

**CITY OF NIAGARA FALLS, NEW YORK**

**Financial Statements as of  
December 31, 2011  
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

July 5, 2012

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, 2011, 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 2% of the total assets, 1% of the total net assets, and 68% 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, insofar 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 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 provides a reasonable basis for our opinions.

In our opinion, based on our audit 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, 2011, 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 July 5, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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## 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 51 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. Such information is the responsibility of management and was 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 combining and individual nonmajor fund financial statements, schedule of expenditures of federal awards and schedule of state transportation assistance expended are 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, 2011 (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, 2011. 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 \$4,688,105 (or 10%).

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 has not been paid for its Local Share of the slot revenues from the Seneca Niagara Gaming Corporation for the years 2009, 2010 and 2011. As a result of not receiving these revenues owed to the City, the City was forced to use their unassigned fund balance to cover the loss of revenues included in their General Fund Budget, eliminating the balance from 2010.
- Major economic development projects in hotels, a new culinary school, and major restaurant chains, started in 2011 with expected completion dates in 2012 and 2013 .
- The City implemented a "spending freeze" in 2011, as an budget strategy to help recoup some of the Casino revenues that were budgeted but not received in the 2011 Budget.

### **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. These statements also include the City's three component units, which shown in a separate column and described in detail in the notes to the financial statements. Although legally separate, these component units are important because the City is financially accountable for them. N.F.C. Development Corporation and the Niagara Falls Public Library each issue separate, stand-alone financial statements. Bellevue Local Development Corporation does not issue separate financial statements.

**Statement of Net 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.

## OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

### 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.

### 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

### Statements of Net Assets

	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 118,379,268	\$ 125,535,879
Capital assets	<u>102,073,243</u>	<u>86,514,280</u>
Total assets	<u>220,452,511</u>	<u>212,050,159</u>
Long-term liabilities	131,412,212	115,690,229
Other liabilities	<u>35,561,855</u>	<u>29,042,842</u>
Total liabilities	<u>166,974,067</u>	<u>144,733,071</u>
Net assets:		
Invested in capital assets, net of related debt	28,243,601	18,462,138
Restricted	4,218,821	1,732,166
Unrestricted	<u>21,016,022</u>	<u>47,122,784</u>
Total net assets	<u>\$ 53,478,444</u>	<u>\$ 67,317,088</u>

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

The largest portion of the City's total assets (46.3% at 2011 and 40.8% at 2010) 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.

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.

### Statements of Activities

	Governmental Activities	
	<u>2011</u>	<u>2010</u>
Revenues		
Program revenues		
Charges for services	\$ 6,211,130	\$ 12,865,986
Operating grants and contributions	36,134,803	31,481,033
Capital grants and contributions	18,934,811	2,907,353
General revenues		
Taxes and related items	49,896,972	48,688,199
State aid not received for a specific purpose	17,794,424	14,852,672
Interest and other	<u>3,064,902</u>	<u>5,185,483</u>
Total revenue	<u>132,037,042</u>	<u>115,980,726</u>
Program expenses		
General government	25,506,974	18,535,968
Public safety	52,338,220	46,832,726
Transportation	16,673,074	13,053,733
Economic assistance and opportunity	7,189,761	8,319,773
Culture and recreation	7,483,695	4,478,084
Home and community service	15,100,092	16,999,316
Interest	<u>3,057,121</u>	<u>3,218,565</u>
Total expenses	<u>127,348,937</u>	<u>111,438,165</u>
Increase in net assets	<u>4,688,105</u>	<u>4,542,561</u>
Net assets - beginning of year, as previously reported	67,317,088	62,774,527
Prior period adjustment	<u>(18,526,749)</u>	<u>-</u>
Net assets - beginning of year, as restated	<u>48,790,339</u>	<u>62,774,527</u>
Net assets - end of year	<u>\$ 53,478,444</u>	<u>\$ 67,317,088</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 38% of total revenues (42% in 2010). Charges for services, approximating 4.7% of total revenues (11.1% in 2010), consist mainly of parking tickets, permits and City Clerk fees.

The prior period values have not been restated to show the effects of the prior period adjustment.

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

Program expenses include an allocable share of insurance and depreciation on capital assets for each category presented. Interest expense is not allocated. The most significant category of expense is public safety at approximately 41% of total expenses in 2011 (42% in 2010), consisting principally of the City's police and fire departments. Total expenses increased by \$15,910,772 (or 14.3%).

## **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

### General Fund

The General Fund is the City's main operating fund. This fund is used to account for all City operations that are not financed by a special revenue source. It includes all general City offices, police, justice courts, recreation, safety inspection, other general services, and self-insurance.

The General Fund experienced a decrease in fund balance of approximately \$16,081,000 for 2011. Current year revenues were offset by expenditures and the additional operating transfers needed in the capital fund to cover capital projects. The City generally does not budget grants as 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 \$4,600,000 higher than expected. In addition, the General Fund made transfers from unassigned fund balance to the Capital Fund for various projects. The transfers will be replenished back to the General Fund once Casino revenues are received.

### 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 New York State. The fund balance decreased by \$4,864,853 in 2011.

Revenues were \$15,879, while expenditures were \$2,029,110. The biggest outflow was the funding of capital projects in the amount of \$2,855,130 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 U.S. Department of Housing and Urban Development. The fund balance increased by \$83,544 in 2011.

### 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

Nonmajor funds include the Debt Service, Golf Course, Parking Ramp, and Public Library funds. The decrease in fund balance of \$223,206 during 2011 was principally due to the use of excess debt service fund balance transferred to the General Fund for use in balancing the 2011 budget.

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

### GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were less than budgeted by \$3,233,673. The largest variance was in state aid, which was lower than expected by \$5,737,268. Majority of this is a result of the City budgeting in its 2011 budget \$5,492,884 in Casino revenues not received. An accounts receivable was not recorded for this since there is no time frame as to when the Casino revenue is expected to be received. Nonproperty tax items, including sales tax, was higher than expected by \$2,681,830.

Actual expenditures were higher than budgeted by \$4,635,049. The largest cause of this increase was an adjustment to expense for 2010 Casino revenues that did not come in during 2011, resulting in a charge to general fund expenditures.

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>2011</u>	<u>2010</u>
Land and land improvements	\$ 3,817,761	\$ 3,864,632
Buildings and improvements	4,610,541	5,124,302
Works of art	17,378	17,378
Infrastructure	45,447,643	38,453,363
Equipment and furniture	1,272,318	1,386,524
Vehicles	7,146,695	7,037,282
Construction in progress	<u>39,760,907</u>	<u>30,630,799</u>
	<u>\$ 102,073,243</u>	<u>\$ 86,514,280</u>

Net capital assets increased by \$15,558,963 during the current year. This reflects new improvement and infrastructure projects under construction of \$9,130,108, infrastructure additions of \$9,985,222, vehicle additions of \$1,446,471, furniture and office equipment additions of \$106,096, and reduced by current year depreciation expense of \$5,108,934.

### Debt

A summary of the City's outstanding obligations are:

	<u>2011</u>	<u>2010</u>
Debt to Finance Capital Assets:		
Serial Bonds	\$ 72,552,939	\$ 68,049,142
Installment Purchase Debt	<u>1,276,703</u>	<u>1,390,120</u>
Total Debt to Finance Capital Assets	<u>\$ 73,829,642</u>	<u>\$ 69,439,262</u>

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

At December 31, 2011, the City has total long-term debt outstanding of \$73,829,642, of which \$3,556,781 is estimated to be payable within the next year. The City has pledged its full faith and credit for the serial bonds that are outstanding. The remainder of the City's outstanding obligations arise out of contractual or other legal obligations.

The State of New York has a statutory limit for the amount of general obligation debt a local governmental entity may enter into. This limitation is applicable to the serial bonded debt of the City. In general the City may issue such obligations not to exceed 7% of its annual average five year valuation. The current debt-limitation for the City approximates \$21,947,594; therefore the City is in compliance with its constitutional debt limit.

The City has a bond rating of BBB+ from Standard and Poor's, A from Fitch Rating Services, and Moody's Investors Service, Inc. ("Moody's") Aa3 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 76.95% 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 \$939,790 over the past 3 years.

## **IMPACT OF SENECA NATION/NEW YORK STATE COMPACT**

In August of 2002 a Nation-State Gaming Compact was entered into by and between the Seneca Nation of Indians and the State of New York. This compact is for a term of 14 years. This compact permits the Senecas to operate Class III gaming facilities in certain geographic areas in Western New York. In consideration for this exclusivity, the Senecas agreed to pay New York State a percentage of the net drop from a certain type of gaming device. During years 8 through 14 of the compact, which is where we are now, that percentage is 25 percent. Legislation was enacted that provided for New York State to pay a certain amount that it receives from the Senecas to the host communities. That Legislation is Section 99-h of the New York State Finance Law and the City is one of those host communities. Since the compact came into existence, the City has benefited from this compact and the legislation. Section 99-h provides for the host community, the City, to pay certain amounts to various entities such as the Niagara Falls School District and the Niagara Falls Memorial Medical Center Hospital from its share of host community benefit revenues. The balance is retained by the City for economic development purposes. Those revenues to the City during the first several years amounted to a net amount to the City of an average of approximately Twelve Million Dollars (\$12,000,000.00) per year and have increased each year since.

## **IMPACT OF SENECA NATION/NEW YORK STATE COMPACT (Continued)**

The State of New York and the Senecas are now embroiled in a dispute which has been raging for approximately three (3) years. As a result, the Senecas have not made payments to New York State but rather, have made their payments into an escrow account pending the resolution of the dispute. The result for the City is that it has not been paid any casino revenues in three (3) years. The City is now owed approximately Sixty Million Dollars (\$60,000,000) in casino revenues through 2012. An estimate of this amount, Forty Million Dollars (\$40,000,000) is viewed as a receivable on the City's financial statements at December 31, 2011.

