from other funds represents amounts due between different fund types (governmental and business-type activities, and fiduciary funds). Eliminations have been made for amounts due to and due from within the same fund type.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Capital Assets

All capital assets are valued at historical cost, or estimated historical cost if actual 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 capital outlay expenditures of the governmental fund upon acquisition.

### 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.

### Deferred Revenue

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

### Long-Term Obligations

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **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 payment 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.

### **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 post-employment 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 Assets - Government-Wide Financial Statements**

The government-wide financial statements display net assets in three components as follows:

- **Invested in capital assets, net of related debt**  
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 assets**  
Consists of net assets 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 assets**  
All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Fund Balances - Fund Financial Statements**

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

The following is a description of the reserves and designations utilized by the City:

- **Reserve for Encumbrances**  
Represents funds accumulated for commitments related to unperformed contracts or purchase orders for goods and services.
- **Reserve for Long-term Receivables**  
Represents amounts loaned by the General Fund for a period in excess of one-year from fiscal year-end.
- **Reserve for Debt Service**  
Represents funds accumulated for use towards future debt payment on serial bonds.
- **Reserve for Community Development Projects**  
Represents funds accumulated for use on projects of the Community Development department.
- **Reserve for Risk Retention**  
Represents funds accumulated for self-insured insurance claims against the City.
- **Reserve for Special Events**  
Represents funds accumulated for tourism use for the City and was approved by special legislation.
- **Reserve for Trolley Services**  
Represents funds restricted by City Council for trolley services.

Designations represent funds for which there is intent by the City to be used for a specific purpose. Designations of fund balance at December 31, 2010 include:

- **Appropriated - Ensuing Fiscal Year**  
Represents funds to be used to assist in supporting the subsequent years authorized appropriations.
- **Designated for Special Projects**  
Represents funds to be used for projects related to improvements to City facilities and operations as determined by City Council.

### **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. 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. Encumbrances outstanding at year-end are accounted for as a reservation of fund balance. 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.
- 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 reserve 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 results in the following reconciliation of fund balance is computed on a GAAP basis and budgetary basis.

GAAP BASIS:	<u>General Fund</u>
Fund Balance - December 31, 2010	\$ 24,711,575
Deduct outstanding encumbrances	<u>(76,530)</u>

BUDGETARY BASIS - Fund balance - December 31, 2010     \$ 24,635,045

### 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.

### Overdrawn Appropriations

Expenditures for the year ended December 31, 2010 exceeded appropriations in the General Fund for economic assistance and opportunity by \$1,058,173.

### 3. CASH AND CASH EQUIVALENTS

#### **Cash and Cash Equivalents and Investments**

The City's investment policies are governed by State statutes. In addition, the City has its own written investment policy. City monies must be deposited in FDIC insured commercial banks or trust companies located within the State. 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.

#### **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.

#### **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 to 102% of the aggregate amount of deposits. The City restricts the securities to the following eligible items:

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

**3. CASH AND CASH EQUIVALENTS (Continued)**

**Custodial Credit Risk (Continued)**

At December 31, 2010, 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 Amount</u>
Cash and cash equivalents	\$ 58,427,643	\$ 58,715,974
Category 1: Covered by FDIC insurance	\$ 4,606,037	
Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the County's name	<u>58,737,754</u>	
	<u>\$ 63,343,791</u>	

**4. RECEIVABLES**

Major revenues accrued by the City at December 31, 2010, include the following:

**Accounts Receivable**

General Fund:

Demolitions, debris pickup, and weed cutting	\$ 1,356,191
Franchise fees	287,261
Gross utilities taxes	43,310
Tourism - 4th quarter occupancy tax & hotel trolley service	313,349
Services provided to water board	47,498
Other miscellaneous receivables	<u>124,129</u>
	<u>2,171,738</u>
Community Development:	
Miscellaneous	<u>175,875</u>
Capital Projects:	
Miscellaneous	<u>116,181</u>
Nonmajor Governmental Funds:	
Miscellaneous	<u>13,942</u>
	<u>\$ 2,477,736</u>

#### 4. RECEIVABLES (Continued)

##### State and Federal Receivables

Represents amounts due primarily from New York State and the federal government. Amounts accrued at December 31, 2010, consist of:

##### General Fund:

NYS sales tax	\$	545,533
NYS material maintenance		200,812
Brownfields grant		140,995
NYS DCJS Project Impact		57,061
8th District Court		144,332
Medicare Part D		241,512
NYS Power Authority		107,148
U.S. Department of Justice		560,690
Section 99-H Casino Revenue		4,440,163
Other miscellaneous state and federal receivables		<u>648,167</u>

7,086,413

##### Capital Projects Fund:

Lewiston Road Reconstruction		8,838,607
Tenth Street Project		3,764,808
Custom House		1,934,362
Intermodal Transportation Project		1,485,212
Lockport Street Bridge		1,327,533
Buffalo Avenue Project		898,963
Culinary Institute		752,820
Federal ARRA Project		624,907
Other miscellaneous state and federal receivables		<u>2,707,365</u>

