

**CITY OF TONAWANDA,
NEW YORK**

*Basic Financial Statements and Required Supplementary
Information for the Year Ended December 31, 2017
and Independent Auditors' Reports*

CITY OF TONAWANDA, NEW YORK
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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Honorable City Council
City of Tonawanda, New York:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion on the reporting entity and unmodified audit opinions on the governmental activities, each major fund and aggregate remaining fund information of the primary government.

Basis for Adverse Opinion on the Reporting Entity

The financial statements referred to above include only the primary government of the City, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, the Tonawanda Housing Authority, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government.

Adverse Opinion on the Reporting Entity

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on the Reporting Entity paragraph, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the City, as of December 31, 2017, the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions on the Governmental Activities, Major Funds, and Aggregate Remaining Fund Information

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 3, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Drescher & Malecki LLP

July 3, 2018

CITY OF TONAWANDA, NEW YORK
Management's Discussion and Analysis
Year Ended December 31, 2017

As management of the City of Tonawanda, New York (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2017. The financial statements referred to above include only the primary government of the City, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, the Tonawanda Housing Authority, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. This document should be read in conjunction with additional information contained in the City's financial statements, which follow this narrative.

Financial Highlights

- The liabilities and deferred inflows of resources of the City exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$1,616,353 (*net position deficit*). This consists of \$12,566,653 net investment in capital assets, \$346,788 restricted for specific purposes, and a deficit unrestricted portion of \$14,529,794.
- The City's primary government net position increased by \$1,439,883 during the year ended December 31, 2017.
- At the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$1,522,724, a decrease of \$680,826 in comparison with the prior year's fund balance of \$2,203,550. The decrease was primarily attributed to increased spending within the Capital Projects Fund, funded primarily by the \$5.8 million issuance of bond anticipation notes payable.
- At the end of the current fiscal year, *unassigned fund balance* for the General Fund was \$1,480,456, or approximately 6.7 percent of General Fund expenditures and transfers out. This total amount is *available for spending* at the City's discretion and constitutes approximately 55.7 percent of the General Fund's total fund balance of \$2,656,794 at December 31, 2017.
- The City's total bonded indebtedness increased \$1,414,834 during the current fiscal year as a result of a \$2,812,486 serial bond issuance, offset by \$1,397,652 of scheduled principal payments.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements—The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets, liabilities, and deferred outflows/inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all, or a significant portion, of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government support, public safety, health, transportation, economic assistance and opportunity, culture and recreation, home and community services, and interest and other fiscal charges. The City reports no business-type activities.

The government-wide financial statements can be found on pages 12-13 of this report.

Fund financial statements—A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds—*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources*, available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Sewer Fund, Water Fund, and Capital Projects Fund, which are considered to be major funds. Data from the other three funds are combined into a single aggregated presentation.

The basic governmental fund financial statements can be found on pages 14-17.

Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City’s own programs. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The City maintains one fiduciary fund, the Agency Fund.

The fiduciary fund financial statement can be found on page 18 of this report.

Notes to the financial statements—The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-42.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City’s progress in funding its obligation to provide postemployment benefits to its employees, the City’s net pension liability, and the City’s budgetary comparison schedules for the General Fund, Sewer Fund, and Water Fund. Required Supplementary Information and a related note to the required supplementary information can be found on pages 43-51 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government’s financial position. In the case of the City, liabilities and deferred inflows of resources of the primary government exceeded assets and deferred outflows of resources by \$1,616,353 at the close of the most recent fiscal year, as compared to \$3,056,236 at the close of the fiscal year ended December 31, 2016.

Table 1, shown below, presents a condensed statement of net position compared to the prior year.

Table 1—Condensed Statements of Net Position—Primary Government

	Primary Government	
	Governmental Activities	
	December 31,	
	2017	2016
Current and other assets	\$ 10,889,101	\$ 10,221,399
Capital assets	31,116,172	28,351,170
Total assets	<u>42,005,273</u>	<u>38,572,569</u>
Deferred outflows of resources	<u>4,547,619</u>	<u>7,796,761</u>
Current liabilities	8,199,807	6,971,736
Noncurrent liabilities	<u>38,698,486</u>	<u>41,127,780</u>
Total liabilities	<u>46,898,293</u>	<u>48,099,516</u>
Deferred inflows of resources	<u>1,270,952</u>	<u>1,326,050</u>
Net position:		
Net investment in capital assets	12,566,653	13,588,196
Restricted	346,788	675,475
Unrestricted	<u>(14,529,794)</u>	<u>(17,319,907)</u>
Total net position	<u>\$ (1,616,353)</u>	<u>\$ (3,056,236)</u>

The City's net investment in capital assets, \$12,566,653, reflects its investment in capital assets (e.g. land, buildings, improvements and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide a variety of services to citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of \$346,788 represents resources that are subject to external restrictions imposed by creditors, grantors, contributions, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The remaining balance of the City's net position, \$14,529,794, represents an unrestricted net position deficit.

Table 2, presented below, shows the changes in net position for the years ended December 31, 2017 and December 31, 2016.

Table 2—Condensed Statements of Changes in Net Position—Primary Government

	<u>Primary Government</u>	
	<u>Governmental Activities</u>	
	<u>Year Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Program revenues:		
Charges for services	\$ 3,497,864	\$ 3,429,106
Operating grants and contributions	464,632	80,555
Capital grants and contributions	1,696,873	1,015,993
General revenues	<u>20,027,325</u>	<u>19,465,168</u>
Total revenues	<u>25,686,694</u>	<u>23,990,822</u>
Program expenses	<u>24,246,811</u>	<u>25,221,441</u>
Change in net position	1,439,883	(1,230,619)
Net position—beginning	<u>(3,056,236)</u>	<u>(1,825,617)</u>
Net position—ending	<u>\$ (1,616,353)</u>	<u>\$ (3,056,236)</u>

Governmental activities—Governmental activities increased the City's net position by \$1,439,883. Overall revenues of the governmental activities increased 7.1 percent from the prior year. This increase was the result of increased capital and operating grants and contributions, and property taxes in the current year. The increases were primarily attributed to additional grants received by the City for roadwork, recognition of administrative fees revenues, and higher property taxes collected during the current fiscal year. Total expenses decreased 3.9 percent from the prior year, due primarily to a decrease in home and community services for a reduction in the pollution remediation obligation estimate.

A summary of sources of revenues for the years ended December 31, 2017 and December 31, 2016 is presented below in Table 3.

Table 3—Summary of Sources of Revenues—Governmental Activities

	Year Ended December 31,		Increase/(Decrease)	
	2017	2016	Dollars	Percent (%)
Charges for services	\$ 3,497,864	\$ 3,429,106	\$ 68,758	2.0
Operating grants and contributions	464,632	80,555	384,077	476.8
Capital grants and contributions	1,696,873	1,015,993	680,880	67.0
Property taxes	11,820,905	11,351,458	469,447	4.1
Non-property taxes	5,168,488	5,052,884	115,604	2.3
Mortgage tax	219,869	177,448	42,421	23.9
Use of money and property	9,513	9,201	312	3.4
Sale of property and compensation for loss	73,352	44,234	29,118	65.8
Miscellaneous	133,094	227,839	(94,745)	(41.6)
Unrestricted state aid	2,602,104	2,602,104	-	0.0
Total revenues	\$ 25,686,694	\$ 23,990,822	\$ 1,695,872	7.1

The City's most significant sources of revenue for the year ended December 31, 2017 were property taxes of \$11,820,905, or 46.0 percent of total revenues, non-property taxes of \$5,168,488, or 20.1 percent of total revenues, and charges for services of \$3,497,864, or 13.6 percent of total revenues. Similarly, for the year ended December 31, 2016 the City's most significant sources of revenue were property taxes of \$11,351,458, or 47.3 percent of total revenues, non-property taxes of \$5,052,884, or 21.1 percent of total revenues and charges for services of \$3,429,106, or 14.3 percent of total revenues.

A summary of program expenses for the years ended December 31, 2017 and December 31, 2016 is presented below in Table 4.

Table 4—Summary of Program Expenses—Governmental Activities

	Year Ended December 31,		Increase/(Decrease)	
	2017	2016	Dollars	Percent (%)
General government support	\$ 3,660,931	\$ 3,314,318	\$ 346,613	10.5
Public safety	10,885,082	9,997,385	887,697	8.9
Transportation	5,037,732	5,871,236	(833,504)	(14.2)
Culture and recreation	2,061,633	1,885,672	175,961	9.3
Home and community services	2,264,661	3,770,592	(1,505,931)	(39.9)
Interest and other fiscal charges	336,772	382,238	(45,466)	(11.9)
Total program expenses	\$ 24,246,811	\$ 25,221,441	\$ (974,630)	(3.9)

The City's most significant expense items for the year ended December 31, 2017 were public safety of \$10,885,082, or 44.9 percent of total expenses, transportation of \$5,037,732, or 20.8 percent of total expenses, and general government support of \$3,660,931, or 15.1 percent of total expenses. For the year ended December 31, 2016, the City's most significant expense items were public safety of \$9,997,385, or 39.6 percent of total expenses, transportation of \$5,871,236, or 23.3 percent of total expense and home and community services of \$3,770,592, or 14.9 percent of total expenses.

Financial Analysis of Governmental Funds

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

Governmental funds—The focus of the City’s *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City’s financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for discretionary use as they represent the portion of fund balance which has not been limited to use for a particular purpose by an external party, the City itself, or a group of individuals that has been delegated authority to assign resources for use for particular purposes by the City Council.

At December 31, 2017, the City’s governmental funds reported combined ending fund balances of \$1,522,724, a decrease of \$680,826 from the prior year. Excluding the Capital Projects Fund, the City’s governmental funds combined ending fund balances totaled \$3,627,866. Approximately 40.8 percent of this amount, \$1,480,456, constitutes *unassigned fund balance*, which is available for spending at the City’s discretion. The remainder of fund balance is either *nonspendable*, *restricted*, or *assigned* to indicate that it is: (1) not in spendable form, \$411,752, (2) restricted for particular purposes, \$346,788, or (3) assigned for particular purposes, \$1,388,870.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,480,456, while total fund balance decreased to \$2,656,794. As a measure of the General Fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total expenditures and transfers out. Unassigned fund balance represents approximately 6.7 percent of General Fund expenditures and transfers out, while total fund balance represents 12.1 percent of that same amount.