The City's financial statements would look much differently had those revenues been received by the City in a timely fashion.

### **Minimum Fund Balance Policy**

Under the City's minimum fund balance policy, approximately 5% of the General Fund operating revenues (\$2,248,634) should be reported as unassigned fund balance. At December 31, 2011, the unassigned fund balance of the general fund was a zero in part as a result of the uncertainty of receipt of the casino funds due the City under Section 99-H. It is anticipated that appropriate budgetary modifications will occur until such time as the funds are received by the City and the minimum fund balance can be restored.

### **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, 2011

	<u>Governmental Activities</u>	<u>Component Units</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 31,357,622	\$ 2,424,193
Accounts receivable	1,880,340	3,382
Due from Federal and State governments	52,248,949	-
Loans receivable	4,341,176	263,733
Notes receivable	765,482	-
Taxes receivable, net	16,268,207	-
Due from other funds	5,741,534	-
Due from other governments	3,446,269	199,300
Prepaid expenses	1,704,573	-
Inventory	625,116	-
Capital assets, net	<u>102,073,243</u>	<u>37,328,187</u>
 Total assets	 <u>220,452,511</u>	 <u>40,218,795</u>
<b>LIABILITIES</b>		
Accounts payable	10,619,930	42,034
Accrued liabilities	2,713,870	18,669
Retainages payable	840,341	-
Due to other funds	6,542,407	-
Due to other governments	10,330,344	-
Deferred revenue	4,514,963	-
Long-term liabilities -		
Due within one year	4,966,342	-
Due in more than one year	<u>126,445,870</u>	<u>-</u>
 Total liabilities	 <u>166,974,067</u>	 <u>60,703</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	28,243,601	37,328,187
Restricted -		
Risk retention	3,770,983	-
Trolley services	447,838	-
Unrestricted	<u>21,016,022</u>	<u>2,829,905</u>
 Total net assets	 <u>\$ 53,478,444</u>	 <u>\$ 40,158,092</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, 2011**

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	\$ 25,506,974	\$ 1,857,164	\$ 27,561,284	\$ 871,547	\$ 4,783,021	
Public safety	52,338,220	1,898,894	868,908	-	(49,570,418)	
Transportation	16,673,074	458,476	223,926	10,456,170	(5,534,502)	
Economic assistance and opportunity	7,189,761	24,000	-	6,906,206	(259,555)	
Culture and recreation	7,483,695	1,957,780	40,403	700,888	(4,784,624)	
Home and community services	15,100,092	14,816	7,440,282	-	(7,644,994)	
Interest on long-term debt	3,057,121	-	-	-	(3,057,121)	
Total governmental activities	<u>127,348,937</u>	<u>6,211,130</u>	<u>36,134,803</u>	<u>18,934,811</u>	<u>(66,068,193)</u>	
<b>COMPONENT UNITS:</b>	<u>\$ 3,789,435</u>	<u>\$ 3,236,167</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ (553,268)</u>
GENERAL REVENUES AND TRANSFERS:						
Real property taxes and real property tax items					30,815,142	-
Nonproperty tax items					19,081,830	-
Use of money and property					786,078	4,679
Sale of property and compensation for loss					158,851	-
State aid not received for a specific purpose					17,794,424	-
Miscellaneous					2,119,973	-
Total general revenues and transfers					<u>70,756,298</u>	<u>4,679</u>
Change in net assets					<u>4,688,105</u>	<u>(548,589)</u>
Net assets - beginning of year, as perviously reported					67,317,088	40,706,681
Prior period adjustment (Note 3)					<u>(18,526,749)</u>	<u>-</u>
Net assets - beginning of year, as restated					<u>48,790,339</u>	<u>-</u>
Net assets - end of year					<u>\$ 53,478,444</u>	<u>\$ 40,158,092</u>

The accompanying notes are an integral part of these statements.

CITY OF NIAGARA FALLS, NEW YORK

**BALANCE SHEET - GOVERNMENTAL FUNDS  
DECEMBER 31, 2011**

	<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	\$ 3,865,454	\$ 3,308,854	\$ 21,355,490	\$ 1,005,346	\$ 1,732,086	\$ 31,267,230
Due from Federal and State governments	2,586,675	-	9,662,274	-	-	12,248,949
Due from other governments	1,947,589	675,519	822,459	702	-	3,446,269
Loans receivable	-	4,341,176	-	-	-	4,341,176
Notes receivable	765,482	-	-	-	-	765,482
Taxes receivable, net	16,268,207	-	-	-	-	16,268,207
Accounts receivable	1,745,063	58,343	69,128	-	7,806	1,880,340
Prepaid expenditures	1,704,573	-	-	-	-	1,704,573
Due from other funds	<u>5,741,534</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,741,534</u>
Total assets	<u>\$ 34,624,577</u>	<u>\$ 8,383,892</u>	<u>\$ 31,909,351</u>	<u>\$ 1,006,048</u>	<u>\$ 1,739,892</u>	<u>\$ 77,663,760</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES:</b>						
Accounts payable	\$ 6,093,004	\$ 368,098	\$ 3,924,033	\$ 17,702	\$ 128,322	\$ 10,531,159
Accrued liabilities	1,462,768	-	-	-	79,607	1,542,375
Retainages payable	14,094	-	826,247	-	-	840,341
Due to other funds	757,905	439,946	-	5,320,113	23,003	6,540,967
Due to other governments	8,995,580	1,334,764	-	-	-	10,330,344
Deferred revenues	<u>8,670,450</u>	<u>4,399,035</u>	<u>115,928</u>	<u>-</u>	<u>-</u>	<u>13,185,413</u>
Total liabilities	<u>25,993,801</u>	<u>6,541,843</u>	<u>4,866,208</u>	<u>5,337,815</u>	<u>230,932</u>	<u>42,970,599</u>
<b>FUND BALANCES:</b>						
Nonspendable	1,961,368	-	-	-	-	1,961,368
Restricted	4,218,821	-	-	-	-	4,218,821
Committed	3,295,169	-	20,707,421	-	1,499,999	25,502,589
Assigned	-	1,842,049	6,335,722	-	8,961	8,186,732
Unassigned	<u>(844,582)</u>	<u>-</u>	<u>-</u>	<u>(4,331,767)</u>	<u>-</u>	<u>(5,176,349)</u>
Total fund balances	<u>8,630,776</u>	<u>1,842,049</u>	<u>27,043,143</u>	<u>(4,331,767)</u>	<u>1,508,960</u>	<u>34,693,161</u>
Total liabilities and fund balances	<u>\$ 34,624,577</u>	<u>\$ 8,383,892</u>	<u>\$ 31,909,351</u>	<u>\$ 1,006,048</u>	<u>\$ 1,739,892</u>	<u>\$ 77,663,760</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, 2011**

---

Total fund balance - governmental funds			\$ 34,693,161
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	204,120,941	
	Accumulated depreciation	<u>(102,047,698)</u>	
			102,073,243
Compensated absences are not reported in the funds under fund accounting, but are expensed in the statement of activities as the liability is incurred.			
			(11,692,457)
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	715,508	
	Liabilities	<u>(90,211)</u>	
			625,297
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.			
			8,670,450
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.			
			(421,495)
Claims and judgments are not due and payable in the current period and; therefore are not reported as fund liabilities.			
			(750,000)
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.			
			40,000,000
Long-term debt, including serial bonds, is not due and payable in the current period and; therefore, is not reported as fund liabilities.			
			<u>(119,719,755)</u>
Total net assets of governmental activities			<u>\$ 53,478,444</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, 2011**