22,334,577

##### Nonmajor funds

144,683

##### Total state and federal receivables

\$ 29,565,673

##### Due from Other Governments

Represents amounts due primarily from the County of Niagara, New York, and other governmental entities. Amounts accrued at December 31, 2010 consist of:

##### General Fund:

Niagara Falls Water Board	\$	708,370
NFBOE/School tax fees		65,083
NFBOE - Miscellaneous		154,868
Niagara County - Sales tax		871,318
Other miscellaneous due from other governments		<u>144,766</u>

1,944,405

##### Community Development Fund

538,144

##### Miscellaneous Special Revenue Fund

958

##### Total due from other governments

\$ 2,483,507

#### 4. 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 Water Board and the City receive 59.4% and 40.6% respectively. Upon receipt of 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, 2010, the outstanding balance was \$883,792.

##### Loans Receivable

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, 2010 were as follows:

##### Community Development Fund:

Loans receivable - Community Development Block Grant	\$	2,601,566
Loan receivable - miscellaneous		1,404,424
Loan receivable - HOME		<u>482,595</u>
Total loans receivable		4,488,589
Less: Allowance for uncollectible amounts		<u>(117,505)</u>
	\$	<u>4,371,080</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, 2010:

City taxes receivable - current	\$	3,797,232
City taxes receivable - overdue		8,171,729
School taxes receivable		<u>6,924,464</u>
Total taxes receivable		18,893,425
Less: Allowance for uncollectible taxes		<u>(3,907,964)</u>
Total taxes receivable, net	\$	<u>14,985,461</u>

##### 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 capital projects funds and debt service fund. They also facilitate contributions from the special revenue fund to capital projects funds.

#### 4. RECEIVABLES (Continued)

Interfund receivables, payables and transfers as of and for the year ended December 31, 2010 are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Operating Transfers-in</u>	<u>Operating Transfers-out</u>
General Fund	\$ 383,620	\$ 679,385	\$ 4,692,819	\$ 12,128,313
Community Development Fund	-	233,580	30,918	-
Capital Projects Fund	-	-	12,763,115	276,574
Miscellaneous Special Revenue Fund	-	-	-	10,057,788
Debt Service Fund	-	-	6,201,403	2,850,000
Golf Course Fund	-	2,654	256,435	11,854
Public Library Fund	-	15,468	1,712,055	-
Parking Ramp Fund	-	142,658	-	332,216
Internal Service Funds	-	29,533	-	-
Agency Fund	<u>719,658</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,103,278</u>	<u>\$ 1,103,278</u>	<u>\$ 25,656,745</u>	<u>\$ 25,656,745</u>

## 5. CAPITAL ASSETS

Capital asset activity for governmental-type activities for the year ended December 31, 2010 is as follows:

	Balance <u>1/1/10</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	Balance <u>12/31/10</u>
Capital assets, not being depreciated:					
Land	\$ 2,891,293	\$ -	\$ -	\$ -	\$ 2,891,293
Land improvement - inexhaustible	256,620	-	-	-	256,620
Construction work in progress	25,296,985	18,218,052	-	(12,884,238)	30,630,799
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>28,462,276</u>	<u>18,218,052</u>	<u>-</u>	<u>(12,884,238)</u>	<u>33,796,090</u>
Capital assets, being depreciated:					
Infrastructure	82,087,406	314,554	-	11,114,422	93,516,382
Land improvement - exhaustible	1,943,159	-	-	106,720	2,049,879
Building and building Improvements	20,340,347	-	-	1,663,096	22,003,443
Furniture, office, and other equipment	8,641,147	402,319	(607,315)	-	8,436,151
Library/museum resources	9,072,896	-	-	-	9,072,896
Vehicles	<u>13,358,248</u>	<u>2,886,227</u>	<u>(1,013,578)</u>	<u>-</u>	<u>15,230,897</u>
Total capital assets, being depreciated	<u>135,443,203</u>	<u>3,603,100</u>	<u>(1,620,893)</u>	<u>12,884,238</u>	<u>150,309,648</u>
Less accumulated depreciation:					
Infrastructure	(53,382,764)	(1,680,255)	-	-	(55,063,019)
Land improvement - exhaustible	(1,286,289)	(46,871)	-	-	(1,333,160)
Building and building Improvements	(16,376,830)	(502,311)	-	-	(16,879,141)
Furniture, office, and other equipment	(7,417,739)	(239,203)	607,315	-	(7,049,627)
Library/museum resources	(9,072,896)	-	-	-	(9,072,896)
Vehicles	<u>(8,014,469)</u>	<u>(1,192,724)</u>	<u>1,013,578</u>	<u>-</u>	<u>(8,193,615)</u>
Total accumulated depreciated	<u>(95,550,987)</u>	<u>(3,661,364)</u>	<u>1,620,893</u>	<u>-</u>	<u>(97,591,458)</u>
Total capital assets, being depreciated, net	<u>39,892,216</u>	<u>(58,264)</u>	<u>-</u>	<u>12,884,238</u>	<u>52,718,190</u>
Governmental activities capital assets, net	<u>\$ 68,354,492</u>	<u>\$ 18,159,788</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 86,514,280</u>