The City’s Sewer Fund ending fund balance was \$651,939. \$646,939 is reported as fund balance assigned for specific (Sewer Fund) use. During the year ended December 31, 2017, the Sewer Fund fund balance increased \$242,545 due primarily to decreased debt service and transfers out coupled with an increase in departmental income.

The City’s Water Fund ending fund balance was \$109,356. This entire amount is reported as fund balance assigned for specific (Water Fund) use. During the year ended December 31, 2017, the Water Fund fund balance increased \$70,521 due primarily to revenues exceeding required debt service expenditures.

The City’s Capital Projects Fund accounts for the construction and reconstruction of general public improvements. At the end of the current fiscal year, ending fund balance was in a deficit position of \$(2,105,142). Fund balance decreased \$680,270 primarily as a result of a current year capital spending that was funded mainly through bond anticipation notes.

General Fund Budgetary Highlights

The City's General Fund budget generally contains budget amendments during the year. The budget is allowed to be amended upward (increased) for prior year's encumbrances since the funds were allocated under the previous year's budget, and the City has appropriately assigned an equal amount of fund balance at year-end for this purpose. Furthermore, the budget is allowed to be amended upward (increased) for additional current year appropriations supported by an increase in budgeted revenues. A budgetary comparison schedule within the required supplementary information section of this report has been provided to demonstrate compliance with their budget.

A summary of the General Fund results of operations for the year ended December 31, 2017 is presented below in Table 5.

Table 5—General Fund Budget

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
Revenues and other financing sources	\$ 21,168,815	\$ 21,422,459	\$ 21,723,337	\$ 300,878
Expenditures and other financing uses	21,168,815	21,422,459	22,022,264	(599,805)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ -	\$ -	\$ (298,927)	\$ (298,927)

Original budget compared to final budget—No significant variances were noted between the original and final budget for the year ended December 31, 2017.

Final budget compared to actual results—A review of actual revenues and expenditures compared to the estimated revenues and appropriations in the final budget yields certain variances. The most significant variances occurred within federal aid revenue, and employee benefits and transfers out appropriations. Federal aid exceeded budgeted amounts by \$336,514 as the City recognized reimbursements for grant administration costs in prior years. Employee benefits and transfers out exceeded budgeted appropriations by \$695,695 and \$360,182, respectively, due primarily to increases in health insurance costs and bond anticipation notes principal payments that were not included in the adopted budget.

Capital Asset and Debt Administration

Capital assets—The City's investment in capital assets for its governmental activities as of December 31, 2017, amounted to \$31,116,172 (net of accumulated depreciation). This investment in capital assets includes land, buildings and building improvements, machinery and equipment, and infrastructure.

All depreciable capital assets were depreciated from acquisition date to the end of the current year, as outlined in the City's capital asset policy.

Capital assets, net of depreciation for the primary government at the years ended December 31, 2017 and December 31, 2016 are presented below in Table 6.

Table 6—Summary of Capital Assets (Net of Depreciation)

	Governmental Activities	
	December 31,	
	2017	2016
Land	\$ 328,850	\$ 328,850
Buildings and building improvements	5,682,897	4,566,703
Machinery and equipment	3,579,883	3,257,126
Infrastructure	21,524,542	20,198,491
Total	<u>\$ 31,116,172</u>	<u>\$ 28,351,170</u>

Additional information on the City’s capital assets can be found in Note 4 to the financial statements.

Long-term debt—At December 31, 2017, the City had total bonded debt outstanding of \$15,264,345, as compared to \$13,849,511 in the prior year. During the year ended December 31, 2017, the City issued \$2,812,486 of serial bonds and made scheduled principal payments of \$1,397,652.

Additional information on the City’s long-term liabilities can be found in Note 10 to the financial statements.

Economic Factors and Next Year’s Budgets and Rates

The unemployment rate, not seasonally adjusted, for the Western New York region during December 2017 was 5.6 percent, as compared to New York State’s unemployment rate of 4.4 percent. These factors are considered in preparing the City’s budget.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City’s finances and to show the City’s accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Treasurer, City of Tonawanda, 200 Niagara Street, Tonawanda, New York 14150.

BASIC FINANCIAL STATEMENTS

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CITY OF TONAWANDA, NEW YORK
Statement of Net Position
December 31, 2017

	Primary Government Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 2,425,903
Restricted cash and cash equivalents	2,761,252
Taxes receivable	2,128,705
Receivables	628,143
Intergovernmental receivables	2,533,346
Prepaid items	411,752
Capital assets not being depreciated	328,850
Capital assets, net of accumulated depreciation	30,787,322
Total assets	42,005,273
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows—relating to pensions	4,547,619
Total deferred outflows of resources	4,547,619
LIABILITIES	
Accounts payable	936,527
Accrued liabilities	550,828
Intergovernmental payables	895,452
Bond anticipation notes payable	5,817,000
Noncurrent liabilities:	
Due within one year	4,673,930
Due in more than one year	34,024,556
Total liabilities	46,898,293
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows—relating to pensions	1,270,952
Total deferred inflows of resources	1,270,952
NET POSITION	
Net investment in capital assets	12,566,653
Restricted for:	
Tax stabilization	200,000
Insurance	137,613
Other	9,175
Unrestricted	(14,529,794)
Total net position	\$ (1,616,353)

The notes to the financial statements are an integral part of this statement.

CITY OF TONAWANDA, NEW YORK
Statement of Activities
Year Ended December 31, 2017

Function/Program	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenue and
		Services	Grants and	Grants and	Changes in
			Contributions	Contributions	Net Position
					Primary
					Government
					Governmental
					Activities
Primary government:					
Governmental activities:					
General government support	\$ 3,660,931	\$ 108,377	\$ 325,312	\$ -	\$ (3,227,242)
Public safety	10,885,082	608,700	125,898	-	(10,150,484)
Transportation	5,037,732	51,325	10,922	876,336	(4,099,149)
Culture and recreation	2,061,633	133,633	-	72,850	(1,855,150)
Home and community services	2,264,661	2,595,829	2,500	747,687	1,081,355
Interest and other fiscal charges	336,772	-	-	-	(336,772)
Total primary government	<u>\$ 24,246,811</u>	<u>\$ 3,497,864</u>	<u>\$ 464,632</u>	<u>\$ 1,696,873</u>	<u>(18,587,442)</u>
General revenues:					
					11,820,905
					5,168,488
					219,869
					9,513
					73,352
					133,094
					2,602,104
					<u>20,027,325</u>
					1,439,883
					<u>(3,056,236)</u>
					<u>\$ (1,616,353)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF TONAWANDA, NEW YORK
Balance Sheet—Governmental Funds
December 31, 2017

	General Fund	Sewer Fund	Water Fund	Capital Projects Fund	Total Nonmajor Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 1,154,270	\$ 845,422	\$ 206,772	\$ -	\$ 219,439	\$ 2,425,903
Restricted cash and cash equivalents	337,613	-	-	2,422,639	1,000	2,761,252
Taxes receivable	2,128,705	-	-	-	-	2,128,705
Receivables	54,911	532,913	32,144	-	8,175	628,143
Intergovernmental receivables	1,946,709	-	-	586,637	-	2,533,346
Due from other funds	1,453,077	-	-	2,191,122	2,964	3,647,163
Prepaid items	406,752	5,000	-	-	-	411,752
Total assets	<u>\$ 7,482,037</u>	<u>\$ 1,383,335</u>	<u>\$ 238,916</u>	<u>\$ 5,200,398</u>	<u>\$ 231,578</u>	<u>\$ 14,536,264</u>
LIABILITIES						
Accounts payable	\$ 225,458	\$ 251,496	\$ -	\$ 456,609	\$ 2,964	\$ 936,527
Accrued liabilities	495,316	3,137	-	-	1,892	500,345
Intergovernmental payables	832,779	48,692	-	-	13,981	895,452
Due to other funds	2,054,637	428,071	129,560	1,031,931	2,964	3,647,163
Bond anticipation notes payable	-	-	-	5,817,000	-	5,817,000
Total liabilities	<u>3,608,190</u>	<u>731,396</u>	<u>129,560</u>	<u>7,305,540</u>	<u>21,801</u>	<u>11,796,487</u>
DEFERRED INFLOWS OF RESOURCES						
Property taxes	1,217,053	-	-	-	-	1,217,053
Total deferred inflows of resources	<u>1,217,053</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,217,053</u>
FUND BALANCES (DEFICIT)						
Nonspendable	406,752	5,000	-	-	-	411,752
Restricted	337,613	-	-	-	9,175	346,788
Assigned	431,973	646,939	109,356	-	200,602	1,388,870
Unassigned	1,480,456	-	-	(2,105,142)	-	(624,686)
Total fund balances (deficit)	<u>2,656,794</u>	<u>651,939</u>	<u>109,356</u>	<u>(2,105,142)</u>	<u>209,777</u>	<u>1,522,724</u>
Total liabilities, deferred inflows of resources and fund balances (deficit)	<u>\$ 7,482,037</u>	<u>\$ 1,383,335</u>	<u>\$ 238,916</u>	<u>\$ 5,200,398</u>	<u>\$ 231,578</u>	<u>\$ 14,536,264</u>

The notes to the financial statements are an integral part of this statement.