	<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	\$ 30,168,287	\$ -	\$ -	\$ -	\$ -	\$ 30,168,287
Nonproperty tax items	19,081,830	-	-	-	-	19,081,830
Departmental income	2,202,688	-	-	-	1,120,346	3,323,034
Use of money and property	719,865	20,463	1,419	15,879	28,452	786,078
Licenses and permits	953,434	-	-	-	-	953,434
Fines and forfeitures	643,430	-	-	-	-	643,430
Interfund revenue	192,644	-	-	-	-	192,644
Sale of property and compensation for loss	158,851	-	-	-	-	158,851
Miscellaneous	643,737	-	626,236	-	850,000	2,119,973
State aid	19,639,227	340,650	8,072,244	-	-	28,052,121
Federal aid	550,458	7,440,282	10,236,331	-	-	18,227,071
<b>Total revenues</b>	<u>74,954,451</u>	<u>7,801,395</u>	<u>18,936,230</u>	<u>15,879</u>	<u>1,998,798</u>	<u>103,706,753</u>
<b>EXPENDITURES:</b>						
General governmental support	15,498,303	-	1,428,601	2,029,110	562,144	19,518,158
Public safety	35,504,652	-	1,241,729	-	-	36,746,381
Transportation	4,177,890	-	15,976,910	-	-	20,154,800
Economic assistance and opportunity	5,256,182	-	10,099,318	-	-	15,355,500
Culture and recreation	2,497,091	-	3,373,867	-	2,979,356	8,850,314
Home and community services	5,699,134	7,717,851	-	-	-	13,416,985
Employee benefits	14,102,144	-	-	-	-	14,102,144
Debt service -						
Principal	-	-	-	-	3,046,620	3,046,620
Interest	-	-	-	-	3,022,841	3,022,841
<b>Total expenditures</b>	<u>82,735,396</u>	<u>7,717,851</u>	<u>32,120,425</u>	<u>2,029,110</u>	<u>9,610,961</u>	<u>134,213,743</u>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<u>(7,780,945)</u>	<u>83,544</u>	<u>(13,184,195)</u>	<u>(2,013,231)</u>	<u>(7,612,163)</u>	<u>(30,506,990)</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Proceeds from issuance of debt	-	-	7,437,000	-	-	7,437,000
Operating transfers - in	4,681,490	-	7,080,021	3,508	11,097,484	22,862,503
Operating transfers - out	(12,981,344)	-	(3,317,502)	(2,855,130)	(3,708,527)	(22,862,503)
<b>Total other financing sources and uses</b>	<u>(8,299,854)</u>	<u>-</u>	<u>11,199,519</u>	<u>(2,851,622)</u>	<u>7,388,957</u>	<u>7,437,000</u>
<b>CHANGE IN FUND BALANCE</b>	<u>(16,080,799)</u>	<u>83,544</u>	<u>(1,984,676)</u>	<u>(4,864,853)</u>	<u>(223,206)</u>	<u>(23,069,990)</u>
<b>FUND BALANCE - beginning of year (as previously reported)</b>	24,711,575	1,758,505	46,164,448	533,086	1,732,166	74,899,780
<b>PRIOR PERIOD ADJUSTMENT (NOTE 3)</b>	-	-	(17,136,629)	-	-	(17,136,629)
<b>FUND BALANCE - beginning of year (as restated)</b>	<u>24,711,575</u>	<u>1,758,505</u>	<u>29,027,819</u>	<u>533,086</u>	<u>1,732,166</u>	<u>57,763,151</u>
<b>FUND BALANCE - end of year</b>	<u>\$ 8,630,776</u>	<u>\$ 1,842,049</u>	<u>\$ 27,043,143</u>	<u>\$ (4,331,767)</u>	<u>\$ 1,508,960</u>	<u>\$ 34,693,161</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, 2011

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Net change in fund balances - governmental funds \$ (23,069,990)

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	20,667,897	
Depreciation	<u>(5,108,934)</u>	15,558,963

Deferred tax revenues are recorded on the modified accrual basis, but are not reported in the government-wide financial statements. 646,855

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Bond proceeds	(7,437,000)	
Bond principal payments	<u>3,046,620</u>	(4,390,380)

Casino revenue is not reported in the modified accrual basis since the amounts were not received in time to pay current financial obligations. 26,584,846

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. (34,280)

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. (708,179)

To adjust long-term obligations not requiring the use of current financial resources. (1,876,413)

Deferrals and amortization of the amounts owed to the New York State Retirement System do not require the use of current financial resources and; therefore, these are not reported as expenditures in the governmental funds.

2011 deferral	(1,337,410)	
Amortization	<u>383,685</u>	(953,725)

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, 2011 (CONTINUED)**

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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.	(6,403,166)
Accrual of claims and judgments are reported in the statement of activities, but do not require the use of current financial resources and; therefore, these are not reported as expenditures in the governmental funds.	(750,000)
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.	<u>83,574</u>
Change in net assets of governmental activities	<u>\$ 4,688,105</u>

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, 2011**

---

	<u>Postage</u>	<u>Stationary</u>	<u>Telephone</u>	<u>Central Garage</u>	<u>Total</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,250	\$ -	\$ 59,156	\$ 29,986	\$ 90,392
Inventory	<u>5,145</u>	<u>1,478</u>	<u>604</u>	<u>617,889</u>	<u>625,116</u>
Total assets	<u>6,395</u>	<u>1,478</u>	<u>59,760</u>	<u>647,875</u>	<u>715,508</u>
<b>LIABILITIES</b>					
Accounts payable	-	113	-	88,658	88,771
Due to other funds	<u>-</u>	<u>1,440</u>	<u>-</u>	<u>-</u>	<u>1,440</u>
Total liabilities	<u>-</u>	<u>1,553</u>	<u>-</u>	<u>88,658</u>	<u>90,211</u>
<b>NET ASSETS</b>					
Unrestricted	<u>6,395</u>	<u>(75)</u>	<u>59,760</u>	<u>559,217</u>	<u>625,297</u>
Total net assets	<u>\$ 6,395</u>	<u>\$ (75)</u>	<u>\$ 59,760</u>	<u>\$ 559,217</u>	<u>\$ 625,297</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, 2011**

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	<u>Postage</u>	<u>Stationary</u>	<u>Telephone</u>	<u>Central Garage</u>	<u>Total</u>
REVENUES					
Charges for services	\$ 64,410	\$ 2,625	\$ 102,757	\$ 1,121,440	\$ 1,291,232
Total revenues	<u>64,410</u>	<u>2,625</u>	<u>102,757</u>	<u>1,121,440</u>	<u>1,291,232</u>
EXPENSES					
Contractual expenses	<u>59,409</u>	<u>2,625</u>	<u>101,921</u>	<u>1,043,703</u>	<u>1,207,658</u>
Total expenses	<u>59,409</u>	<u>2,625</u>	<u>101,921</u>	<u>1,043,703</u>	<u>1,207,658</u>
OPERATING INCOME	<u>5,001</u>	<u>-</u>	<u>836</u>	<u>77,737</u>	<u>83,574</u>
NET ASSETS - beginning of year	<u>1,394</u>	<u>(75)</u>	<u>58,924</u>	<u>481,480</u>	<u>541,723</u>
NET ASSETS - end of year	<u>\$ 6,395</u>	<u>\$ (75)</u>	<u>\$ 59,760</u>	<u>\$ 559,217</u>	<u>\$ 625,297</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, 2011**

	<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	\$ 64,410	\$ 2,625	\$ 102,757	\$ 1,121,440	\$ 1,291,232
Cash payments for contractual expenses	<u>(64,999)</u>	<u>(2,625)</u>	<u>(106,845)</u>	<u>(1,091,454)</u>	<u>(1,265,923)</u>
Net cash flow from operating activities	<u>(589)</u>	<u>-</u>	<u>(4,088)</u>	<u>29,986</u>	<u>25,309</u>
 CHANGE IN CASH AND CASH EQUIVALENTS	 (589)	 -	 (4,088)	 29,986	 25,309
 CASH AND CASH EQUIVALENTS - beginning of year	 <u>1,839</u>	 <u>-</u>	 <u>63,244</u>	 <u>-</u>	 <u>65,083</u>
 CASH AND CASH EQUIVALENTS - end of year	 <u>\$ 1,250</u>	 <u>\$ -</u>	 <u>\$ 59,156</u>	 <u>\$ 29,986</u>	 <u>\$ 90,392</u>
 <b>RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES:</b>					
Operating income	\$ 5,001	\$ -	\$ 836	\$ 77,737	\$ 83,574
Adjustments to reconcile operating income to net cash used by operating activities:					
Changes in:					
Inventory	(590)	668	-	(35,207)	(35,129)
Accounts payable	(5,000)	113	(4,924)	14,768	4,957
Due to other funds	<u>-</u>	<u>(781)</u>	<u>-</u>	<u>(27,312)</u>	<u>(28,093)</u>
 NET CASH FLOW FROM OPERATING ACTIVITIES	 <u>\$ (589)</u>	 <u>\$ -</u>	 <u>\$ (4,088)</u>	 <u>\$ 29,986</u>	 <u>\$ 25,309</u>

The accompanying notes are an integral part of these statements.

**CITY OF NIAGARA FALLS, NEW YORK**

**STATEMENT OF NET ASSETS - FIDUCIARY FUNDS  
DECEMBER 31, 2011**

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	Private Purpose <u>Trust</u>	<u>Agency</u>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 95,319	\$ 3,934,519
Due from other funds	<u>-</u>	<u>800,873</u>
Total assets	<u>95,319</u>	<u>4,735,392</u>
<b>LIABILITIES:</b>		
Accounts payable	-	251,227
Agency liabilities	<u>-</u>	<u>4,484,165</u>
Total current liabilities	<u>-</u>	<u>\$ 4,735,392</u>
<b>NET ASSETS:</b>		
Held in trust for private purposes	<u>95,319</u>	
Total net assets	<u>\$ 95,319</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, 2011**

---

	Private Purpose <u>Trust</u>
<b>ADDITIONS:</b>	
Interest and earnings	\$ <u>2,185</u>
<b>DEDUCTIONS:</b>	
Economic assistance and opportunity	<u>5,231</u>
<b>CHANGE IN NET ASSETS</b>	<b>(3,046)</b>
NET ASSETS - beginning of year	<u>98,365</u>
NET ASSETS - end of year	<u><u>\$ 95,319</u></u>

The accompanying notes are an integral part of these statements.

**CITY OF NIAGARA FALLS, NEW YORK**

**COMBINING STATEMENT OF NET ASSETS - COMPONENT UNITS  
DECEMBER 31, 2011**

	<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	\$ -	\$ 2,009,832	\$ 414,361	\$ 2,424,193
Accounts receivable	-	-	3,382	3,382
Loans receivable, net	-	263,733	-	263,733
Due from other governments	-	-	199,300	199,300
Capital assets, net	<u>37,324,948</u>	<u>242</u>	<u>2,997</u>	<u>37,328,187</u>
Total assets	<u>37,324,948</u>	<u>2,273,807</u>	<u>620,040</u>	<u>40,218,795</u>
<b>LIABILITIES</b>				
Accounts payable	-	6,243	35,791	42,034
Accrued liabilities	<u>-</u>	<u>-</u>	<u>18,669</u>	<u>18,669</u>
Total current liabilities	<u>-</u>	<u>6,243</u>	<u>54,460</u>	<u>60,703</u>
<b>NET ASSETS</b>				
Investments in capital assets, net of related debt	37,324,948	242	2,997	37,328,187
Unrestricted	<u>-</u>	<u>2,267,322</u>	<u>562,583</u>	<u>2,829,905</u>
Total net assets	<u>\$ 37,324,948</u>	<u>\$ 2,267,564</u>	<u>\$ 565,580</u>	<u>\$ 40,158,092</u>

The accompanying notes are an integral part of these statements.