## 5. CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 132,538
Public safety	550,327
Transportation	2,244,234
Culture and recreation	734,151
Home and community service	<u>114</u>
Total	<u>\$ 3,661,364</u>

## 6. 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

The Systems are noncontributory except for employees who join the ERS after July 27, 1976, who contribute 3% of their salary for the first 10 years of membership. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates, expressed as percentages of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

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

	<u>ERS</u>	<u>PFRS</u>
2010	\$ 1,488,373	\$ 3,913,855
2009	\$ 1,084,759	\$ 3,340,955
2008	\$ 1,029,284	\$ 3,289,317

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

## **6. PENSION PLAN (Continued)**

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

- Requires minimum contributions by employers of 4.5% of payroll every year, including years in which the investment performance would make a lower contribution possible.
- Changes 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 2011 would be based on the pension value as of March 31, 2010).

Chapter 260 of the Laws of 2004 of the State of New York was enacted that allows local employers to bond or amortize a portion of their retirement bill for up to 10 years in accordance with this schedule:

- For State fiscal year (SFY) 2004-05, the amount in excess of 7.0% of employees' covered pensionable salaries, with the first payment of those pension costs not due until the fiscal year succeeding that fiscal year in which the bonding/amortization was instituted.
- For SFY 2005-06, the amount in excess of 9.5% of employees' covered pensionable salaries.
- For SFY 2006-07, the amount in excess of 10.5% of employees' covered pensionable salaries.

The law requires participating employers to make payments on a current basis, while bonding or amortizing existing unpaid amounts relating to the Systems' fiscal years ending March 31, 2005 through 2007.

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.

## **7. 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 535 retirees eligible to receive benefits under the Plan at December 31, 2010. 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 2010 was \$7,417,000. The costs of administering the plan are paid by the City.

## 7. OTHER POST EMPLOYMENT BENEFIT PLANS (Continued)

### 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, 2010:

#### Annual OPEB Cost and New OPEB Obligation

Normal Cost	\$ 3,100,728
Amortization of unfunded actuarial liability	10,843,347
Interest	<u>557,763</u>
Annual Required Contribution (ARC)	14,501,838
Interest on OPEB Obligation	784,431
Adjustment to ARC	<u>(1,134,095)</u>
Annual OPEB Cost	14,152,174
Net OPEB contributions made during the fiscal year	<u>(7,417,000)</u>
Net OPEB obligation for the current fiscal year	6,735,174
Net OPEB obligation at beginning of year	<u>19,610,772</u>
Net OPEB obligation at end of year	<u>\$ 26,345,946</u>
Percentage of expense contributed	<u>52.4%</u>

### Funded Status and Funding Progress

As of the January 1, 2010 actuarial valuation date, the following represents the schedule of funding progress:

Current retired liability	\$ 109,012,241
Actives eligible to retire	46,659,825
Actives not yet eligible	<u>39,331,431</u>
Actuarial accrued liability	<u>\$ 195,003,497</u>
Funded ratio	<u>0.0%</u>
Annual covered payroll	<u>\$ 34,768,855</u>
Ratio of unfunded actuarial accrued liability as a percentage of covered payroll	<u>17.8%</u>

## 7. OTHER POST EMPLOYMENT BENEFIT PLANS (Continued)

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
2010	\$ 14,152,174	\$ 7,417,000	52.4%	\$ 26,345,946
2009	\$ 16,767,000	\$ 6,962,947	42.0%	\$ 19,610,772
2008	\$ 16,244,076	\$ 6,259,531	38.5%	\$ 9,984,545

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	11.0% or 8.0% annually, based on age of retirees. The rate is reduced by decrements to an ultimate rate of 5.0% in five years.
Dental care cost trend rate	Dental care costs are assumed to increase 4.0% each year.
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.

## 8. 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. During the current year, the City recognized \$3,120,830 of expenditures for long-term serial bond interest.

### 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 interest expenditures from the installment purchase debt totaled \$3,155 in the current year. The City also has non-current long-term liabilities for estimated workers' compensation claims incurred, due to other governments for the present value of future operating and maintenance costs related to the City's landfill obligation 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 2005 and 2006 ERS and PFRS.