CITY OF TONAWANDA, NEW YORK
Reconciliation of the Balance Sheet—Governmental Funds
to the Government-wide Statement of Net Position
December 31, 2017

Amounts reported for governmental activities in the statement of net position (page 12) are different because:

Total fund balances (deficit)—governmental funds (page 14)	\$	1,522,724
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$65,142,250 and the accumulated depreciation is \$34,026,078.		31,116,172
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the fund statements:		
Deferred outflows related to employer contributions	\$	1,235,256
Deferred outflows related to experience, changes of assumptions investment earnings, and changes in proportion		3,312,363
Deferred inflows related to pension plans		<u>(1,270,952)</u>
		3,276,667
Uncollected property taxes are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the fund statements.		1,217,053
Net accrued interest expense for serial bonds is not reported in the funds.		(50,483)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. The effects of these items are:		
Serial bonds	\$	(15,264,345)
Capital leases		(19,011)
Landfill post-closure costs		(300,000)
Pollution remediation obligation		(10,800,000)
Compensated absences		(2,813,175)
Workers' compensation		(664,578)
Other postemployment benefits obligation		(4,199,833)
Net pension liability		<u>(4,637,544)</u>
		<u>(38,698,486)</u>
Net position of governmental activities	\$	<u><u>(1,616,353)</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF TONAWANDA, NEW YORK
Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)—Governmental Funds
Year Ended December 31, 2017

	<u>General Fund</u>	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Capital Projects Fund</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
Real property taxes	\$ 10,908,234	\$ -	\$ -	\$ -	\$ -	\$ 10,908,234
Other tax items	786,358	-	-	-	-	786,358
Non property tax items	5,168,488	-	-	-	-	5,168,488
Departmental income	196,438	2,340,585	200,594	76,902	34,084	2,848,603
Intergovernmental charges	152,524	-	-	-	-	152,524
Use of money and property	7,110	932	-	1,410	61	9,513
Licenses and permits	132,038	-	-	-	-	132,038
Fines and forfeitures	441,601	-	-	-	-	441,601
Sale of property and compensation for loss	73,352	-	-	-	-	73,352
Miscellaneous	68,659	20	-	437,102	-	505,781
State aid	2,967,072	-	-	847,284	-	3,814,356
Federal aid	394,533	-	-	325,000	-	719,533
Total revenues	<u>21,296,407</u>	<u>2,341,537</u>	<u>200,594</u>	<u>1,687,698</u>	<u>34,145</u>	<u>25,560,381</u>
EXPENDITURES						
Current:						
General government support	2,214,142	-	-	-	-	2,214,142
Public safety	6,240,268	-	-	-	13,538	6,253,806
Transportation	2,037,772	-	-	-	-	2,037,772
Culture and recreation	1,068,921	-	-	-	21,970	1,090,891
Home and community services	1,267,443	1,233,041	-	-	13,332	2,513,816
Employee benefits	7,577,421	85,266	-	-	-	7,662,687
Debt service:						
Principal	1,018,305	267,652	125,000	-	-	1,410,957
Interest	237,810	88,033	5,073	-	-	330,916
Capital outlay	-	-	-	5,538,706	-	5,538,706
Total expenditures	<u>21,662,082</u>	<u>1,673,992</u>	<u>130,073</u>	<u>5,538,706</u>	<u>48,840</u>	<u>29,053,693</u>
Excess (deficiency) of revenues over expenditures	<u>(365,675)</u>	<u>667,545</u>	<u>70,521</u>	<u>(3,851,008)</u>	<u>(14,695)</u>	<u>(3,493,312)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	426,930	-	-	390,182	-	817,112
Transfers out	(360,182)	(425,000)	-	(31,930)	-	(817,112)
Proceeds from long-term debt issuance	-	-	-	2,812,486	-	2,812,486
Total other financing sources and (uses)	<u>66,748</u>	<u>(425,000)</u>	<u>-</u>	<u>3,170,738</u>	<u>-</u>	<u>2,812,486</u>
Net change in fund balances (deficit)	(298,927)	242,545	70,521	(680,270)	(14,695)	(680,826)
Fund balances (deficit)—beginning	<u>2,955,721</u>	<u>409,394</u>	<u>38,835</u>	<u>(1,424,872)</u>	<u>224,472</u>	<u>2,203,550</u>
Fund balances (deficit)—ending	<u><u>2,656,794</u></u>	<u><u>651,939</u></u>	<u><u>109,356</u></u>	<u><u>(2,105,142)</u></u>	<u><u>209,777</u></u>	<u><u>1,522,724</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF TONAWANDA, NEW YORK
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances (Deficit)—Governmental Funds to the Government-wide Statement of Activities
Year Ended December 31, 2017

Amounts reported for governmental activities in the statement of activities (page 13) are different because:

Net change in fund balances (deficit)—total governmental funds (page 16)	\$	(680,826)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.

Capital asset additions	\$ 5,123,848		
Net disposition of capital assets	(10,247)		
Depreciation expense	<u>(2,348,599)</u>		2,765,002

Net differences between pension contributions recognized on the fund financial statements and the government-wide financial statements are as follows:

City pension contributions	\$ 1,642,124		
Cost of benefits earned net of employee contributions	<u>(4,836,168)</u>		(3,194,044)

Revenues in the statement of activities that do not provide current financial resources are reported as deferred inflows in the fund statements.		126,313
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In the statement of activities, interest expense is recognized as it accrues, regardless of when it is paid.		(5,856)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued; whereas these amounts are deferred and amortized in the statement of activities. Additionally, in the statement of activities, certain operating expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The net effect of these differences in the treatment of long-term debt and the related items is as follows:

Serial bonds issued	\$ (2,812,486)		
Repayment of serial bonds	1,397,652		
Repayment of capital leases	13,305		
Change in landfill post-closure costs	20,000		
Change in pollution remediation obligation	2,900,000		
Change in compensated absences	(152,831)		
Change in workers' compensation	(335,892)		
Change in other postemployment benefits obligation	(857,526)		
Change in net pension liability	<u>2,257,072</u>		<u>2,429,294</u>

Change in net position of governmental activities	\$	<u>1,439,883</u>
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The notes to the financial statements are an integral part of this statement.

CITY OF TONAWANDA, NEW YORK
Statement of Net Position—Agency Fund
December 31, 2017

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 52,435
Total assets	<u>\$ 52,435</u>
LIABILITIES	
Agency liabilities	\$ 44,592
Accounts payable	<u>7,843</u>
Total liabilities	<u>\$ 52,435</u>

The notes to the financial statements are an integral part of this statement.

CITY OF TONAWANDA, NEW YORK
Notes to the Financial Statements
December 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Tonawanda, New York (the “City”) have been prepared in conformity with accounting principles generally accepted in the United States of (“GAAP”) as applied to governmental units, except that the City’s financial statements do not include the financial activities of the Tonawanda Housing Authority, a component unit of the City. The Governmental Accounting Standards Board (the “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.

Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. The City reports no business-type activities. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable. The City reports no component units.

Reporting Entity

The City, which was originally incorporated as a Village in 1854 and was established as a City in 1903, is governed by the charter of the City of Tonawanda, other general laws of the State of New York and various local laws and ordinances. The Common Council, which is the legislative body responsible for the overall operation of the City, consists of a council president and four aldermen. The Mayor serves as Chief Executive Officer and the City Treasurer as Chief Fiscal Officer.

The financial reporting entity includes organizations, functions and activities over which elected officials exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Blended component units, although legally separate entities, are, in substance, part of the City’s operations. Discretely presented component units should be reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the City; however, the City has elected not to evaluate potential component units nor consider them for financial statement presentation.

Blended Component Unit

The Tonawanda Public Library was established by the City and granted a charter by the Board of Regents as provided in Article 5 of the Education Law. The Library’s Trustees are appointed by the Mayor. The City is financially responsible for maintenance of the library building. All other library operations are financed by the County of Erie pursuant to contract. Title to real property used by the library is held by the City. Based upon these factors, the financial activities of the Tonawanda Public Library Fund are reported as a governmental fund (within Other Governmental Funds).

Departure from Generally Accepted Accounting Principles

The Tonawanda Housing Authority was created in 1942 pursuant to an act of the New York State Legislature, the creation of which was reaffirmed in 1957 through Public Housing Law, Article 13, Title 9. The members of the Housing Authority Board are appointed by the Mayor. The City is responsible for operating deficits not covered by the subsidy from the State. The Authority's debt is supported by debt service subsidies received under contract from the state government. The City is liable for the repayment of the loan and interest. Contractual provisions regarding the various housing projects have to be approved by the State Department of Housing and Community Renewal. Based upon these factors, the financial activities of the Tonawanda Housing Authority should be reported as a discrete presentation within the City's government-wide financial statements. However, the City has elected not to report such financial activities within these financial statements.

Basis of Presentation – Government-wide Financial Statements

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments and charges between the City's various functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category—governmental and fiduciary—are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

- *General Fund*—The General Fund constitutes the primary operating fund of the City and includes all operations not required to be recorded in other funds. The principal source of revenue for the General Fund is real property taxes.
- *Sewer Fund*—The Sewer Fund is used to record all revenues and expenditures related to the transportation and treatment of City sewage. The principal source of revenue for the Sewer Fund is sewer usage fees.
- *Water Fund*—Water services are provided to the City by the Erie County Water Authority (“ECWA”). The Water Fund is used to record the billing and the collection of water surcharges (via ECWA) used to pay debt service costs on remaining City Water Fund debt that was outstanding at the time of the transfer of the City's water system.
- *Capital Projects Fund*—The Capital Projects Fund is used to account for financial resources to be used for the acquisition and construction of major capital facilities. The principal sources of revenue for the Capital Projects Fund are grants and donations.

The City's nonmajor governmental funds are aggregated into a single column of the fund statements. Individual fund information is available in the City Treasurer's Office.

Additionally, the City reports the following fund type:

Fiduciary Funds—These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Trust funds account for resources received and disbursements made in accordance with trust agreements or applicable legislative enactments for each particular fund. Fiduciary funds include the *Agency Fund*. Activities reported in the fiduciary funds include monies held in trust, deposits that are to be returned, and payroll withholdings due to other entities.

During the course of operations the City has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Measurement Focus and Basis of Accounting

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, pensions, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, charges for services provided, and state and federal aid associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period of availability. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements are met and amount is received during the period of availability. All other revenue items are considered to be measurable and available only when cash is received by the City.

The Agency Fund has no measurement focus, but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash, Cash Equivalents and Investments—The City’s cash, cash equivalents and investments consist of cash on hand, demand deposits, time deposits and short-term, highly liquid investments with original maturities of three months or less from the date of acquisition. The City had no investments at December 31, 2017; however, when the City does have investments they are recorded at fair value based on quoted market value.

Restricted Cash and Cash Equivalents—Restricted cash and cash equivalents represent amounts to support fund balance restrictions and unspent debt proceeds.

Receivables—Receivables include amounts due from state and federal governments represent amounts owed to the City to reimburse it for expenditures incurred pursuant to state and federally funded programs. Receivables are recorded and revenues recognized as earned. Allowances are recorded when appropriate.

Prepaid Items—Certain payments reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenses/expenditures when consumed rather than when purchased.