**CITY OF NIAGARA FALLS, NEW YORK**

**COMBINING STATEMENT OF ACTIVITIES - COMPONENT UNITS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Bellevue Local Development <u>Corporation</u>	N.F.C. Development <u>Corporation</u>	Niagara Falls Public Library	<u>Total</u>
<b>OPERATING REVENUE:</b>				
Transfers from City of Niagara Falls	\$ -	\$ 995,581	\$ 1,960,167	\$ 2,955,748
Charges for services	-	4,775	26,228	31,003
Grants and aid	-	27,624	174,785	202,409
Other operating revenue	-	7,809	39,198	47,007
	<u>-</u>	<u>1,035,789</u>	<u>2,200,378</u>	<u>3,236,167</u>
<b>OPERATING EXPENSES:</b>				
Contractual expense	-	113,596	2,031,182	2,144,778
Grant expense	-	648,001	-	648,001
Depreciation	995,332	488	836	996,656
	<u>995,332</u>	<u>762,085</u>	<u>2,032,018</u>	<u>3,789,435</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(995,332)</u>	<u>273,704</u>	<u>168,360</u>	<u>(553,268)</u>
<b>NON-OPERATING REVENUE:</b>				
Interest income	-	4,679	-	4,679
<b>CHANGE IN NET ASSETS</b>	(995,332)	278,383	168,360	(548,589)
<b>NET ASSETS - beginning of year</b>	<u>38,320,280</u>	<u>1,989,181</u>	<u>397,220</u>	<u>40,706,681</u>
<b>NET ASSETS - end of year</b>	<u>\$ 37,324,948</u>	<u>\$ 2,267,564</u>	<u>\$ 565,580</u>	<u>\$ 40,158,092</u>

The accompanying notes are an integral part of these statements.

# CITY OF NIAGARA FALLS, NEW YORK

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011

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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. 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. 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. Complete financial statements for the Library can be obtained from their offices located at 1425 Main Street, Niagara Falls, New York.

#### Government-Wide Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds and aggregate non-major funds). The Statement of Net 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 sixty days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

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

#### Property Taxes

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

Tax payments are due and payable in equal installments on January 31 and May 31, after which it becomes delinquent and interest and penalties accrue. The City also bills for re-levied 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 re-levy, the City is obligated to remit taxes in full to the school district.

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

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

### **Seneca Niagara Casino Revenue**

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

### **Encumbrances**

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

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

### **Budgetary Basis of Accounting**

The budgets are adopted annually on a cash basis, which is non-GAAP. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year. The City is not legally required to adopt a budget for the miscellaneous special revenue fund. Therefore, budget comparison information for this fund is not included in the City's financial statements.

### **Cash and Cash Equivalents**

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

### **Restricted Assets**

Certain assets are classified on the balance sheet as restricted because their use is limited. The proceeds of bond sales can only be used for the stated purpose of the borrowing. The proceeds from the State for the City's share of the casino revenue are restricted for various purposes, primarily capital projects, per State Finance Law Section 99-H.

### **Inventory**

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

### **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.

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

### 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.

### Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual cost is unavailable, except for donated assets which are recorded at their estimated fair value at the date of donation. Prior to January 1, 1980, governmental funds’ infrastructure assets were not capitalized. The City elected to retroactively report only major general infrastructure assets acquired, significantly reconstructed or that received significant improvements in fiscal years ending after December 31, 1979. Capital assets are reported at actual cost for acquisitions subsequent to January 1, 2003.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the Government-wide statements are as follows:

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

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

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

### **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 postemployment benefits.

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

### **Compensated Absences**

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

Compensated absences for governmental fund type employees are reported as a liability and expenditure in the government-wide financial statements. Payment of compensated absences recorded in the government-wide financial statements is dependent upon many factors; therefore timing of future 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 postemployment benefits which may eventually be paid to employees who have not yet retired, on the governmental funds statements. On the government-wide statements, these amounts attributable to past service have been recorded as a liability.

### **Interfund Transfers**

The operations of the City give rise to certain transactions between funds, including transfers of expenditures and revenues to provide services and construct assets.

### **Net 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."

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

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

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

Beginning with year ended December 31, 2011 the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- **Nonspendable Fund Balances**

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

- **Restricted Fund Balances**

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

- **Committed Fund Balances**

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

- **Assigned Fund Balances**

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

- **Unassigned Fund Balances**

These are all other spendable amounts.

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

The City has established a minimum fund balance policy for the General Fund whereby the unassigned fund balance should be equal to 5% of the City's total General Fund operating revenues.

### **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. 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 assigned fund balance for encumbrances in the fund financial statements.
- f. Expenditures for each department may not legally exceed the total appropriations for that department. During the year, several supplemental appropriations were necessary.

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

	<u>General Fund</u>
GAAP Basis Fund Balance - December 31, 2011	\$ 8,630,776
Deduct Risk Retention fund balance - December 31, 2011	(3,770,983)
Deduct Grant fund balance - December 31, 2011	(125,523)
Deduct outstanding encumbrances	<u>(65,277)</u>
 BUDGETARY BASIS - Fund balance - December 31, 2011	 \$ <u>4,668,993</u>

### Revenue Restrictions

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

## 2. STEWARDSHIP (Continued)

### **Miscellaneous Special Revenue Fund**

The Miscellaneous Special Revenue Fund had a deficit fund balance of \$4,331,767 at December 31, 2011. This deficit is a result of the City not receiving their share of the casino revenue related to State Finance Law Section 99-H. Modified accrual accounting does not provide for the recording of revenue unless it is measurable and available as of year-end. The City has recorded this as revenue on the government-wide financial statements. It is expected that the fund balance will be positive when the City receives its share of the casino revenue.

### **Overdrawn Appropriations**

Expenditures for the year ended December 31, 2011 exceeded appropriations in the General Fund for general government support by \$3,961,229, public safety by \$640,804, economic assistance and opportunity by \$313,774 and home and community services by \$232,510.

## 3. PRIOR PERIOD ADJUSTMENTS

The City has determined that certain transactions were recorded incorrectly in a prior year.

In prior years for the Capital Projects Fund, the City had been recording grant income at the full contract amount, rather than for amounts expended on that project through the reporting date. Therefore, the beginning fund balance of the Capital Projects Fund was reduced by \$17,136,629 to reflect revenue only for the portion of approved grant funds that had been expended through that date.

It was determined that proceeds of a loan from the Power Authority of New York State Energy Services Program were actually received by the City prior to December 31, 2010. As a result, government-wide beginning net assets were restated by \$1,390,120 to reflect an increase in long-term obligations for installment purchase debt.

## 4. 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.

#### 4. CASH AND CASH EQUIVALENTS (Continued)

##### 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.

At December 31, 2011, 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	\$ 36,840,895	\$ 35,387,460
Category 1: Covered by FDIC insurance	\$ 8,619,714	
Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name	<u>28,872,748</u>	
	<u>\$ 37,492,462</u>	

## 5. RECEIVABLES

Major revenues accrued by the City at December 31, 2011 include the following:

### Accounts Receivable

#### General Fund:

Demolitions, debris pickup, and weed cutting	\$	929,691
Tourism - 4th quarter occupancy tax & hotel trolley service		383,290
Franchise fees		289,766
Gross utilities taxes		36,860
Other miscellaneous receivables		<u>105,456</u>
		1,745,063

#### Community Development Fund:

Accounts receivable	\$	175,848
Less: Allowance for uncollectable accounts		<u>(117,505)</u>
		58,343

Capital Projects 69,128

Nonmajor Governmental Funds 7,806

\$ 1,880,340

## 5. RECEIVABLES (Continued)

### State and Federal Receivables

Represents amounts due primarily from New York State and the federal government. Amounts accrued at December 31, 2011, consist of:

#### General Fund:

U.S. Department of Justice	\$	511,735
NYS sales tax		489,444
U.S. Department of Homeland Security (via NYS)		363,798
NYS Court System		254,100
NYS material maintenance		200,812
FEMA (via NYS)		169,510
Medicare Part D		158,503
NYS Public Service Commission		103,536
NYS DCJS Project Impact		71,613
Other miscellaneous state and federal receivables		<u>263,624</u>

2,586,675

#### Capital Projects Fund:

Culinary Institute		5,226,008
CSX Bridge Route 104		1,774,419
Lewiston Road Reconstruction		598,781
Tenth Street Project		564,110
City Hall Roof		563,127
LaSalle Waterfront		400,000
NYS CHIPS		292,353
NYS DOT		125,914
Other miscellaneous state and federal receivables		<u>117,562</u>

9,662,274

Total state and federal receivables \$ 12,248,949

### Due from Other Governments

Represents amounts due primarily from the County of Niagara, New York, and other governmental entities. Amounts accrued at December 31, 2011 consist of:

#### General Fund:

Niagara Falls Water Board	\$	707,994
NFBOE/School tax fees		78,822
NFBOE - Miscellaneous		99,108
Niagara County - Sales tax		992,452
Other miscellaneous due from other governments		<u>69,213</u>

1,947,589

#### Capital Projects Fund:

Niagara Falls Water Board		822,459
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Community Development Fund 675,519

Miscellaneous Special Revenue Fund 702

Total due from other governments \$ 3,446,269

## 5. RECEIVABLES (Continued)

### Note Receivable

During 1987, Nitec Paper Corporation filed for bankruptcy with several years of outstanding taxes and water and sewer charges due to the City, the County of Niagara (County), and the Niagara Falls Board of Education. The City obtained the deed in lieu of foreclosure and sold the plant to Cascades Company for outstanding taxes and charges totaling \$5,400,000. Upon closing, \$100,000 was paid to the City with the remaining \$5,300,000 to be paid over 30 years as follows: Commencing November 1, 1988 through October 1, 1997 monthly payments of interest only at 3% and beginning on November 1, 1997 through October 1, 2017 monthly payments of interest and principal of \$29,394. Under the terms of the agreement, the Niagara Falls Water Board and the City receive 59.4% and 40.6% respectively. Upon receipt of its portion of the funds, the City retains 16.2% and distributes 17.6% to Niagara Falls Board of Education and 6.8% to the County. At December 31, 2011, the City's outstanding balance was \$765,482.