The following is a summary of changes in long-term liabilities for the year ended December 31, 2010:

	Balance 1/1/10	Additions	Deletions	Balance 12/31/10	Due Within One Year
<u>General Obligation Debt:</u>					
Serial bonds	\$ 70,905,067	\$ -	\$ (2,855,925)	\$ 68,049,142	\$ 2,933,203
Installment purchase debt	247,599	-	(247,599)	-	-
Due to retirement system	2,162,555	-	(365,414)	1,797,141	383,685
Niagara County Refuse Trust	628,065	-	(628,065)	-	-
Compensated absences	10,390,145	594,133	-	10,984,278	894,000
Workers' compensation	7,477,331	1,036,391	-	8,513,722	-
Other postemployment benefits	<u>19,610,772</u>	<u>14,152,174</u>	<u>(7,417,000)</u>	<u>26,345,946</u>	<u>-</u>
	<u>\$ 111,421,534</u>	<u>\$ 15,782,698</u>	<u>\$ (11,514,003)</u>	<u>\$ 115,690,229</u>	<u>\$ 4,210,888</u>

**8. LONG-TERM LIABILITIES (Continued)**

The governmental activities had the following bonds payable obligations changes during the year and outstanding as of December 31, 2010:

Fund and Purpose	Year of Issue	Year of Maturity	Interest Rate	Original Amount	Principal Outstanding 1/01/2010	Issued	Paid With Appropriations	Principal Outstanding 12/31/2010	Amounts Due in one year
<b>General:</b>									
General Improvements	1994	2024	6.125% - 7.500%	\$ 7,682,000	\$ 2,724,710	\$ -	\$ 218,941	\$ 2,505,769	\$ 236,003
General Improvements Refunding Serial Bonds - 1992-1994	2000 2003	2015 2024	4.75% - 5.80% 4.13%	3,094,000	30,000	-	30,000	-	-
General Improvements - 2006	2004 2006	2018 2028	4.25% 4.375% - 4.500%	4,123,400 13,035,250	3,550,000 7,823,842	- -	110,000 738,098	3,440,000 7,085,744	105,000 767,623
General Improvements - 2007	2007	2037	4.500% - 4.625%	9,364,000 39,400,000	8,770,000 38,010,000	- -	315,000 750,000	8,455,000 37,260,000	325,000 780,000
General Improvements - 2009	2009	2024	3.00% - 3.75%	8,190,000	<u>8,190,000</u>	-	<u>440,000</u>	<u>7,750,000</u>	<u>465,000</u>
					<u>69,098,552</u>	-	<u>2,602,039</u>	<u>66,496,513</u>	<u>2,678,626</u>
<b>Golf Course:</b>									
General Improvements	2004	2018	4.25%	124,750	<u>87,923</u>	-	<u>8,295</u>	<u>79,628</u>	<u>8,626</u>
					<u>87,923</u>	-	<u>8,295</u>	<u>79,628</u>	<u>8,626</u>
<b>Sewer:</b>									
Sewer Lines	1994	2024	5.30% - 7.50%	2,988,000	<u>15,357</u>	-	<u>1,984</u>	<u>13,373</u>	<u>2,200</u>
					<u>15,357</u>	-	<u>1,984</u>	<u>13,373</u>	<u>2,200</u>
<b>Parking Ramp I:</b>									
Refunding Serial Bonds - 1992 Improvements	2003 2000	2012 2015	4.00% 3.75% - 5.00%	100,600 1,600,000	25,000 <u>1,127,659</u>	- -	10,000 <u>106,383</u>	15,000 <u>1,021,276</u>	10,000 <u>110,638</u>
					<u>1,152,659</u>	-	<u>116,383</u>	<u>1,036,276</u>	<u>120,638</u>
<b>Parking Ramp II:</b>									
Refunding Serial Bonds - 1992	2003	2012	4.13%	1,006,000	<u>315,000</u>	-	<u>105,000</u>	<u>210,000</u>	<u>100,000</u>
					<u>315,000</u>	-	<u>105,000</u>	<u>210,000</u>	<u>100,000</u>
<b>Public Library:</b>									
Improvements	2004	2018	4.25% - 5.00%	334,250	<u>235,576</u>	-	<u>22,224</u>	<u>213,352</u>	<u>23,113</u>
					<u>235,576</u>	-	<u>22,224</u>	<u>213,252</u>	<u>23,113</u>
<b>Total Serial Bonds:</b>					<u>\$70,905,067</u>	<u>\$ -</u>	<u>\$ 2,855,925</u>	<u>\$68,049,142</u>	<u>\$ 2,933,203</u>

## 8. LONG-TERM LIABILITIES (Continued)

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

	Serial Bonds	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 2,933,203	\$ 3,017,707
2012	2,990,055	2,890,713
2013	2,921,051	2,762,128
2014	3,041,612	2,631,863
2015	3,170,890	2,495,522
2016-2020	15,457,331	10,258,007
2021-2025	13,320,000	7,064,951
2026-2030	9,650,000	4,517,813
2031-2035	9,915,000	2,454,788
2036-2037	<u>4,650,000</u>	<u>325,369</u>
Total	<u>\$ 68,049,142</u>	<u>\$ 38,418,861</u>

### Interest

Interest expense on long-term debt was \$3,218,565 in 2010. In 2010, cash paid for interest was \$3,213,987.