Capital Assets—Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. The reported value excludes normal maintenance and repairs, which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at acquisition value at the date of its donation.

Land and construction in progress are not depreciated. The other capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and building improvements	10 - 50
Machinery and equipment	5 - 20
Infrastructure	15 - 50

The *capital outlays* character classification is employed only for expenditures reported in the Capital Projects Fund. Routine capital expenditures in the General Fund and other governmental funds are included in the appropriate functional category (for example, the purchase of a new highway vehicle

included as part of *expenditures—transportation*). At times, amounts reported as *capital outlays* in the Capital Projects Fund will also include non-capitalized, project-related costs (for example, furnishings).

Deferred Outflows/Inflows of Resources—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. At December 31, 2017, the City has one item that qualifies for reporting in this category. This item represents the effect of the net change in the City’s proportion of the collective net pension liability, the difference during the measurement period between the City’s contributions and its proportionate share of the total contribution to the pension systems not included in the pension expense, and any contributions to the pension systems made subsequent to the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. At December 31, 2017, the City has two items that qualify for reporting in this category. The first item represents the effect of the net change in the City’s proportion of the collective net pension liability and the difference during the measurement periods between the City’s contributions and its proportionate share of the total contributions to the pension systems not included in pension expense and is reported on the government-wide statements. The second item, which arises only under a modified accrual basis of accounting, also qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes receivable. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position Flow Assumption—Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

Fund Balance Flow Assumptions—Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

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

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

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

Revenues and Expenses/Expenditures

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

Property Taxes—Real property taxes are collected by the City Treasurer. Taxes are levied annually on April 1st for the fiscal year beginning the previous January 1st. City taxes are payable without penalty until May 1st. Thereafter, a 1% penalty is charged for each month that the taxes are overdue.

All City property taxes are the enforcement responsibility of the City. County and school taxes are also collected by the City. A settlement of collected County taxes is made on May 1st with the County Commissioner of Finance and enforcement of subsequent collections is the responsibility of the County. The City purchases unpaid school taxes after they have been outstanding for three years and then assumes responsibility for their collection. The City enforces all tax liens.

The City recognizes revenues in the fund financial statements only to the extent that they have been collected, or are expected to be collected, within 60 days of the year end.

Compensated Absences—The City labor agreements and City Council rules and regulations provide for sick leave, vacations, and miscellaneous other paid absences. Upon retirement, certain eligible employees qualify for paid hospitalization insurance premiums and/or payment for fractional values of unused sick leave. These payments are budgeted annually without accrual. Estimated sick leave and compensatory time accumulated by governmental fund type employees are reported as liabilities in the government-wide financial statements.

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

Pensions—The City is mandated by New York State law to participate in the New York State Local Employees' Retirement System ("ERS") and the New York State Police and Fire Retirement System ("PFRS"). For purposes of measuring the net pension liability, deferred outflows of resources and

deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit pension plans, and changes thereof, have been determined on the same basis as they are reported by the respective defined benefit pension plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. More information regarding pensions is included in Note 6.

Other Postemployment Benefits—In addition to providing pension benefits, the City provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the City’s employees may become eligible for these benefits if they reach normal retirement age while working for the City, as discussed in Note 7.

Other

Estimates—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncements—During the year ended December 31, 2017, the City implemented GASB Statements No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; No. 81, *Irrevocable Split-Interest Agreements*; and No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. GASB Statement No. 74 improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. GASB Statement No. 81 improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. GASB Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. GASB Statements No. 74, 81, and 82 did not have a material impact on the City’s financial position or results from operations.

As described previously in the *Reporting Entity* section of this footnote, the City has not implemented the requirements of GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. GASB Statement No. 80 improves financial reporting by clarifying the financial statement presentation requirements for certain component units.

Future Impacts of Accounting Pronouncements—The City has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*; No. 85, *Omnibus 2017*; and No. 86, *Certain Debt Extinguishment Issues*, effective for the year ending December 31, 2018, No. 83, *Certain Asset Retirement Obligations*; No. 84, *Fiduciary Activities*; No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*; and No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*, effective for the year ending December 31, 2019, and No. 87, *Leases*; and No. 89, *Accounting for Interest Costs Incurred before the End of a Construction Period*, effective for the year ending December 31, 2020. The City is, therefore, unable to disclose the impact that adopting GASB Statements No. 75, 83, 84, 85, 86, 87, 88, 89 and 90 will have on its financial position and results of operations when such statements are adopted.

Stewardship, Compliance and Accountability

Legal Compliance—Budgets

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

- Prior to August 1st, all City boards and departments are required to submit budget estimates, including appropriations and estimated revenues, for the following fiscal year to commence on January 1st.
- Following various meetings between the Budget Committee, a public hearing is held to obtain taxpayer comments and discuss revisions.
- The Common Council then adopts formal budgets for the General, Water and Sewer funds no later than the third Tuesday of November. All adopted budgets are for the fiscal year beginning the previous January 1st.
- Capital Project funds are subject to project budgets determined primarily by the bonding authorizations used to fund a particular project rather than annual budgetary appropriations, these budgets do not lapse at year end, rather, they lapse upon termination of the project.
- The annual operating budgets for the Public Library Fund are proposed and adopted by the Board of Trustees of the Erie County Public Libraries.
- Budgets for the Special Grant Fund are established upon City Common Council acceptance of grants for Community Development activities.
- During the fiscal year, the Common Council and/or City Treasurer can legally amend the operating budgets and is empowered to implement supplemental appropriations. Budget amendments are required for departmental budgetary control.

Additional information regarding the City's budgets can be found in the Note to the Required Supplementary Information section of this report.

Deficit Fund Balance—At December 31, 2017, the Capital Projects Fund reported a deficit fund balance of \$2,105,142. This deficit is primarily the result of bond anticipation notes and capital outlay expenditures exceeding revenues, and is expected to be remedied through future grant receipts and proceeds from future long-term debt issuances.

2. CASH, 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 New York State. The City Treasurer is authorized to use demand accounts and certificates of deposit. Permissible investments include 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 deposit accounts, time deposit accounts and certificates of deposit at 100% of all deposits not covered by Federal deposit insurance (FDIC). The City has entered into custodial agreements with the various banks which hold their deposits. These agreements authorize the obligation that may be pledged as collateral. Obligations that may be pledged as collateral are outlined in Chapter 623 of the laws of the State of New York.

Cash, cash equivalents, and investments at December 31, 2017, are as follows:

	Governmental Activities	Fiduciary Funds	Total
Petty cash (uncollateralized)	\$ 1,450	\$ -	\$ 1,450
Deposits	<u>5,185,705</u>	<u>52,435</u>	<u>5,238,140</u>
Total	<u>\$ 5,187,155</u>	<u>\$ 52,435</u>	<u>\$ 5,239,590</u>

Deposits—All deposits are carried at fair value and are classified by custodial credit risk at December 31, 2017 as follows:

	Bank Balance	Carrying Amount
FDIC insured	\$ 250,000	\$ 250,000
Uninsured:		
Collateral held by pledging bank's agent in the City's name	<u>5,326,634</u>	<u>4,988,140</u>
Total	<u>\$ 5,576,634</u>	<u>\$ 5,238,140</u>

Custodial Credit Risk—Deposits—Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As noted above, by New York State statute all deposits in excess of FDIC insurance coverage must be collateralized. At December 31, 2017, the City's deposits were either FDIC insured or collateralized with securities held by the pledging bank's agent in the City's name.

Restricted Cash and Cash Equivalents—The City reports restricted cash, totaling \$2,761,252, within the General Fund, Capital Projects Fund and Special Grants Fund. These funds represent amounts set aside to support restricted fund balances, unspent proceeds of debt, and amounts restricted to use for the Special Grants Fund, in the amounts of \$337,613, \$2,422,639 and \$1,000, respectively.

Investments—The City had no investments at December 31, 2017.

Custodial Credit Risk—Investments—For investments, this is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. A margin of 2% or higher of the market value of purchased securities in repurchase transactions must be maintained and the securities must be held by a third party in the City's name.

Credit Risk—Investments—In compliance with the State law, City investments are limited to obligations of the Federal government, obligations guaranteed by the Federal government where the payment of principal and interest are guaranteed by the Federal government, obligations of the State, time deposit accounts and certificates of deposit issued by a bank or trust company located in, and authorized to do business in, the State, and certain joint or cooperative investment programs.

Interest Rate Risk—In accordance with its investment policy, the City manages exposures by limiting investments to low risk type investments governed by New York State statute.

3. RECEIVABLES

Major revenues accrued by the City at December 31, 2017 consisted of the following:

Taxes Receivable—Consist of unpaid City property taxes. These amounts have been reported as deferred inflows on the balance sheet of the governmental funds and are recognized as revenue when the amounts are both measurable and available.

Receivables—Represents amounts due for school tax collection fee, sewer rents, water surcharges and other miscellaneous items.