### 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, 2011 were as follows:

#### Community Development Fund:

Loans receivable - Community Development Block Grant	\$ 2,539,375
Loan receivable - miscellaneous	1,379,825
Loan receivable - HOME	<u>421,976</u>
Total loans receivable	<u>\$ 4,341,176</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, 2011:

City taxes receivable - current	\$ 3,299,680
City taxes receivable - overdue	10,002,681
School taxes receivable	<u>7,286,488</u>
Total taxes receivable	20,588,849
Less: Allowance for uncollectible taxes	<u>(4,320,642)</u>
Total taxes receivable, net	<u>\$ 16,268,207</u>

## 5. RECEIVABLES (Continued)

### Interfund Receivables, Payables, Revenues and Expenses

To improve cash management, all City disbursements are made from a consolidated account in the general fund. Also, the cash balances of certain capital funds are consolidated to maximize investment return. Both these cash management practices, as well as normal delays in processing interfund transfers and reimbursements, are the main reason why interfund receivables and payables exist. These receivables and payables are short term in nature and are typically repaid in less than one year.

Transfers among funds are provided for as part of the annual budget process. They facilitate annual contributions from the operating budget to capital projects funds and debt service fund. They also facilitate contributions from the special revenue fund to capital projects funds.

Interfund receivables, payables and transfers as of and for the year ended December 31, 2011 are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Operating Transfers-in</u>	<u>Operating Transfers-out</u>
General Fund	\$ 5,741,534	\$ 757,905	\$ 4,681,490	\$ 12,981,344
Community Development Fund	-	439,946	-	-
Capital Projects Fund	-	-	7,080,021	3,317,502
Miscellaneous Special Revenue Fund	-	5,320,113	3,508	2,855,130
Debt Service Fund	-	-	8,398,303	3,350,000
Golf Course Fund	-	2,039	373,330	11,854
Public Library Fund	-	17,669	1,969,310	-
Parking Ramp Fund	-	3,295	356,541	346,673
Internal Service Funds	-	1,440	-	-
Agency Fund	<u>800,873</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 6,542,407</u>	<u>\$ 6,542,407</u>	<u>\$ 22,862,503</u>	<u>\$ 22,862,503</u>

## 6. CAPITAL ASSETS

Capital asset activity for the City for the year ended December 31, 2011 was as follows:

	Balance <u>1/1/11</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	Balance <u>12/31/11</u>
Capital assets, not being depreciated:					
Land	\$ 2,891,293	\$ -	\$ -	\$ -	\$ 2,891,293
Land improvement - inexhaustible	256,620	-	-	-	256,620
Construction work in progress	30,630,799	19,115,330	-	(9,985,222)	39,760,907
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>33,796,090</u>	<u>19,115,330</u>	<u>-</u>	<u>(9,985,222)</u>	<u>42,926,198</u>
Capital assets, being depreciated:					
Infrastructure	93,516,382	-	-	9,985,222	103,501,604
Land improvement - exhaustible	2,049,879	-	-	-	2,049,879
Building and building improvements	22,003,443	-	-	-	22,003,443
Furniture, office, and other equipment	8,436,151	106,096	(20,155)	-	8,522,092
Library/museum resources	9,072,896	-	-	-	9,072,896
Vehicles	<u>15,230,897</u>	<u>1,446,471</u>	<u>(632,539)</u>	<u>-</u>	<u>16,044,829</u>
Total capital assets, being depreciated	<u>150,309,648</u>	<u>1,552,567</u>	<u>(652,694)</u>	<u>9,985,222</u>	<u>161,194,743</u>
Less accumulated depreciation:					
Infrastructure	(55,063,019)	(2,990,942)	-	-	(58,053,961)
Land improvement - exhaustible	(1,333,160)	(46,871)	-	-	(1,380,031)
Building and building improvements	(16,879,141)	(513,761)	-	-	(17,392,902)
Furniture, office, and other equipment	(7,049,627)	(220,302)	20,155	-	(7,249,774)
Library/museum resources	(9,072,896)	-	-	-	(9,072,896)
Vehicles	<u>(8,193,615)</u>	<u>(1,337,058)</u>	<u>632,539</u>	<u>-</u>	<u>(8,898,134)</u>
Total accumulated depreciated	<u>(97,591,458)</u>	<u>(5,108,934)</u>	<u>652,694</u>	<u>-</u>	<u>(102,047,698)</u>
Total capital assets, being depreciated, net	<u>52,718,190</u>	<u>(3,556,367)</u>	<u>-</u>	<u>9,985,222</u>	<u>59,147,045</u>
Governmental activities capital assets, net	<u>\$ 86,514,280</u>	<u>\$ 15,558,963</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 102,073,243</u>

## 6. CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions as follows:

Governmental activities:		
General government	\$	97,853
Public safety		628,052
Transportation		3,532,828
Culture and recreation		850,148
Home and community service		<u>53</u>
Total	\$	<u>5,108,934</u>

## 7. PENSION PLAN

### Plan Description

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

### Funding Policies

The System is noncontributory for the employee who joined prior to July 27, 1976. For employees who joined the System after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary, except that employees in the System more than ten years are no longer required to contribute. For employees who joined after January 1, 2010, employees in the System contribute 3% of their salary throughout their active membership. For the System, the Comptroller certifies the rates expressed as proportions of members' payroll annually which are 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 City's ERS contributions for the years 2011, 2010 and 2009 were equal to the required contributions for the plan fiscal year. The City's PFRS contributions for the years ended 2010 and 2009 were equal to the required contributions for the plan's fiscal year. For 2011, the City elected to amortize \$1,337,410 over ten years as allowed under the NYSRSSL. The required contributions for the current year and two preceding years were:

	<u>ERS</u>	<u>PFRS</u>
2011	\$ 1,970,747	\$ 6,179,985
2010	\$ 1,488,373	\$ 3,913,855
2009	\$ 1,084,759	\$ 3,340,955

\$1,704,573 of the cash paid represents amounts owed for the period of January 1 – March 31, 2012 and is shown as prepaid expenses on the accompanying balance sheet.

## **7. 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.

## **8. OTHER POSTEMPLOYMENT BENEFIT PLANS**

### **Plan Description**

The City administers the City of Niagara Falls Retiree Medical, Dental and Life Insurance Plan (the Plan) as a single-employer defined benefit Other Postemployment Benefit plan (OPEB). The Plan provides for continuation of medical, dental and life insurance benefits for certain retirees and their spouses and can be amended by action of the City subject to applicable collective bargaining and employment agreements. The City currently has 535 retirees eligible to receive benefits under the Plan at December 31, 2011. 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 2011 was \$7,958,000. The costs of administering the plan are paid by the City.

## 8. OTHER POSTEMPLOYMENT 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, 2011:

#### Annual OPEB Cost and New OPEB Obligation

Normal Cost	\$ 3,224,756
Amortization of unfunded actuarial liability	11,035,744
Interest	<u>570,420</u>
Annual Required Contribution (ARC)	14,830,920
Interest on OPEB Obligation	1,053,838
Adjustment to ARC	<u>(1,523,592)</u>
Annual OPEB Cost	14,361,166
OPEB contributions made during the fiscal year	<u>(7,958,000)</u>
OPEB obligation for the current fiscal year	6,403,166
OPEB obligation at beginning of year	<u>26,345,946</u>
OPEB obligation at end of year	<u>\$ 32,749,112</u>
Percentage of expense contributed	<u>55.4%</u>

### Funded Status and Funding Progress

As of the January 1, 2011 actuarial valuation date, the following represents the schedule of funding progress:

Current retired liability	\$ 106,100,004
Actives eligible to retire	48,234,057
Actives not yet eligible	<u>44,129,445</u>
Actuarial accrued liability	<u>\$ 198,463,506</u>
Funded ratio	<u>0.0%</u>
Annual covered payroll	<u>\$ 38,141,762</u>
Ratio of unfunded actuarial accrued liability as a percentage of covered payroll	<u>520.3%</u>

**8. OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)**

**Schedule of Funding Progress for the City's Plan**

Actuarial Valuation Date	Year Ended	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/(c)
1/1/2011	12/31/11	\$ -	\$ 198,463,506	\$ 198,463,506	0.0%	\$ 38,141,762	520.3%
1/1/2010	12/31/10	\$ -	\$ 195,003,497	\$ 195,003,497	0.0%	\$ 34,768,855	560.9%
1/1/2009	12/31/09	\$ -	\$ 214,499,508	\$ 214,499,508	0.0%	N/A	N/A

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
2011	\$ 14,361,166	\$ 7,958,000	55.4%	\$ 32,749,112
2010	\$ 14,152,174	\$ 7,417,000	52.4%	\$ 26,345,946
2009	\$ 16,767,000	\$ 6,962,947	42.0%	\$ 19,610,772

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.