### Subsequent Event

On January 1, 2011, the City entered into an agreement with the New York Power Authority to borrow \$1,390,120 at 0.46% interest payable on a monthly basis and maturing January 2021 to help finance the Hyde Park Ice Pavilion.

### 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, 2010, a total amount of \$2,671,278 of bonds outstanding are considered defeased.

## 9. 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 \$750,000. 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.

## 9. RISK FINANCING ACTIVITIES (Continued)

Total expenditures for claims and judgments recorded in the City's governmental funds for the year ended December 31, 2010 was \$432,218.

At December 31, 2010, 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 \$450,000, per occurrence, up to the limitations provided under the contract. The plan establishes reserve liabilities based on the estimated cost of individual claims incurred. Those estimates are determined based on many factors, one of the most significant being past experience. Since the reserve liability is an estimate it may not reflect the plan's ultimate liability.

The City provides hospitalization, medical and dental through various insurance programs to its employees. The claim liability related to the major medical noted below 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.

	<u>Workers' Compensation</u>
Estimated claims December 31, 2009	\$ 7,477,331
Change in liability	<u>1,036,391</u>
Estimated claims December 31, 2010	<u>\$ 8,513,722</u>

## 10. 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 \$21,000 for the long-term operation and maintenance of the landfill through 2024. As of December 31, 2010, 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 at December 31, 2010 was \$202,899.

### 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.

## 11. FUTURE GASB PRONOUNCEMENTS

### A. FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITIONS

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which will be effective for the City beginning with its year ending December 31, 2011. Statement No. 54 is intended to improve the usefulness of information provided to financial statement users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. It distinguishes fund balance between amounts that are considered *nonspendable*, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts will be reported in the following classifications such as restricted, committed, assigned and unassigned.

The new standards also clarify the definitions of individual governmental fund types. It interprets certain terms within the definition of special revenue fund types, while further clarifying the debt service and capital projects fund type definitions. The final standard also specifies how economic stabilization or “rainy-day” amounts should be reported. GASB Statement No. 54 is effective for financial statements for periods beginning after June 15, 2010.

**CITY OF NIAGARA FALLS, NEW YORK**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>				
Real property taxes and tax items	\$ 29,171,656	\$ 29,171,656	\$ 28,905,146	\$ (266,510)
Nonproperty tax items	16,150,000	16,150,000	18,333,285	2,183,285
Departmental income	2,330,702	2,335,356	2,450,187	114,831
Use of money and property	849,202	849,202	815,426	(33,776)
Licenses and permits	586,950	550,950	554,206	3,256
Fines and forfeitures	941,000	977,000	787,665	(189,335)
Interfund revenue	216,000	216,000	182,575	(33,425)
Sale of property and compensation for loss	103,877	103,877	1,638,351	1,534,474
Miscellaneous	445,200	445,200	1,502,909	1,057,709
State aid	25,499,960	25,499,960	24,391,084	(1,108,876)
Federal aid	711,506	711,506	687,649	(23,857)
<b>Total revenues</b>	<b>77,006,053</b>	<b>77,010,707</b>	<b>80,248,483</b>	<b>3,237,776</b>
<b>EXPENDITURES:</b>				
General governmental support	12,064,482	10,952,500	10,658,846	293,654
Public safety	33,447,241	34,431,048	33,795,444	635,604
Transportation	4,000,627	4,267,140	4,133,387	133,753
Economic assistance and opportunity	3,782,000	3,874,310	4,932,483	(1,058,173)
Culture and recreation	2,506,461	2,630,693	2,299,035	331,658
Home and community services	5,482,240	5,781,955	5,770,343	11,612
Employee benefits	12,072,723	12,199,837	10,817,668	1,382,169
<b>Total expenditures</b>	<b>73,355,774</b>	<b>74,137,483</b>	<b>72,407,206</b>	<b>1,730,277</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>3,650,279</b>	<b>2,873,224</b>	<b>7,841,277</b>	<b>4,968,053</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Appropriated fund balance	1,956,008	6,046,354	-	(6,046,354)
Operating transfers - in	2,977,566	3,380,193	4,692,819	1,312,626
Operating transfers - out	(8,583,853)	(12,299,771)	(12,128,313)	171,458
<b>Total other financing sources (uses)</b>	<b>(3,650,279)</b>	<b>(2,873,224)</b>	<b>(7,435,494)</b>	<b>(4,562,270)</b>
<b>CHANGE IN FUND BALANCE</b>	<b>-</b>	<b>-</b>	<b>405,783</b>	<b>405,783</b>
<b>FUND BALANCE - beginning of year</b>	<b>-</b>	<b>-</b>	<b>24,229,262</b>	<b>24,229,262</b>
<b>FUND BALANCE - end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 24,635,045</b>	<b>\$ 24,635,045</b>

The accompanying notes are an integral part of this supplementary information.