Intergovernmental Receivables—Represents amounts due from other units of government, such as Federal, New York State, County of Erie, County of Niagara or other local governments. Intergovernmental receivables at December 31, 2017 are presented below:

General Fund:			
Due from New York State	\$ 74,038		
Due from Erie County	1,835,998		
Due from Niagara County	7,000		
Due from local municipalities	<u>29,673</u>	\$ 1,946,709	
Capital Projects Fund:			
Due from New York State	\$ 447,700		
Due from Erie County	<u>138,937</u>	<u>586,637</u>	
Total governmental funds			<u>\$ 2,533,346</u>

4. CAPITAL ASSETS

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

	Balance 1/1/2017	Increases	Decreases	Balance 12/31/2017
Capital assets, not being depreciated:				
Land	\$ 328,850	\$ -	\$ -	\$ 328,850
Total capital assets, not being depreciated	<u>328,850</u>	<u>-</u>	<u>-</u>	<u>328,850</u>
Capital assets, being depreciated:				
Buildings and building improvements	10,295,661	1,488,023	-	11,783,684
Machinery and equipment	7,770,924	973,156	166,484	8,577,596
Infrastructure	<u>41,789,451</u>	<u>2,662,669</u>	<u>-</u>	<u>44,452,120</u>
Total capital assets, being depreciated	<u>59,856,036</u>	<u>5,123,848</u>	<u>166,484</u>	<u>64,813,400</u>
Less accumulated depreciation for:				
Buildings and building improvements	5,728,958	371,829	-	6,100,787
Machinery and equipment	4,513,798	640,152	156,237	4,997,713
Infrastructure	<u>21,590,960</u>	<u>1,336,618</u>	<u>-</u>	<u>22,927,578</u>
Total accumulated depreciation	<u>31,833,716</u>	<u>2,348,599</u>	<u>156,237</u>	<u>34,026,078</u>
Total capital assets, being depreciated, net	<u>28,022,320</u>	<u>2,775,249</u>	<u>10,247</u>	<u>30,787,322</u>
Governmental activities capital assets, net	<u>\$ 28,351,170</u>	<u>\$ 2,775,249</u>	<u>\$ 10,247</u>	<u>\$ 31,116,172</u>

Depreciation expense was charged to the functions and programs of governmental activities as follows:

Governmental activities:	
General government support	\$ 129,269
Public safety	262,061
Transportation	1,184,253
Culture and recreation	232,066
Home and community services	540,950
Total governmental activities	<u>\$ 2,348,599</u>

5. ACCRUED LIABILITIES

Accrued liabilities reported by governmental funds at December 31, 2017 were as follows:

	General Fund	Sewer Fund	Nonmajor Funds	Total Governmental Funds
Salaries and employee benefits	\$ 113,815	\$ 3,137	\$ -	\$ 116,952
Judgments and claims - current	381,501	-	-	381,501
Other liabilities	-	-	1,892	1,892
Total	<u>\$ 495,316</u>	<u>\$ 3,137</u>	<u>\$ 1,892</u>	<u>\$ 500,345</u>

6. PENSION PLANS

Plan Descriptions and Benefits Provided

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

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—At December 31, 2017, the City reported the following liabilities for its proportionate share of the net pension liabilities for PFRS and ERS. The net pension liabilities were measured as of March 31, 2017. The total pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of April 1, 2016, with update procedures used to roll forward the total net pension liabilities to the measurement date. The City’s proportion of the net pension liabilities were based on projections of the City’s long-term share of contributions to the Systems relative to the projected contributions of all participating members, actuarially determined. This information was provided by the Systems in reports provided to the City.

	PFRS	ERS
Measurement date	March 31, 2017	March 31, 2017
Net pension liability	\$ 3,203,636	\$ 1,433,908
City's portion of the Plan's total net pension liability	0.1545670%	0.0152605%

For the year ended December 31, 2017, the City recognized pension expenses of \$1,797,567 and \$781,531, respectively, for PFRS and ERS. At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources as presented below:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	PFRS	ERS	PFRS	ERS
Differences between expected and actual experiences	\$ 420,262	\$ 35,932	\$ 553,517	\$ 217,747
Changes in assumptions	1,578,297	489,876	-	-
Net difference between projected and actual earnings on pension plan investments	478,458	286,410	-	-
Changes in proportion and differences between the City's contributions and proportionate share of contributions	13,867	9,261	375,232	124,456
City contributions subsequent to the measurement date	822,615	412,641	-	-
Total	<u>\$ 3,313,499</u>	<u>\$ 1,234,120</u>	<u>\$ 928,749</u>	<u>\$ 342,203</u>

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

Year Ending December 31,	PFRS	ERS
2018	\$ 548,410	\$ 231,566
2019	548,410	231,566
2020	512,700	217,198
2021	(91,560)	(201,054)
2022	44,175	-

Actuarial Assumptions—The total pension liabilities as of the measurement date were determined by using actuarial valuations as noted in the table below, with update procedures used to roll forward the total pension liabilities to the measurement date. The actuarial valuations used the following actuarial assumptions:

	PFRS	ERS
Measurement date	March 31, 2017	March 31, 2017
Actuarial valuation date	April 1, 2016	April 1, 2016
Interest rate	7.00%	7.00%
Salary scale	4.50%	3.80%
Decrement tables	April 1, 2010- March 31, 2015	April 1, 2010- March 31, 2015
Inflation rate	2.5%	2.5%
Cost-of-living adjustments	1.3%	1.3%

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

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

	PFRS and ERS	
Measurement date	March 31, 2017	
Asset class:	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equities	36.0 %	4.6 %
International equities	14.0	6.4
Private equity	10.0	7.8
Real estate	10.0	5.8
Absolute return strategies	2.0	4.0
Opportunistic portfolio	3.0	5.9
Real assets	3.0	5.5
Bonds and mortgages	17.0	1.3
Cash	1.0	(0.3)
Inflation-indexed bonds	4.0	1.5
Total	100.0 %	

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

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption—The chart below presents the City’s proportionate share of the net pension liability/(asset) calculated using the discount rate of 7.0%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.0%) or one percentage-point higher (8.0%) than the current assumption.

	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Employer's proportionate share of the net pension liability/(asset)—PFRS	\$ 9,082,122	\$ 3,203,636	\$ (1,726,975)
Employer's proportionate share of the net pension liability/(asset)—ERS	\$ 4,579,619	\$ 1,433,908	\$ (1,225,784)

Pension Plan Fiduciary Net Position—The components of the current-year net pension liabilities of the employers as of the respective valuation dates were as follows:

	(Dollars in Thousands)		
	PFRS	ERS	Total
Valuation date	April 1, 2016	April 1, 2016	
Employers' total pension liability	\$ 31,670,483	\$ 177,400,586	\$ 209,071,069
Plan fiduciary net position	29,597,830	168,004,363	197,602,193
Employers' net pension liability	<u>\$ 2,072,653</u>	<u>\$ 9,396,223</u>	<u>\$ 11,468,876</u>
Systems' fiduciary net position as a percentage of total pension liability	93.5%	94.7%	94.5%

7. OTHER POSTEMPLOYMENT BENEFITS (“OPEB”) OBLIGATION

Plan Description—In addition to providing pension benefits, the City provides health insurance coverage and/or payment for values of unused sick leave to eligible retired employees. The various collective bargaining agreements stipulate the employees covered and the percentage of contribution. Contributions by the City may vary according to length of service. The cost of providing postemployment benefits is shared between the City and the retired employee. The cost of retiree health care benefits is recognized as an expenditure/payable as claims are paid.

Funding Policy—Authorization for the City to pay retiree health insurance premiums was enacted through a union contract, which was ratified by the City’s Common Council. To be eligible employees must have 20 years of continuous full-time service with the City and been hired prior to 2003. Upon retirement, the City pays 100% of the cost of the medical benefits for life. In addition Retirees are eligible to receive prescription drug copayment reimbursements back to \$3 for all prescriptions. Surviving spouses are eligible to receive benefits at the same rate as retirees. Retirees hired in 2003 and later are not eligible to receive City paid medical benefits.

The City’s annual other postemployment benefit (“OPEB”) cost is calculated based on the annual required contribution (“ARC”) of the employer, an amount actuarially determined in accordance with the parameters of GASB. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The table on the following page shows the components of the City’s annual OPEB cost for the past three years, the amount actually contributed to the plan, and changes in the net OPEB obligation.

	Year Ended December 31,		
	2017	2016	2015
Annual required contribution ("ARC")	\$ 3,279,531	\$ 2,449,840	\$ 2,449,840
Interest on net OPEB obligation	133,692	114,377	95,692
Adjustment to ARC	(142,185)	(103,342)	(103,342)
Annual OPEB cost (expense)	3,271,038	2,460,875	2,442,190
Expected contributions	(2,413,512)	(1,978,000)	(1,975,065)
Increase in net OPEB obligation	857,526	482,875	467,125
Net OPEB obligation—beginning of year	3,342,307	2,859,432	2,392,307
Net OPEB obligation—end of year	<u>\$ 4,199,833</u>	<u>\$ 3,342,307</u>	<u>\$ 2,859,432</u>
Percentage of ARC contributed	73.6%	80.7%	80.6%

Funding Status and Funding Progress— As of December 31, 2017, the most recent actuarial valuation date, the plan was not funded. Since there were no assets, the unfunded actuarial liability for benefits for governmental activities was \$68,576,103. The covered payroll (annual payroll of active employees covered by the plan) was \$8,709,493, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 7.87.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The City's schedule of contributions for the most recent three years is shown below:

Year Ended December 31,	Annual OPEB Cost	Contributions Made	Percentage Contributed	Net OPEB Obligation
2017	\$ 3,271,038	\$ 2,413,512	73.8%	\$ 4,199,833
2016	2,460,875	1,978,000	80.4%	3,342,307
2015	2,442,190	1,975,065	80.9%	2,859,432

Actuarial Methods and Assumptions—Calculations are based on the types of benefits provided under the terms of the substantive plan (the plan as understood by the employer and the plan members) at the time of the valuation and on the pattern of cost sharing between the employee and plan members. Calculations reflect a long-term perspective, so methods and assumptions used include techniques that are designed to reduce short-term volatility.

In the December 31, 2017 actuarial valuation, the Entry Age Normal Method was used. Under this method, each participant's projected benefit is allocated on a level basis over the earnings or service of the participant between entry age and assumed exit ages. The actuarial assumptions included a valuation date and measurement date of December 31, 2017. The expected interest rate, salary scale, and inflation rate was 4.0%, 3.0%, and 2.3%, respectively. The RP-2014 combined mortality, fully generational using scale MP-2017, weighted 50% White Collar, 50% Blue Collar tables were used for mortality rates. The unfunded actuarial accrued liability is being amortized over 30 years, therefore the remaining amortized period at December 31, 2017 was twenty years.

8. RISK MANAGEMENT

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. Effective March 1, 1996 the City established a self-insurance program for workers' compensation claims. The City self-insures for losses up to \$200,000 per incident. The City has obtained outside insurance for claims in excess of that amount. The City currently reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

Total workers' compensation expenditures of \$501,270 were recorded in the General Fund for the year ended December 31, 2017.

At December 31, 2017, the amount of long-term liabilities relating to workers' compensation was \$664,578. This liability is the City's best estimate based on available information.

Changes in the reported workers' compensation liability resulted from the following:

Year Ended December 31,	Liability balance, beginning of year	Current year claims	Claim payments	Liability balance, end of year
2017	\$ 328,686	\$ 837,162	\$ 501,270	\$ 664,578
2016	501,212	147,143	319,669	328,686
2015	842,565	273,149	614,502	501,212

Additionally, the City purchases insurance for: automobile, general and umbrella liability. Automobile insurance is limited to \$1 million per accident. The general liability insurance is limited to \$1 million per occurrence, and an aggregate \$3 million limit for products-completed operations hazards, errors and omissions liability. The umbrella liability insurance includes a \$10,000 policy retention and is limited to \$1 million per occurrence, and an aggregate \$6 million limit.