## 9. LONG-TERM LIABILITIES

### Serial Bonds

The City borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These long-term liabilities are full faith and credit debt of the City. The provision to be made in the future budgets for capital indebtedness represents the amount, exclusive of interest, authorized to be collected in future years from taxpayers and others for liquidation of the long-term liabilities. During the current year, the City recognized \$3,051,988 of expense 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 expense from the installment purchase debt totaled \$5,133 in the current year. The City also has non-current long-term liabilities for estimated workers' compensation claims incurred and due to retirement system for the current and long-term obligation of amortized payments for the remaining amounts owed by the City to the State for the 2005 and 2006 ERS and PFRS.

The following is a summary of changes in long-term liabilities for the year ended December 31, 2011:

	Balance <u>1/1/11</u>	Additions	Deletions	Balance <u>12/31/11</u>	Due Within <u>One Year</u>
Serial bonds	\$ 68,049,142	\$ 7,437,000	\$ (2,933,203)	\$ 72,552,939	\$ 3,422,055
Installment purchase debt	1,390,120	-	(113,417)	1,276,703	134,726
Due to retirement system	1,797,141	1,337,410	(383,685)	2,750,866	515,561
Compensated absences	10,984,278	708,179	-	11,692,457	894,000
Workers' compensation	8,513,722	1,876,413	-	10,390,135	-
Other postemployment Benefits	<u>26,345,946</u>	<u>14,361,166</u>	<u>(7,958,000)</u>	<u>32,749,112</u>	<u>-</u>
	<u>\$ 117,080,349</u>	<u>\$ 25,720,168</u>	<u>\$ (11,388,305)</u>	<u>\$ 131,412,212</u>	<u>\$ 4,966,342</u>

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

The City had the following bonds and installment purchase debt payable obligations changes during the year and outstanding as of December 31, 2011:

Fund and Purpose	Year of Issue	Year of Maturity	Interest Rate	Original Amount	Principal Outstanding 1/01/2011	Issued	Paid With Appropriations	Principal Outstanding 12/31/2011	Amounts Due in one year
<b>General:</b>									
<b>Serial Bonds:</b>									
General Improvements - 1994 Refunding Serial Bonds - 1992-1994	1994	2024	6.125% - 7.500%	\$ 7,682,000	\$ 2,505,769	\$ -	\$ 236,003	\$ 2,269,766	\$ 254,010
General Improvements - 2004	2003	2024	4.13%	4,123,400	3,440,000	-	105,000	3,335,000	95,000
General Improvements - 2006	2004	2018	4.00% - 4.25%	13,035,250	7,085,744	-	767,623	6,318,121	801,364
General Improvements - 2007	2006	2028	4.375% - 4.500%	9,364,000	8,455,000	-	325,000	8,130,000	340,000
General Improvements - 2009	2007	2037	4.500% - 4.625%	39,400,000	37,260,000	-	780,000	36,480,000	755,000
General Improvements - 2011	2009	2024	3.00% - 3.75%	8,190,000	7,750,000	-	465,000	7,285,000	480,000
	2011	2026	3% - 4%	7,437,000	-	7,437,000	-	7,437,000	432,000
					66,496,513	-	2,678,626	71,254,887	3,157,374
<b>Installment Purchase Debt:</b>									
NYPAA Loan	2010	2021	0.46%	1,390,120	1,390,120	-	113,417	1,276,703	134,726
<b>Total General Fund</b>					<u>67,886,633</u>	<u>7,437,000</u>	<u>2,792,043</u>	<u>72,531,590</u>	<u>3,292,100</u>
<b>Golf Course:</b>									
General Improvements - 2004	2004	2018	4.00% - 4.25%	124,750	79,628	-	8,626	71,002	9,006
<b>Total Golf Course</b>					<u>79,628</u>	<u>-</u>	<u>8,626</u>	<u>71,002</u>	<u>9,006</u>
<b>Sewer Fund:</b>									
Sewer Lines	1994	2024	5.30% - 7.50%	2,988,000	13,373	-	2,200	11,173	1,045
<b>Total Sewer Fund</b>					<u>13,373</u>	<u>-</u>	<u>2,200</u>	<u>11,173</u>	<u>1,045</u>
<b>Parking Ramp I:</b>									
Refunding Serial Bonds - 1992	2003	2012	4.00%	100,600	15,000	-	10,000	5,000	5,000
General Improvements - 2004	2004	2018	4.00% - 4.25%	1,600,000	1,021,276	-	110,638	910,638	115,501
					<u>1,036,276</u>	<u>-</u>	<u>120,638</u>	<u>915,638</u>	<u>120,501</u>
<b>Parking Ramp II:</b>									
Refunding Serial Bonds - 1992	2003	2012	4.13%	1,006,000	210,000	-	100,000	110,000	110,000
					<u>210,000</u>	<u>-</u>	<u>100,000</u>	<u>110,000</u>	<u>110,000</u>
<b>Total Parking Ramp</b>					<u>1,246,276</u>	<u>-</u>	<u>220,638</u>	<u>1,025,638</u>	<u>230,501</u>
<b>Public Library:</b>									
General Improvements - 2004	2004	2018	4.00% - 4.25%	334,250	213,352	-	23,113	190,239	24,129
<b>Total Public Library</b>					<u>213,252</u>	<u>-</u>	<u>23,113</u>	<u>190,239</u>	<u>24,129</u>
<b>Total Serial Bonds and Installment Purchase Debt</b>					<u>\$ 69,439,262</u>	<u>\$ 7,437,000</u>	<u>\$ 3,046,620</u>	<u>\$ 73,829,642</u>	<u>\$ 3,556,781</u>

## 9. LONG-TERM LIABILITIES (Continued)

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

	Serial Bonds		Installment Purchase	
	Principal	Interest	Principal	Interest
2012	\$ 3,422,055	\$ 3,128,289	\$ 134,726	\$ 9,801
2013	3,356,051	2,992,753	135,663	9,071
2014	3,481,612	2,845,088	136,807	7,927
2015	3,610,890	2,691,147	137,960	6,774
2016	3,764,738	2,531,133	139,124	5,610
2017-2021	17,252,593	10,241,788	592,423	10,635
2022-2026	15,460,000	6,781,400	-	-
2027-2031	9,435,000	4,097,175	-	-
2032-2036	10,385,000	2,008,613	-	-
2037	<u>2,385,000</u>	<u>110,306</u>	-	-
Total	<u>\$ 72,552,939</u>	<u>\$ 37,427,692</u>	<u>\$ 1,276,703</u>	<u>\$ 49,818</u>

### Interest

Interest expense on long-term debt was \$3,057,121 in 2011. In 2011, cash paid for interest was \$3,022,841. The installment purchase debt has a variable interest rate, determined annually based on interest rates paid by the lender on its outstanding debt. The interest rate was 0.46% for the year ended December 31, 2011.

### 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, 2011, a total amount of \$2,565,373 of bonds outstanding is considered deceased.

## 10. RISK FINANCING ACTIVITIES

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has determined that it was not economically justifiable to carry insurance for risks or loss related to torts and other general liability claims except for amounts in excess of \$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.

Total expenditures for claims and judgments recorded in the City's governmental funds for the year ended December 31, 2011 was \$329,163.

## 10. RISK FINANCING ACTIVITIES (Continued)

At December 31, 2011, 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'</u> <u>Compensation</u>
Estimated claims December 31, 2010	\$ 8,513,722
Change in liability	<u>1,876,413</u>
Estimated claims December 31, 2011	<u>\$ 10,390,135</u>

## 11. COMMITMENTS AND CONTINGENCIES

### Landfill Closure Costs

In 1994, the City was identified by the United States Environmental Protection Agency (EPA) as a responsible party that could be held liable for a portion of the long-term maintenance and operation of a landfill site in Niagara County.

The City's portion for the long-term maintenance and operation of the landfill was estimated to be approximately \$630,000. All parties designated as potentially responsible parties by the EPA participated in a Pilot Allocation Program. As a result of the Pilot Allocation Program, the City is required to make annual payments of \$21,000 for the long-term operation and maintenance of the landfill through 2024. As of December 31, 2011, a liability, Niagara County Refuse Trust, has been recorded in the Government-wide financial statements for future operation and maintenance costs. Since 2004, the Trust administration has not requested payment from the City under this program. The liability recorded as Due to Other Governments at December 31, 2011 was \$230,899.

### 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.

### Convention Center

The City entered into an agreement dated March 15, 1971 with New York State Urban Development Corporation (UDC), d/b/a Empire State Development Corporation (ESDC), for the purpose of financing and constructing a Convention Center. Under the terms of the agreement (as subsequently amended) the UDC leased the Convention Center back to the City for the period January 1, 1974 through December 21, 2013.

**11. COMMITMENTS AND CONTINGENCIES (Continued)**

**Convention Center (Continued)**

Since 1979, the State of New York has provided the City with an annual subsidy for the Convention Center lease payments (\$3,341,661). The continuation of the subsidy is subject to annual appropriation by the New York State Legislature. In turn, the City makes a payment to USA Niagara Development Corporation (a subsidiary of ESDC) in the amount of approximately \$3,100,000 for economic development activities.