**CITY OF NIAGARA FALLS, NEW YORK**

**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2010**

	<u>Debt Service</u>	<u>Golf Course</u>	<u>Public Library</u>	<u>Parking Ramp</u>	<u>Total Nonmajor Governmental Funds</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,721,224	\$ 52,554	\$ 66,100	\$ 1,176	\$ 1,841,054
Other receivables	10,942	-	-	3,000	13,942
Due from Federal and State governments	-	-	-	144,683	144,683
Prepaid expenses	-	8,558	-	-	8,558
	<u>                    </u>				
Total assets	<u>\$ 1,732,166</u>	<u>\$ 61,112</u>	<u>\$ 66,100</u>	<u>\$ 148,859</u>	<u>\$ 2,008,237</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES:</b>					
Accounts payable	\$ -	\$ 47,744	\$ 50,632	\$ 5,611	\$ 103,987
Accrued liabilities	-	10,714	-	590	11,304
Due to other funds	-	2,654	15,468	142,658	160,780
	<u>                    </u>				
Total liabilities	<u>-</u>	<u>61,112</u>	<u>66,100</u>	<u>148,859</u>	<u>276,071</u>
<b>FUND BALANCES:</b>					
Reserved -					
Debt service reserve	1,732,166	-	-	-	1,732,166
Unreserved -					
Unappropriated	-	-	-	-	-
	<u>                    </u>				
Total fund balances	<u>1,732,166</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,732,166</u>
	<u>                    </u>				
Total liabilities and fund balances	<u>\$ 1,732,166</u>	<u>\$ 61,112</u>	<u>\$ 66,100</u>	<u>\$ 148,859</u>	<u>\$ 2,008,237</u>

The accompanying notes are an integral part of this supplementary information.

**CITY OF NIAGARA FALLS, NEW YORK**

**COMBINING STATEMENT OF CHANGES IN REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Debt Service</u>	<u>Golf Course</u>	<u>Public Library</u>	<u>Parking Ramp</u>	<u>Total Nonmajor Governmental Funds</u>
<b>REVENUES:</b>					
Departmental income	\$ 92,278	\$ 784,070	\$ -	\$ 500,130	\$ 1,376,478
Use of money and property	-	3,750	-	109,888	113,638
State aid	-	-	-	144,683	144,683
Miscellaneous local sources	<u>850,000</u>	<u>-</u>	<u>3,660</u>	<u>-</u>	<u>853,660</u>
<b>Total revenues</b>	<u>942,278</u>	<u>787,820</u>	<u>3,660</u>	<u>754,701</u>	<u>2,488,459</u>
<b>EXPENDITURES:</b>					
General governmental support	2,049	1,032,401	-	422,485	1,456,935
Culture and recreation	-	-	1,715,715	-	1,715,715
Debt service -					
Principal	3,103,524	-	-	-	3,103,524
Interest	<u>3,123,987</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,123,987</u>
<b>Total expenditures</b>	<u>6,229,560</u>	<u>1,032,401</u>	<u>1,715,715</u>	<u>422,485</u>	<u>9,400,161</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(5,287,282)</u>	<u>(244,581)</u>	<u>(1,712,055)</u>	<u>332,216</u>	<u>(6,911,702)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating transfers - in	6,201,403	256,435	1,712,055	-	8,169,893
Operating transfers - out	<u>(2,850,000)</u>	<u>(11,854)</u>	<u>-</u>	<u>(332,216)</u>	<u>(3,194,070)</u>
<b>Total other financing sources and uses</b>	<u>3,351,403</u>	<u>244,581</u>	<u>1,712,055</u>	<u>(332,216)</u>	<u>4,975,823</u>
<b>CHANGE IN FUND BALANCE</b>	(1,935,879)	-	-	-	(1,935,879)
<b>FUND BALANCE - beginning of year</b>	<u>3,668,045</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,668,045</u>
<b>FUND BALANCE - end of year</b>	<u>\$ 1,732,166</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,732,166</u>

**SECTION B**

**OMB CIRCULAR A-133**

**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 22, 2011

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

We have audited 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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 22, 2011. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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(Continued)

**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 of 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*.

We noted certain other matters that we reported to management of the City in a separate letter dated June 22, 2011.

This report is intended solely for the information and use of the management, the City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

June 22, 2011

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

**Compliance**

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 Circular A-133 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, 2010. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

(Continued)

**Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of the City Council, management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