9. SHORT-TERM DEBT

Liabilities for bond anticipation notes ("BANs") are generally accounted for in the Capital Projects Fund. State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. However, BANs used for assessable improvement projects may be renewed for periods equivalent to the life of the permanent financing provided that annual reductions of principal are made. The following is a summary of the City's short-term debt for the year ended December 31, 2017:

Description	Interest Rate	Maturity Date	Balance 1/1/2017	Issues	Redemptions	Balance 12/31/2017
Capital Projects Fund:						
Various purposes	1.19%	6/8/2017	\$ 4,528,182	\$ -	\$ 4,528,182	\$ -
Various purposes	1.25%	6/7/2018	-	5,817,000	-	5,817,000
Total			<u>\$ 4,528,182</u>	<u>\$ 5,817,000</u>	<u>\$ 4,528,182</u>	<u>\$ 5,817,000</u>

10. LONG-TERM LIABILITIES

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

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

The City's outstanding long-term liabilities include serial bonds, capital leases, landfill post-closure costs, pollution remediation obligation, compensated absences, workers' compensation, other postemployment benefits ("OPEB") obligation, and net pension liability. The serial bonds of the City are secured by its general credit and revenue raising powers, as per State statute.

A summary of changes in the City's long-term debt at December 31, 2017 follows:

	Balance 1/1/2017	Additions	Reductions	Balance 12/31/2017	Due Within One Year
Governmental activities:					
Serial bonds	\$ 13,849,511	\$ 2,812,486	\$ 1,397,652	\$ 15,264,345	\$ 1,574,097
Capital leases	32,316	-	13,305	19,011	5,945
Landfill post-closure costs	320,000	-	20,000	300,000	20,000
Pollution remediation obligation	13,700,000	-	2,900,000	10,800,000	2,900,000
Compensated absences	2,660,344	406,098	253,267	2,813,175	140,659
Workers' compensation	328,686	837,162	501,270	664,578	33,229
OPEB obligation	3,342,307	3,271,038	2,413,512	4,199,833	-
Net pension liability *	6,894,616	-	2,257,072	4,637,544	-
Total governmental activities	<u>\$ 41,127,780</u>	<u>\$ 7,326,784</u>	<u>\$ 9,756,078</u>	<u>\$ 38,698,486</u>	<u>\$ 4,673,930</u>

* Reductions to the net pension liability are shown net of additions.

Serial Bonds—The City issues general obligation bonds to provide funds for the acquisition, construction, and renovation of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as serial bonds with equal amounts of principal maturing each year with maturities that range from 9 to 31 years. Principal is paid annually, interest is paid semi-annually and are recorded in the General Fund, Sewer Fund, and Water Fund.

During the year ended December 31, 2017, the City drawdown on previously authorized Environmental Facilities Corporation ("EFC") bonds totaled \$2,812,486. The City has \$6,431,127 authorized bonds remaining, which the City expects to draw down in future years. The EFC bonds are interest free, principal payments began upon issuance, and maturity dates range from 2045 to 2047.

A summary of additions and reductions, for the year ended December 31, 2017 follows:

Description	Issue/ Maturity	Original Issue	Interest Rate (%)	Balance 1/1/2017	Additions	Reductions	Balance 12/31/2017
General Fund:							
Wales Avenue landfill closure	2003-2020	\$ 2,394,500	3.55%	\$ 625,000	\$ -	\$ 150,000	\$ 475,000
Public improvement	2004-2024	1,690,000	4.38%	600,000	-	75,000	525,000
Street improvement (refunding)	2009-2018	1,280,000	3.25%	29,000	-	15,000	14,000
Roads and equipment	2010-2019	980,000	3.50%	330,000	-	110,000	220,000
Various purpose	2011-2020	1,728,499	2.00%	570,000	-	140,000	430,000
Public improvement	2012-2022	710,000	2.50%	307,500	-	95,000	212,500
Public improvement	2014-2033	5,382,000	2.00%	4,530,000	-	420,000	4,110,000
Total General Fund		<u>14,164,999</u>		<u>6,991,500</u>	<u>-</u>	<u>1,005,000</u>	<u>5,986,500</u>
Sewer Fund:							
Sewer Improvement	2002-2022	1,233,250	4.52%	435,000	-	65,000	370,000
Public improvement	2012-2037	1,900,000	2.50%	1,647,500	-	65,000	1,582,500
Public improvement	2014-2031	110,000	2.00%	90,000	-	10,000	80,000
Sewer bonds - EFC	2016-2047	4,590,000	0.00%	4,464,511	2,812,486	127,652	7,149,345
Total Sewer Fund		<u>7,833,250</u>		<u>6,637,011</u>	<u>2,812,486</u>	<u>267,652</u>	<u>9,181,845</u>
Water Fund:							
Reconstruction water plan (refunding)	2009-2018	1,567,710	3.25%	221,000	-	125,000	96,000
Total Water Fund		<u>1,567,710</u>		<u>221,000</u>	<u>-</u>	<u>125,000</u>	<u>96,000</u>
Total governmental funds		<u>\$ 23,565,959</u>		<u>\$ 13,849,511</u>	<u>\$ 2,812,486</u>	<u>\$ 1,397,652</u>	<u>\$ 15,264,345</u>

Capital Leases—The City has entered into lease agreements as lessee for financing the acquisition of certain machinery and equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2017 are as follows:

Year Ending December 31,	Governmental Activities
2018	\$ 7,171
2019	7,172
2020	<u>7,172</u>
Total minimum lease payments	21,515
Less: amount representing interest	<u>(2,504)</u>
Present value of minimum lease payments	<u>\$ 19,011</u>

Landfill Post-Closure Costs—State and federal laws and regulations require the City to perform certain maintenance and monitoring functions in addition to remediation work on the City’s landfill site. Both post-closure costs and remediation work are to be paid in the future. The total estimated post-closure care and remediation work cost liability is reported in the City’s government-wide financial statements. The \$300,000 reported as the accrued landfill post-closure care liability at December 31, 2017 represents the cumulative amount reported to date based on 100% capacity used. The amount reported is based on what it would cost to perform all post-closure and remediation work in 2017.

Pollution Remediation Obligation—The New York State Department of Environmental Conservation issued an Order on Consent during the fiscal year ended December 31, 2009 requiring that the City remedy sanitary sewer overflows determined harmful to the local water system. The total estimated liability, at December 31, 2017, to address the violation is \$10,800,000. This estimated liability is recorded in the City’s government-wide financial statements.

Compensated Absences—As described in Note 1, the City records the value of compensated absences. The annual budgets of the operating funds provide funding for these benefits as they become payable. The liability for compensated absences at December 31, 2017 amounts to \$2,813,175, of which \$140,659 has been included as due within one year. Since payment of compensated absences is dependent upon many factors, the timing of future payments is not readily determinable.

Workers’ Compensation—As explained in Note 8, the estimated liability related to workers’ compensation claims amounted to \$664,578 at December 31, 2017.

OPEB Obligation—As explained in Note 7, the City provides health insurance coverage for certain retirees. The City’s annual other postemployment benefit (“OPEB”) cost is calculated based on the annual required contributions of the employer, an amount actuarially determined in accordance with the parameters of GASB. The long-term OPEB liability is estimated to be \$4,199,833 as of December 31, 2017.

Net Pension Liability—The City reported a liability for its proportionate share of the net pension liability for the New York State Employees’ Retirement System and Police and Fire Retirement System. The net pension liability is estimated to be \$4,637,544 in the governmental activities. Typically, the General Fund and Sewer Fund have been used to liquidate this liability within the governmental funds. Refer to Note 6 for additional information related to the City’s net pension liability.

The following is a maturity schedule of the City’s indebtedness:

Year ending December 31,	Serial Bonds	Capital Leases	Landfill Post-Closure Costs	Pollution Remediation Obligation	Compensated Absences	Workers' Compensation	OPEB Obligation	Net Pension Liability	Total
2018	\$ 1,574,097	\$ 5,945	\$ 20,000	\$ 2,900,000	\$ 140,659	\$ 33,229	\$ -	\$ -	\$ 4,673,930
2019	1,466,261	6,329	20,000	2,900,000	-	-	-	-	4,392,590
2020	1,372,787	6,737	20,000	2,500,000	-	-	-	-	3,899,524
2021	1,065,588	-	20,000	2,500,000	-	-	-	-	3,585,588
2022	836,118	-	20,000	-	-	-	-	-	856,118
2023-2027	3,257,306	-	100,000	-	-	-	-	-	3,357,306
2028-2032	2,296,396	-	100,000	-	-	-	-	-	2,396,396
2033-2037	1,780,486	-	-	-	-	-	-	-	1,780,486
2038 - thereafter	1,615,306	-	-	-	2,672,516	631,349	4,199,833	4,637,544	13,756,548
Total	<u>\$ 15,264,345</u>	<u>\$ 19,011</u>	<u>\$ 300,000</u>	<u>\$ 10,800,000</u>	<u>\$ 2,813,175</u>	<u>\$ 664,578</u>	<u>\$ 4,199,833</u>	<u>\$ 4,637,544</u>	<u>\$ 38,698,486</u>

Interest requirements on serial bonds and capital leases are as follows:

Year ending December 31,	Serial Bonds	Capital Leases	Total
2018	\$ 241,081	\$ 1,226	\$ 242,307
2019	207,858	843	208,701
2020	177,496	435	177,931
2021	150,676	-	150,676
2022	133,152	-	133,152
2023-2027	455,176	-	455,176
2028-2032	198,875	-	198,875
2033-2037	46,625	-	46,625
Total	<u>\$ 1,610,939</u>	<u>\$ 2,504</u>	<u>\$ 1,613,443</u>

11. NET POSITION AND FUND BALANCE

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

- **Net Investment in Capital Assets**—This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category. The following is a reconciliation of the City’s governmental activities net investment in capital assets:

Capital assets, net of accumulated depreciation	\$ 31,116,172
Less related debt:	
Serial bonds	(14,738,345)
Capital leases	(19,011)
Bond anticipation notes payable	(5,817,000)
Unspent proceeds of debt	<u>2,024,837</u>
Net investment in capital assets	<u>\$ 12,566,653</u>

- **Restricted Net Position**—This category represents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The total restricted component of net position is equal to restricted fund balance as detailed on the following page.
- **Unrestricted Net Position**—This category represents net position of the City not restricted for any project or other purpose.