**Other**

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

**12. FUND BALANCE**

As of December 31, 2011, fund balances were composed of the following:

	General Fund	Community Development Fund	Capital Projects Fund	Miscellaneous Special Revenue Fund	Nonmajor Governmental Funds
Nonspendable -					
Prepaid expenditures	\$ 1,704,573	\$ -	\$ -	\$ -	\$ -
Long term receivables	<u>256,795</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total nonspendable	1,961,368	-	-	-	-
Restricted -					
Risk retention	3,770,983	-	-	-	-
Trolley services	<u>447,838</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total restricted	4,218,821	-	-	-	-
Committed -					
Future appropriations	2,500,000	-	3,900,000	-	-
Fire safer grant	710,708	-	-	-	-
USA Niagara projects	50,000	-	-	-	-
Street maintenance	34,461	-	-	-	-
Outstanding encumbrances	-	-	10,151,845	-	-
Various capital projects	-	-	6,655,576	-	-
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,499,999</u>
Total committed	3,295,169	-	20,707,421	-	1,499,999
Assigned -					
Other spendable amounts	<u>-</u>	<u>1,842,049</u>	<u>6,335,722</u>	<u>-</u>	<u>8,961</u>
Total assigned	<u>-</u>	<u>1,842,049</u>	<u>6,335,722</u>	<u>-</u>	<u>8,961</u>
Unassigned	<u>(844,582)</u>	<u>-</u>	<u>-</u>	<u>(4,331,767)</u>	<u>-</u>
Total	<u>\$ 8,630,776</u>	<u>\$ 1,842,049</u>	<u>\$ 27,043,143</u>	<u>\$ (4,331,767)</u>	<u>\$ 1,508,960</u>

### 13. FUTURE GASB PRONOUNCEMENTS

In December 2010, the GASB issued Statement No. 60, *“Accounting and Financial Reporting for Service Concession Arrangements (SCA).”* This standard provides guidance on accounting and reporting for public-private or public-public partnerships. The City is required to adopt the provisions of Statement No. 60 for the year ending December 31, 2012. The City’s management has not yet assessed the impact of this statement on its future financial statements.

In December 2010, the GASB issued Statement No. 61, *“The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34”*. This standard modifies requirements for inclusion of component units in the City’s financial statements. This standard provides additional guidance on blending component units. The City is required to adopt the provisions of Statement No. 61 for the year ending December 31, 2013. The City’s management has not yet assessed the impact of this statement on its future financial statements.

In December 2010, the GASB issued Statement No. 62, *“Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements”*. This standard incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements. The guidance being incorporated includes Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure. The City is required to adopt the provisions of Statement No. 62 for the year ending December 31, 2012. The City’s management has not yet assessed the impact of this statement on its future financial statements.

In June 2011, the GASB issued Statement No. 63, *“Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”*. This standard provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The standard incorporates deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and renames that measure as net position, rather than net assets. The City is required to adopt the provisions of Statement No. 63 for the year ending December 31, 2012. The City’s management has not yet assessed the impact of this statement on its future financial statements.

In June 2011, the GASB issued Statement No. 64, *“Derivative Instruments: Application of Hedge Accounting Termination Provisions -- an amendment of GASB Statement No. 53”*. This standard clarifies whether an effective hedging relationship continues after the replacement of an interest rate swap or commodity swap counterparty or a swap counterparty’s credit support provider. This standard also sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The City is required to adopt the provisions of Statement No. 64 for the year ending December 31, 2013. The City’s management has not yet assessed the impact of this statement on its future financial statements.

### 13. FUTURE GASB PRONOUNCEMENTS (Continued)

In April 2012, the GASB issued Statement No. 65, *“Items Previously Reported as Assets and Liabilities”*. This standard establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The City is required to adopt the provisions of Statement No. 65 for the year ending December 31, 2013. The City’s management has not yet assessed the impact of this statement on its future financial statements.

In April 2012, the GASB issued Statement No. 66, *“Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62”*. This standard amends Statements 10 and 62 and improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of Statements No. 54 and 62. The City is required to adopt the provisions of Statement No. 66 for the year ending December 31, 2013. The City’s management has not yet assessed the impact of this statement on its future financial statements.

**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, 2011**

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>				
Real property taxes and tax items	\$ 30,442,704	\$ 30,442,704	\$ 30,168,287	\$ (274,417)
Nonproperty tax items	16,400,000	16,400,000	19,081,830	2,681,830
Departmental income	1,105,932	1,124,382	1,270,714	146,332
Use of money and property	855,091	855,091	717,733	(137,358)
Licenses and permits	573,950	573,950	953,434	379,484
Fines and forfeitures	929,500	929,500	643,430	(286,070)
Interfund revenue	225,000	210,000	192,644	(17,356)
Sale of property and compensation for loss	145,784	145,784	158,851	13,067
Miscellaneous	470,200	470,200	593,315	123,115
State aid	25,352,353	25,352,353	19,615,085	(5,737,268)
Federal aid	525,490	525,490	400,458	(125,032)
<b>Total revenues</b>	<b>77,026,004</b>	<b>77,029,454</b>	<b>73,795,781</b>	<b>(3,233,673)</b>
<b>EXPENDITURES:</b>				
General governmental support	12,083,533	11,197,972	15,159,201	(3,961,229)
Public safety	33,253,219	33,930,120	34,570,924	(640,804)
Transportation	3,867,189	4,217,672	4,178,258	39,414
Economic assistance and opportunity	4,752,000	4,856,730	5,170,504	(313,774)
Culture and recreation	2,456,582	2,552,899	2,471,901	80,998
Home and community services	5,212,948	5,520,849	5,753,359	(232,510)
Employee benefits	14,224,818	14,495,000	14,102,144	392,856
<b>Total expenditures</b>	<b>75,850,289</b>	<b>76,771,242</b>	<b>81,406,291</b>	<b>(4,635,049)</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>1,175,715</b>	<b>258,212</b>	<b>(7,610,510)</b>	<b>(7,868,722)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Appropriated fund balance	3,995,116	8,355,956	-	(8,355,956)
Operating transfers - in	3,467,552	3,976,752	4,076,490	99,738
Operating transfers - out	(8,638,383)	(12,590,920)	(12,981,344)	(390,424)
<b>Total other financing sources (uses)</b>	<b>(1,175,715)</b>	<b>(258,212)</b>	<b>(8,904,854)</b>	<b>(8,646,642)</b>
<b>CHANGE IN FUND BALANCE</b>	<b>-</b>	<b>-</b>	<b>(16,515,364)</b>	<b>(16,515,364)</b>
<b>FUND BALANCE - beginning of year</b>	<b>-</b>	<b>-</b>	<b>21,184,357</b>	<b>21,184,357</b>
<b>FUND BALANCE - end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,668,993</b>	<b>\$ 4,668,993</b>

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

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, 2011**

	<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	\$ 1,492,193	\$ 109,800	\$ 117,572	\$ 12,521	\$ 1,732,086
Other receivables	<u>7,806</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,806</u>
Total assets	<u>\$ 1,499,999</u>	<u>\$ 109,800</u>	<u>\$ 117,572</u>	<u>\$ 12,521</u>	<u>\$ 1,739,892</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES:</b>					
Accounts payable	\$ -	\$ 28,914	\$ 90,942	\$ 8,466	\$ 128,322
Accrued liabilities	-	78,847	-	760	79,607
Due to other funds	<u>-</u>	<u>2,039</u>	<u>17,669</u>	<u>3,295</u>	<u>23,003</u>
Total liabilities	<u>-</u>	<u>109,800</u>	<u>108,611</u>	<u>12,521</u>	<u>230,932</u>
<b>FUND BALANCES:</b>					
Committed	1,499,999	-	-	-	1,499,999
Assigned	<u>-</u>	<u>-</u>	<u>8,961</u>	<u>-</u>	<u>8,961</u>
Total fund balances	<u>1,499,999</u>	<u>-</u>	<u>8,961</u>	<u>-</u>	<u>1,508,960</u>
Total liabilities and fund balances	<u>\$ 1,499,999</u>	<u>\$ 109,800</u>	<u>\$ 117,572</u>	<u>\$ 12,521</u>	<u>\$ 1,739,892</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, 2011**

	<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	\$ -	\$ 653,048	\$ -	\$ 467,298	\$ 1,120,346
Use of money and property	-	4,483	-	23,969	28,452
Miscellaneous local sources	<u>850,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>850,000</u>
Total revenues	<u>850,000</u>	<u>657,531</u>	<u>-</u>	<u>491,267</u>	<u>1,998,798</u>
<b>EXPENDITURES:</b>					
General governmental support	61,009	-	-	501,135	562,144
Culture and recreation	-	1,019,007	1,960,349	-	2,979,356
Debt service -					
Principal	3,046,620	-	-	-	3,046,620
Interest	<u>3,022,841</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,022,841</u>
Total expenditures	<u>6,130,470</u>	<u>1,019,007</u>	<u>1,960,349</u>	<u>501,135</u>	<u>9,610,961</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(5,280,470)</u>	<u>(361,476)</u>	<u>(1,960,349)</u>	<u>(9,868)</u>	<u>(7,612,163)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating transfers - in	8,398,303	373,330	1,969,310	356,541	11,097,484
Operating transfers - out	<u>(3,350,000)</u>	<u>(11,854)</u>	<u>-</u>	<u>(346,673)</u>	<u>(3,708,527)</u>
Total other financing sources and uses	<u>5,048,303</u>	<u>361,476</u>	<u>1,969,310</u>	<u>9,868</u>	<u>7,388,957</u>
CHANGE IN FUND BALANCE	(232,167)	-	8,961	-	(223,206)
FUND BALANCE - beginning of year	<u>1,732,166</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,732,166</u>
FUND BALANCE - end of year	<u>\$ 1,499,999</u>	<u>\$ -</u>	<u>\$ 8,961</u>	<u>\$ -</u>	<u>\$ 1,508,960</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**

July 5, 2012

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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 5, 2012. Our report includes a reference to other auditors. 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. Other auditors audited the financial statements of the Niagara Falls Public Library, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

Management of the City is responsible for establishing and maintaining effective 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. The material weakness is described as finding 2011-01.