**CITY OF NIAGARA FALLS, NEW YORK**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

Federal Grantor/Pass Through Grantor/ <u>Program or Cluster Title</u>	Federal CFDA <u>Number</u>	Pass Through Entity Identifying <u>Number</u>	Federal <u>Expenditures</u>
U.S. Department of Commerce:			
Foreign-Trade Zones in the United States	11.111	N/A	\$ <u>79,214</u>
<i>Total U.S. Department of Commerce</i>			<u>79,214</u>
U.S. Department of Housing and Urban Development:			
Community Development Block Grants/Entitlement Grants	14.218	N/A	3,044,221
Emergency Shelter Grants Program	14.231	N/A	90,977
Home Investment Partnerships Program	14.239	N/A	419,346
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	N/A	71,139
<b>Section 8 Housing Choice Vouchers</b>	14.871	N/A	3,352,298
ARRA - Community Development Block Grants/Entitlement Grants	14.253	N/A	23,094
<b>ARRA - Homelessness Prevention and Rapid Re-Housing Program</b>	14.257	N/A	503,633
Passed through NYS Division of Housing and Community Renewal			
<b>Section 8 Housing Choice Vouchers</b>	14.871	NY904	<u>159,116</u>
<i>Total U.S. Department of Housing and Urban Development</i>			<u>7,663,824</u>
U.S. Department of Justice:			
<b>ARRA - Edward Byrne Memorial Justice Assistance Grant Program</b>	16.738	N/A	298,973
<b>Edward Byrne Memorial Justice Assistance Grant Program</b>	16.738	N/A	<u>9,491</u>
			<u>308,464</u>
<b>ARRA - Public Safety Partnership and Community Policing Grants</b>	16.710	N/A	<u>252,227</u>
Passed through NYS Division of Criminal Justice Services			
Legal Assistance for Victims	16.524	VW091168E00	37,030
Asset Forfeiture	16.581	N/A	103,314
<b>Edward Byrne Memorial Justice Assistance Grant Program</b>	16.738	Various	<u>39,167</u>
<i>Total U.S. Department of Justice</i>			<u>740,202</u>
U.S. Department of Homeland Security:			
Passed through NYS Office of Homeland Security			
Homeland Security Grant Program	97.067	N/A	88,420
Buffer Zone Protection Program (BZPP)	97.078	N/A	134,340
Passed through Federal Emergency Management Agency - Assistance to Firefighters Grant	97.044	2008-M7-0001GF	<u>316,197</u>
<i>Total U.S. Department of Homeland Security</i>			<u>538,957</u>
U.S. Department of Transportation:			
Passed through NYS Department of Transportation			
<b>Highway Planning and Construction</b>	20.205	D013786	3,686,204
<b>Highway Planning and Construction</b>	20.205	D017307	1,484,452
<b>Highway Planning and Construction</b>	20.205	D024729	1,069,971
<b>Highway Planning and Construction</b>	20.205	D032521	527,850
<b>Highway Planning and Construction</b>	20.205	D031554	276,372
<b>Highway Planning and Construction</b>	20.205	D022276	264,142
<b>Highway Planning and Construction</b>	20.205	D024782	231,331
<b>Highway Planning and Construction</b>	20.205	D012139	72,402
<b>Highway Planning and Construction</b>	20.205	D017861	5,005
<b>Highway Planning and Construction</b>	20.205	D024732	4,870
<b>ARRA - Highway Planning and Construction</b>	20.205	D032165	1,213,323
<b>ARRA - Highway Planning and Construction</b>	20.205	D032160	247,808
<b>ARRA - Highway Planning and Construction</b>	20.205	D032161	<u>204,501</u>
<i>Total U.S. Department of Transportation</i>			<u>9,288,231</u>
U.S. Department of Energy:			
<b>ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)</b>	81.128	N/A	<u>119,226</u>
<i>Total U.S. Department of Energy</i>			<u>119,226</u>
U.S. Department of Interior:			
Passed through NYS Office of Parks, Recreation, and Historic Preservation			
Historic Preservation Fund Grants-In-Aid	15.904	CLG-09-009	<u>7,000</u>
<i>Total U.S. Department of Interior</i>			<u>7,000</u>
Total Expenditures of Federal Awards			<u>\$ 18,436,654</u>

**Note: Bold items denote major programs.**

The accompanying notes are an integral part of this schedule.

# **CITY OF NIAGARA FALLS, NEW YORK**

## **NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS DECEMBER 31, 2010**

---

### **1. REPORTING ENTITY**

The accompanying schedule of expenditures of federal awards presents the activity of federal financial assistance programs administered by the City of Niagara Falls, New York (the City), an entity as defined in the basic financial statements.

### **2. 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 could 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 of expenditures of federal awards, as available.

### **3. BASIS OF ACCOUNTING**

The schedule of expenditures of federal awards is presented in conformity with accounting principles generally accepted in the United States and the amounts presented are derived from the City's general ledger.