In the fund financial statements, nonspendable amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance maintained by the City at December 31, 2017 includes:

- **Prepaid Items**—Represents amounts prepaid to the retirement system that are applicable to future accounting periods. The General Fund and Sewer Fund reported amounts of \$406,752 and \$5,000, respectively, at December 31, 2017.

In the fund financial statements, restricted fund balances are amounts constrained to specific purposes (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation. At December 31, 2017, the City reported the following restricted fund balances:

	General Fund	Nonmajor Funds	Total
Tax stabilization reserve	\$ 200,000	\$ -	\$ 200,000
Insurance reserve	137,613	-	137,613
Revolving loans	-	8,175	8,175
Historical restoration reserve	-	1,000	1,000
Total restricted fund balance	<u>\$ 337,613</u>	<u>\$ 9,175</u>	<u>\$ 346,788</u>

- **Restricted for Tax Stabilization**—Represents funds accumulated and utilized to minimize future tax increases in the General Fund.
- **Restricted for Insurance**— Represents funds established within the General Fund which will be used to pay claims, actions or judgments against the City that results from personal injuries or property damage.
- **Restricted for Revolving Loans**—Represents representing amounts related to the rehabilitation loan program with constraints placed on their use by the United States Department of Housing and Urban Development.
- **Restricted for Historical Restoration**—Represents funds reserved within the Community Development Fund to be utilized towards historical restoration.

In the fund financial statements, commitments are amounts that are subject to a purpose constraint imposed by a formal action of the City’s highest level of decision-making authority. At December 31, 2017, the City reported no committed fund balance.

In the fund financial statements, assignments are not legally required segregations, but are subject to a purpose constraint that represents an intended use established by the City Council. The purpose of the assignment must be narrower than the purpose of the General Fund, and in funds other than the General Fund, assigned fund balance represents the residual amount of fund balance. At December 31, 2017, the City reported the following fund balance assignments:

	Subsequent Year's <u>Expenditures</u>	Workers' <u>Compensation</u>	Specific <u>Use</u>	Total <u>Assigned</u>
General Fund	\$ 100,000	\$ 331,973	\$ -	\$ 431,973
Sewer Fund	-	-	646,939	646,939
Water Fund	-	-	109,356	109,356
Nonmajor governmental funds	-	-	200,602	200,602
Total	<u>\$ 100,000</u>	<u>\$ 331,973</u>	<u>\$ 956,897</u>	<u>\$ 1,388,870</u>

- **Assigned to Subsequent Year's Expenditures**—Represents available fund balance being appropriated to meet expenditure requirements in the 2018 fiscal year.
- **Assigned to Workers' Compensation**—Represents funds set aside for future workers' compensation claims.
- **Assigned to Specific Use**—Represents fund balance within the special revenue funds that is assigned for a specific purpose. The assignment's purpose relates to each fund's operations and represents amounts within funds that are not restricted or committed.

If the City must use funds for emergency expenditures the City Council shall authorize the Treasurer to expend funds first from funds classified under GASB as nonspendable (if funds become available) then restricted funds. The use of committed and assigned funds as classified by GASB will occur after the exhaustion of available restricted funds. Finally, if no other fund balances are available, the City will use unassigned fund balance.

12. INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables are short-term in nature and exist because of temporary advances or payments made on behalf of other funds. All interfund balances are expected to be collected/paid within the subsequent year. Interfund transfers are routine annual events for both the budget and accounting process and are necessary to present funds in their proper fund classification.

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

Fund	Interfund			
	<u>Receivables</u>	<u>Payables</u>	<u>Transfers in</u>	<u>Transfers out</u>
General Fund	\$ 1,453,077	\$ 2,054,637	\$ 426,930	\$ 360,182
Sewer Fund	-	428,071	-	425,000
Water Fund	-	129,560	-	-
Capital Projects Fund	2,191,122	1,031,931	390,182	31,930
Nonmajor governmental funds	2,964	2,964	-	-
Total	<u>\$ 3,647,163</u>	<u>\$ 3,647,163</u>	<u>\$ 817,112</u>	<u>\$ 817,112</u>

13. AGENCY FUND

An agency fund exists for employee withholding and temporary deposit funds. A summary of changes in the assets and liabilities for the year ended December 31, 2017 is presented below:

	Balance 1/1/2017	Additions	Deletions	Balance 12/31/2017
ASSETS				
Cash and cash equivalents	\$ 382,258	\$ 3,314,612	\$ 3,644,435	\$ 52,435
Total assets	<u>\$ 382,258</u>	<u>\$ 3,314,612</u>	<u>\$ 3,644,435</u>	<u>\$ 52,435</u>
LIABILITIES				
Agency liabilities	\$ 377,605	\$ 1,717,976	\$ 2,050,989	\$ 44,592
Accounts payable	4,412	1,596,636	1,593,205	7,843
Due to other funds	<u>241</u>	<u>-</u>	<u>241</u>	<u>-</u>
Total liabilities	<u>\$ 382,258</u>	<u>\$ 3,314,612</u>	<u>\$ 3,644,435</u>	<u>\$ 52,435</u>

14. LABOR CONTRACTS

City employees are represented by four bargaining units with the remainder covered by Common Council rules and regulations. The City of Tonawanda Employee Association, The City of Tonawanda Civil Service Employee Association, Uniformed Professional Firefighters and the City of Tonawanda Police Benevolent Association. All bargaining units have contracts with the City negotiated through December 31, 2023.

15. COMMITMENTS

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

The City considers encumbrances to be significant for amounts that are encumbered in excess of \$50,000. As of December 31, 2017, the City reported no encumbrances.

16. TAX ABATEMENTS

The City is subject to tax abatements granted by the Erie County Industrial Development Agency ("ECIDA") and the City under New York State private housing finance law. These programs have the stated purpose of increasing business activity and employment in the region. Economic development agreements are entered into by the ECIDA and the City and include the abatement of state, county, local, and school district taxes, in addition to other assistance. In the case of the City, the abatements have resulted in reductions of property taxes, which the City administers as a temporary reduction in the assessed value of the property involved. The abatement agreements stipulate a percentage reduction of property taxes, which can be as much as 100 percent. Under the agreements entered into by ECIDA and the City, the City collected \$86,621 during 2017 in payments in lieu of taxes ("PILOT"), these collections were made in lieu of \$202,568 in property taxes.

17. CONTINGENCIES

Litigation—The City is involved in litigation in the ordinary course of its operations. Various legal actions are pending against the City. The outcome of these matters is not presently determinable, but in the opinion of management, the ultimate liability will not have a material adverse effect on the financial condition or results of operation of the City.

Assessments—The City is a defendant in 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. No potential amount or potential range of loss is determinable. However, management believes that level of such potential loss, if any, would be immaterial and no provisions have been made within the financial statements.

Grants—In the normal course of operations, the City receives grant funds from various federal and state agencies. The disbursement of funds received under these programs generally requires compliance with terms and conditions that are specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed expenditures resulting from such audits could become a liability of the City. While the amount of expenditures, if any, which may be disallowed cannot be determined at this time, management expects any amounts to be immaterial.

Pollution Remediation Obligations—On December 31, 2009, the City was issued Order on Consent #R9-20090408-23 by the New York State Department of Environmental Conservation (“NYSDEC”) for its violation of Article 17 of the Environmental Conservation Law and its implementing regulations found in Title 8 and 6 of the Official Compilation of the Codes, Rules and Regulations of the State of New York which govern the control and prevention of water pollution. As part of this notice the City conducted and submitted a system-wide Sanitary Sewer System Evaluation Survey (SSES) to reduce wet weather flows and eliminate sanitary sewer overflows in the City of Tonawanda. As of December 31, 2017, the NYSDEC has required that the City commit an estimated \$10,800,000 in capital outlays over the next four years to remedy the above mentioned sanitary sewer overflows.

18. SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 3, 2018, which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TONAWANDA, NEW YORK
Schedule of Funding Progress—Other Postemployment Benefits Plan
Year Ended December 31, 2017

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
As of December 31, 2017	\$ -	\$ 68,576,103	\$ 68,576,103	-	\$ 8,709,493	787.4%
As of December 31, 2015	-	52,374,699	52,374,699	-	7,200,224	727.4%
As of December 31, 2013	-	43,538,616	43,538,616	-	n/a	n/a

CITY OF TONAWANDA, NEW YORK
Schedule of the City's Proportionate Share of the
Net Pension Liability—Police and Fire Retirement System
Last Four Fiscal Years*

	Year Ended December 31,			
	2017	2016	2015	2014
Measurement date	March 31, 2017	March 31, 2016	March 31, 2015	March 31, 2014
City's proportion of the net pension liability	0.1545670%	0.1516800%	0.1485410%	0.1485410%
City's proportionate share of the net pension liability	<u>\$ 3,203,636</u>	<u>\$ 4,490,921</u>	<u>\$ 408,873</u>	<u>\$ 618,391</u>
City's covered-employee payroll	\$ 4,699,350	\$ 4,709,634	\$ 4,536,141	\$ 4,475,746
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	68.2%	95.4%	9.0%	13.8%
Plan fiduciary net position as a percentage of the total pension liability	94.7%	90.7%	97.9%	97.2%

*Information prior to the year ended December 31, 2014 is not available.

CITY OF TONAWANDA, NEW YORK
Schedule of the City's Contributions—
Police and Fire Retirement System
Last Four Fiscal Years*

	Year Ended December 31,			
	2017	2016	2015	2014
Contractually required contributions	\$ 1,092,343	\$ 1,059,216	\$ 1,055,556	\$ 1,189,680
Contributions in relation to the contractually required contribution	<u>(1,092,343)</u>	<u>(1,059,216)</u>	<u>(1,055,556)</u>	<u>(1,189,680)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 4,882,768	\$ 4,686,557	\$ 4,717,325	\$ 4,469,747
Contributions as a percentage of covered-employee payroll	22.4%	22.6%	22.4%	26.6%

*Information prior to the year ended December 31, 2014 is not available.