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**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 July 5, 2012.

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**

July 5, 2012

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, 2011. 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, *Audits of States, Local Governments, and Non-Profit Organizations*. 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, 2011.

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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, 2011**

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 Housing and Urban Development:			
Community Development Block Grants/Entitlement Grants	14.218	N/A	2,661,954
Emergency Shelter Grants Program	14.231	N/A	84,367
<b>Home Investment Partnerships Program</b>	<b>14.239</b>	<b>N/A</b>	<b>623,865</b>
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	N/A	52,417
Section 8 Housing Choice Vouchers	14.871	N/A	3,433,085
<b>ARRA - Homelessness Prevention and Rapid Re-Housing Program</b>	<b>14.257</b>	<b>N/A</b>	<b>526,612</b>
Passed through NYS Division of Housing and Community Renewal Section 8 Housing Choice Vouchers	14.871	NY904	<u>169,652</u>
<i>Total U.S. Department of Housing and Urban Development</i>			<u>7,551,952</u>
U.S. Department of Justice:			
Equitable Sharing Program	16.922	N/A	83,846
Foreign-Trade Zones in the United States	11.111	N/A	79,193
ARRA - Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	22,227
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	<u>72,233</u>
			257,499
<b>ARRA - Public Safety Partnership and Community Policing Grants</b>	<b>16.710</b>	<b>N/A</b>	<b>340,406</b>
Passed through NYS Division of Criminal Justice Services Legal Assistance for Victims	16.524	VW091168E00	<u>38,749</u>
<i>Total U.S. Department of Justice</i>			<u>636,654</u>
U.S. Department of Homeland Security:			
Passed through NYS Office of Homeland Security Homeland Security Grant Program	97.067	N/A	204,627
Passed through Federal Emergency Management Agency - Assistance to Firefighters Grant	97.044	2008-M7-0001GF	<u>60,051</u>
<i>Total U.S. Department of Homeland Security</i>			<u>264,678</u>
U.S. Department of Transportation:			
Passed through NYS Department of Transportation			
<b>Highway Planning and Construction</b>	<b>20.205</b>	<b>D031554</b>	<b>1,379,472</b>
<b>Highway Planning and Construction</b>	<b>20.205</b>	<b>D017307</b>	<b>905,849</b>
<b>Highway Planning and Construction</b>	<b>20.205</b>	<b>D013786</b>	<b>2,455,314</b>
<b>Highway Planning and Construction</b>	<b>20.205</b>	<b>D032572</b>	<b>3,016,534</b>
<b>Highway Planning and Construction</b>	<b>20.205</b>	<b>D022276</b>	<b>65,535</b>
<b>Highway Planning and Construction</b>	<b>20.205</b>	<b>D017179</b>	<b>37,406</b>
<b>Highway Planning and Construction</b>	<b>20.205</b>	<b>D024729</b>	<b>1,337,196</b>
<b>Highway Planning and Construction</b>	<b>20.205</b>	<b>D024782</b>	<b>14,838</b>
<b>Highway Planning and Construction</b>	<b>20.205</b>	<b>D032521</b>	<b>271,841</b>
<b>Highway Planning and Construction</b>	<b>20.205</b>	<b>D032547</b>	<b>19,994</b>
<b>Highway Planning and Construction</b>	<b>20.205</b>	<b>D032548</b>	<b>18,400</b>
<b>ARRA - Highway Planning and Construction</b>	<b>20.205</b>	<b>D024729</b>	<b>502,469</b>
<i>Total U.S. Department of Transportation</i>			<u>10,024,848</u>
U.S. Department of Energy:			
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	N/A	<u>265,182</u>
<i>Total U.S. Department of Energy</i>			<u>265,182</u>
Total Expenditures of Federal Awards			<u>\$ 18,743,314</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, 2011**

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#### **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, 2011:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
ARRA - Homeless Prevention and Rapid Re-Housing Neighborhood Legal Services, Inc.	14.257	\$ 60,000
YWCA of Niagara, Inc.	14.257	60,000
ARRA - Edward Byrne Memorial Justice Assistance Grant Program Niagara County Sheriff	16.738	6,164
Community Development Block Grants/Entitlement Grants Niagara Falls Neighborhood Housing Services	14.218	200,000
Center City Neighborhood Development Corp.	14.218	200,000
Highland Avenue Revitalization Committee	14.218	75,000
Niagara Arts & Cultural Center	14.218	22,500
Youth Motivation – Early Detection & Correction	14.218	20,000
YWCA of Niagara, Inc.	14.218	50,000
NFHA – Summer Enrichment Program	14.218	30,000
Weed & Seed Youth Mentoring Program	14.218	30,000
HOME Investment Partnerships Program Center City Neighborhood Dev. Corp.	14.239	283,462
Emergency Shelter Grants Program Community Missions – operating costs	14.231	25,000
Fellowship House – operating costs	14.231	20,000
Family & Children’s Service – operating costs	14.231	25,000
YMCA – operating costs	14.231	20,000
YWCA – Carolyn’s House – operating costs	14.231	<u>20,985</u>
		<u>\$ 1,148,111</u>

# CITY OF NIAGARA FALLS, NEW YORK

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2011

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### 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. One material weakness relating to the audit of the basic financial statements is 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. 14.239 Home Investment Partnerships Program
  - 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. 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 \$562,299.
9. The City was determined to be a low-risk auditee.

## **B. FINDINGS - FINANCIAL STATEMENT AUDIT**

### 2011-01 – Prior Period Adjustments

#### *Criteria*

In accordance with generally accepted accounting principles, the City is required to report the fund financial statements on the modified accrual basis of accounting and recognize revenues when they are measurable and available. The City is required to report the government-wide financial statements on the accrual basis of accounting and record liabilities as they are incurred.

#### *Condition*

Historically in the Capital Projects Fund, the City had been recording grant income at the full contract amount at the time of the award was made by the funding source, regardless of how much had been expended on that project through the reporting date. It was determined that the more appropriate measure of revenue for these contracts was to report revenue only to the extent that eligible project costs had been incurred.

Additionally, during 2010, the City was receiving funding from the Power Authority of New York State (the Power Authority) Energy Services Program. Under the specifics of this program, the City agreed to repay the Power Authority for the costs to complete the project based on a Customer Installment Commitment (CIC) which was not fully identified until the project was completed. During the construction period, installment payments were made to the City at various amounts. The final borrowing was not known until the project was completed, and in this case, the City was not informed until fiscal 2012 as to the final loan amount. As such, the City was not able to properly record the debt at December 31, 2011 on their government-wide financial statements.

#### *Questioned Costs*

None.

#### *Context*

Material entries were made to the Capital Projects Fund and the government-wide financial statements to correctly record receivables and long-term liabilities which affected beginning fund balance and net assets.

#### *Cause and Effect*

The prior period adjustments were caused by a difference of opinion between the City's current and prior auditors relating to the method of recording grant income in the Capital Projects Fund as well as the method of communication from the funding source related to the final loan from the Power Authority. However, the City's management as well as the City Council understood that the excess receivables and fund balance in the Capital Projects Fund must be used for grant eligible expenditures and was not available for discretionary spending, and that the funding from the Power Authority was in fact a loan and would need to be paid back, there was no effect on the decision making of the City's management or the City Council.

#### *Recommendation*

During 2011, all of the Capital Fund grant activity was properly reflected in the fund results of the City. The City has instituted the appropriate procedures to ensure the consistency of this accounting going forward and that grant revenues related to cost-reimbursement grants are recorded only when the eligible costs are incurred. Because of the nuances of the Power Authority's Energy Services Program, we recommend that the City consider requesting estimated information relative to the loan obligation that can be recorded as a liability instead of revenue as the payments are made. We understand that the City must work within the constraints of the Power Authority and the extent that this information is made available to the City on a timely basis.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)**

*Management's Response*

Management has reviewed the circumstances leading to the adjustments and believes that appropriate processes are in place relating to the Capital Projects Fund grant recording. The City will explore what options are available to obtain the estimated information from the Power Authority as appropriate.

**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**

July 5, 2012

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, 2011. 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, 2011.

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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 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 Council, management, others within the entity, 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, 2011**

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<u>Program Title</u>	<u>NYS DOT Contract Reference Number</u>	<u>Expenditures</u>
<b>Consolidated Local Street and Highway Improvement Program (CHIPS)</b>	001-01/001-02	\$ 1,435,845
Arterial Maintenance	N/A	401,625
Marchiselli Program - Bond Match for Federal Aid Highway Projects:		
Lewiston Road/route 104	D013786	460,371
Buffalo Avenue Reconstruction - Tenth Street to I-190	D022276	12,288
Traffic Signals Project	D017179	7,014
10th Street - Niagara Street to Cedar Avenue	D024729	250,724
Buffalo Avenue - I-190 to Cayuga Drive	D024782	<u>2,782</u>
		<u>\$ 2,570,649</u>

**Note: Bolded item denotes a major program.**

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

### **NOTES TO THE SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED DECEMBER 31, 2011**

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#### **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, 2011**

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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 independent 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 program tested was:
  - Consolidated Local Street and Highway Improvement Program (CHIPS)

#### **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.