### **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.

## 6. SUBRECIPIENTS

The following programs provided federal awards to subrecipients during the year ended December 31, 2010:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Homeless Prevention and Rapid Rehousing Neighborhood Legal Services, Inc.	14.257	\$ 92,811
YWCA of Niagara, Inc.	14.257	85,000
Edward Byrne Memorial Justice Assistance Grant Program Niagara County Treasurer	16.738	3,500
ARRA - Edward Byrne Memorial Justice Assistance Grant Program Niagara County Sheriff	16.738	76,538
Community Development Block Grant Niagara Falls Neighborhood Housing Services	14.218	190,000
Center City Neighborhood Development Corp.	14.218	175,000
Highland Avenue Revitalization Committee	14.218	60,000
Niagara Arts & Cultural Center	14.218	15,000
Youth Motivation – Early Detection & Correction	14.218	30,000
New Jerusalem Boy’s Reporting Center	14.218	100,000
NFHA – Summer Enrichment Program	14.218	20,000
Weed & Seed Youth Mentoring Program	14.218	20,000
NAAC Elevator	14.218	100,000
Niagara Falls Memorial Medical Center	14.218	250,000
HOME Investment Partnership Program Center City Neighborhood Dev. Corp.	14.239	200,000
Niagara Falls Neighborhood Housing Services, Inc	14.239	200,000
Emergency Shelter Grants Program Community Missions – operating costs	14.231	25,000
Fellowship House – operating costs	14.231	12,500
Family & Children’s Service – operating costs	14.231	25,000
YMCA – operating costs	14.231	13,477
God’s Woman – operating costs	14.231	10,000
YWCA – Carolyn’s House – operating costs	14.231	15,000
Odallam – operating costs	14.231	<u>10,000</u>
		<u>\$ 1,728,826</u>

# CITY OF NIAGARA FALLS, NEW YORK

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2010

---

### A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the City of Niagara Falls, New York (the City).
2. No material weaknesses or significant deficiencies relating to the audit of the basic financial statements are reported in the 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*.
3. No instances of noncompliance material to the basic financial statements of the City were disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the City's major federal award programs expresses an unqualified opinion.
6. There are no audit findings relative to the major federal award programs for the City.
7. The programs tested as major programs were:
  - CFDA No. 14.871 Section 8 Housing Choice Vouchers
  - CFDA No. 14.257 ARRA - Homelessness Prevention and Rapid Re-Housing Program
  - CFDA No. 16.710 ARRA - Public Safety Partnership and Community Policing Grants
  - CFDA No. 16.738 Edward Byrne Memorial Justice Assistance Grant Program
  - CFDA No. 16.738 ARRA - Edward Byrne Memorial Justice Assistance Grant Program
  - CFDA No. 81.128 ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)
  - CFDA No. 20.205 Highway Planning and Construction
  - CFDA No. 20.205 ARRA - Highway Planning and Construction
8. The threshold for distinguishing Types A and B programs was \$553,100.
9. The City was determined to be a low-risk auditee.

**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 AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND  
MATERIAL EFFECT OVER STATE TRANSPORTATION ASSISTANCE  
EXPENDED BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

June 22, 2011

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

**Compliance**

We have audited the City of Niagara Falls, New York's (the City's) compliance with the types of compliance requirements described in the preliminary Draft Part 43 of the New York State Codification of Rules and Regulations (NYSCRR) that could have a direct and material effect on each state transportation assistance program tested for the year ended December 31, 2010. The programs tested are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs for state transportation assistance expended. Compliance with the requirements of laws, regulations, contracts and grants applicable to each program tested is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state transportation assistance programs tested 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. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its state transportation assistance programs tested for the year ended December 31, 2010.

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT OVER STATE TRANSPORTATION ASSISTANCE EXPENDED BASED ON AN AUDIT OF FINANCIAL STATEMENTS AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

(Continued)

**Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state transportation assistance programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on the state transportation assistance programs tested to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the state transportation assistance program, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a 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 state program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the City's management and the New York State Department of Transportation and is not intended to be used and should not be used by anyone other than these specified parties.

**CITY OF NIAGARA FALLS, NEW YORK**

**SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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<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	\$ 878,325
Arterial Maintenance	N/A	401,625
Marchiselli Program - Bond Match for Federal Aid Highway Projects:		
<b>Lewiston Road/route 104</b>	D013786	691,163
<b>Buffalo Avenue Reconstruction - Tenth Street to I-190</b>	D022276	49,527
<b>10th Street - Niagara Street to Cedar Avenue</b>	D024729	45,458
<b>Buffalo Avenue - I-190 to Cayuga Drive</b>	D024782	<u>43,375</u>
		<u>\$ 2,109,473</u>

**Note: Bold items denote major programs.**

## **CITY OF NIAGARA FALLS, NEW YORK**

### **NOTES TO THE SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED DECEMBER 31, 2010**

---

#### **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, 2010**

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#### **A. SUMMARY OF AUDIT RESULTS**

1. Internal control over state transportation assistance expended:
  - No significant deficiencies or material weaknesses were identified.
2. The auditors' report on compliance for state transportation assistance expended for the City expressed an unqualified opinion and did not disclose any material noncompliance with state transportation programs.
3. The programs tested were:
  - Marchiselli Program - Bond Match for Federal Aid Highway Projects
    - Lewiston Road/route 104 (D013786)
    - Buffalo Avenue Reconstruction - Tenth Street to I-190 (D022276)
    - 10th Street - Niagara Street to Cedar Avenue (D024729)
    - Buffalo Avenue - I-190 to Cayuga Drive (D024782)

#### **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.