CITY OF TONAWANDA, NEW YORK
Schedule of the City's Proportionate Share of the
Net Pension Liability—Employees' Retirement System
Last Four Fiscal Years*

	Year Ended December 31,			
	2017	2016	2015	2014
Measurement date	March 31, 2017	March 31, 2016	March 31, 2015	March 31, 2014
City's proportion of the net pension liability	0.0152605%	0.0149760%	0.0152183%	0.0152183%
City's proportionate share of the net pension liability	<u>\$ 1,433,908</u>	<u>\$ 2,403,695</u>	<u>\$ 514,112</u>	<u>\$ 687,695</u>
City's covered-employee payroll	\$ 3,990,845	\$ 4,030,105	\$ 4,023,934	\$ 3,738,689
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	35.9%	59.6%	12.8%	18.4%
Plan fiduciary net position as a percentage of the total pension liability	94.7%	90.7%	97.9%	97.2%

*Information prior to the year ended December 31, 2014 is not available.

CITY OF TONAWANDA, NEW YORK
Schedule of the City's Contributions—
Employees' Retirement System
Last Four Fiscal Years*

	<u>Year Ended December 31,</u>			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contributions	\$ 549,781	\$ 552,144	\$ 593,149	\$ 689,653
Contributions in relation to the contractually required contribution	<u>(549,781)</u>	<u>(552,144)</u>	<u>(593,149)</u>	<u>(689,653)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 4,155,056	\$ 3,984,587	\$ 4,045,278	\$ 3,808,261
Contributions as a percentage of covered-employee payroll	13.2%	13.9%	14.7%	18.1%

*Information prior to the year ended December 31, 2014 is not available.

CITY OF TONAWANDA, NEW YORK
Schedule of Revenues, Expenditures, and Changes in Fund Balances—
Budget and Actual—General Fund
Year Ended December 31, 2017

REVENUES	Budgeted Amounts		Actual	Variance
	Original	Final		with Final Budget
Real property taxes	\$ 10,923,511	\$ 10,923,511	\$ 10,908,234	\$ (15,277)
Other tax items	745,100	745,100	786,358	41,258
Non property tax items	5,162,000	5,162,000	5,168,488	6,488
Departmental income	199,000	199,000	196,438	(2,562)
Intergovernmental charges	138,000	138,000	152,524	14,524
Use of money and property	5,800	5,800	7,110	1,310
Licenses and permits	128,500	128,500	132,038	3,538
Fines and forfeitures	579,000	579,000	441,601	(137,399)
Sale of property and compensation for loss	62,000	62,000	73,352	11,352
Miscellaneous local sources	25,300	55,300	68,659	13,359
State aid	2,805,604	2,971,229	2,967,072	(4,157)
Federal aid	-	58,019	394,533	336,514
Total revenues	<u>20,773,815</u>	<u>21,027,459</u>	<u>21,296,407</u>	<u>268,948</u>
EXPENDITURES				
Current:				
General government support	2,545,318	2,244,223	2,214,142	30,081
Public safety	5,909,217	6,367,114	6,240,268	126,846
Transportation	2,119,128	2,057,060	2,037,772	19,288
Culture and recreation	1,035,713	1,067,583	1,068,921	(1,338)
Home and community services	1,116,134	1,274,274	1,267,443	6,831
Employee benefits	6,912,826	6,881,726	7,577,421	(695,695)
Debt service:				
Principal	1,305,485	1,305,485	1,018,305	287,180
Interest and other fiscal charges	224,994	224,994	237,810	(12,816)
Total expenditures	<u>21,168,815</u>	<u>21,422,459</u>	<u>21,662,082</u>	<u>(239,623)</u>
Excess (deficiency) of revenues over expenditures	<u>(395,000)</u>	<u>(395,000)</u>	<u>(365,675)</u>	<u>29,325</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	395,000	395,000	426,930	31,930
Transfers out	-	-	(360,182)	(360,182)
Total other financing sources (uses)	<u>395,000</u>	<u>395,000</u>	<u>66,748</u>	<u>(328,252)</u>
Net change in fund balance	-	-	(298,927)	(298,927)
Fund balance—beginning	<u>2,955,721</u>	<u>2,955,721</u>	<u>2,955,721</u>	-
Fund balance—ending	<u>\$ 2,955,721</u>	<u>\$ 2,955,721</u>	<u>\$ 2,656,794</u>	<u>\$ (298,927)</u>

The note to the required supplementary information is an integral part of this schedule.

CITY OF TONAWANDA, NEW YORK
Schedule of Revenues, Expenditures, and Changes in Fund Balances—
Budget and Actual—Sewer Fund
Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>with Final</u>
				<u>Budget</u>
REVENUES				
Departmental income	\$ 2,235,797	\$ 2,235,797	\$ 2,340,585	\$ 104,788
Use of money and property	1,000	1,000	932	(68)
Miscellaneous	-	-	20	20
Total revenues	<u>2,236,797</u>	<u>2,236,797</u>	<u>2,341,537</u>	<u>104,740</u>
EXPENDITURES				
Current:				
Home and community services	1,241,629	1,241,629	1,233,041	8,588
Employee benefits	84,473	84,473	85,266	(793)
Debt service:				
Principal	427,652	427,652	267,652	160,000
Interest and other fiscal charges	88,043	88,043	88,033	10
Total expenditures	<u>1,841,797</u>	<u>1,841,797</u>	<u>1,673,992</u>	<u>167,805</u>
Excess (deficiency) of revenues over expenditures	<u>395,000</u>	<u>395,000</u>	<u>667,545</u>	<u>272,545</u>
OTHER FINANCING USES				
Transfers out	<u>(395,000)</u>	<u>(395,000)</u>	<u>(425,000)</u>	<u>(30,000)</u>
Total other financing uses	<u>(395,000)</u>	<u>(395,000)</u>	<u>(425,000)</u>	<u>(30,000)</u>
Net change in fund balance	-	-	242,545	242,545
Fund balance—beginning	<u>409,394</u>	<u>409,394</u>	<u>409,394</u>	<u>-</u>
Fund balance—ending	<u>\$ 409,394</u>	<u>\$ 409,394</u>	<u>\$ 651,939</u>	<u>\$ 242,545</u>

The note to the required supplementary information is an integral part of this schedule.

CITY OF TONAWANDA, NEW YORK
Schedule of Revenues, Expenditures, and Changes in Fund Balances—
Budget and Actual—Water Fund
Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Departmental income	\$ 130,073	\$ 130,073	\$ 200,594	\$ 70,521
Total revenues	<u>130,073</u>	<u>130,073</u>	<u>200,594</u>	<u>70,521</u>
EXPENDITURES				
Debt service				
Principal	125,000	125,000	125,000	-
Interest and other fiscal charges	<u>5,073</u>	<u>5,073</u>	<u>5,073</u>	<u>-</u>
Total expenditures	<u>130,073</u>	<u>130,073</u>	<u>130,073</u>	<u>-</u>
Net change in fund balance	-	-	70,521	70,521
Fund balance—beginning	<u>38,835</u>	<u>38,835</u>	<u>38,835</u>	<u>-</u>
Fund balance—ending	<u>\$ 38,835</u>	<u>\$ 38,835</u>	<u>\$ 109,356</u>	<u>\$ 70,521</u>

The note to the required supplementary information is an integral part of this schedule.

CITY OF TONAWANDA, NEW YORK
Note to the Required Supplementary Information
Year Ended December 31, 2017

1. BUDGETARY INFORMATION

Budgetary Basis of Accounting—Annual budgets are adopted on a basis consistent with generally accepted accounting principles in the United States of America for all governmental funds, with the exception of the Capital Projects Fund, Special Grant Fund and Special Purpose Fund. The Special Grant Fund, Special Purpose Fund and the Capital Projects fund are appropriated on a project length basis; appropriations are approved through a City Council resolution at the grant/project's inception and lapse upon completion/termination of the grant/project.

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations require the approval of the City Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the departmental level.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances.

Actual results of operations presented in accordance with GAAP and the City's accounting policies do not recognize encumbrances and restricted fund balance as expenditures until the period in which the actual goods or services are received and a liability is incurred. Encumbrances are only reported on the balance sheet of the governmental funds included within restricted, committed or assigned fund balance. Significant encumbrances are disclosed in the notes to the financial statements.

Exceeding Authorized Appropriations—The City's General Fund appropriations for the year ended December 31, 2017 exceeded the final budget as follows:

- Expenditures within the culture and recreation safety function exceeded the budget by \$1,338.
- Expenditures within the employee benefits function exceeded the budget by \$695,695.
- Expenditures within the interest and other fiscal charges function exceeded the budget by \$12,816.
- Expenditures within the transfers out function exceeded the budget by \$360,182; this is partially offset by a favorable variance within the Debt service—principal function.

The City's Sewer Fund appropriations for the year ended December 31, 2017 exceeded the adjusted budget as follows:

- Expenditures within the employee benefits function exceeded the budget by \$793.
- Expenditures within the transfers out function exceeded the budget by \$30,000; this is offset by a favorable variance within the Debt service—principal function.

Unless otherwise noted, these variances are the result greater than anticipated costs within these function.

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Certified Public Accountants

**INDEPENDENT AUDITORS' 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**

Honorable City Council
City of Tonawanda, New York:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Tonawanda, New York (the "City") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 3, 2018. Our report expresses an adverse opinion on the reporting entity since the financial statements do not include the financial data for the City's legally separate component unit.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 deficiencies described in the accompanying Schedule of Findings as items 2017-001 and 2017-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or combination or deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item 2017-003 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings as item 2017-004.

The City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Drescher & Malecki LLP

July 3, 2018

CITY OF TONAWANDA, NEW YORK
Schedule of Findings
Year Ended December 31, 2017

We consider the deficiencies presented below to be material weaknesses in internal control.

Finding 2017-001—Financial Activities – Component Units

Criteria—GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34* modifies certain requirements for inclusion of component units in the financial reporting entity. Additionally, GASB Statement No. 80, *Blending Requirements for Certain Component Units—an Amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of component units of all state and local governments.

Condition and Context—The City does not include the financial activities of Tonawanda Housing Authority, a legally separate component unit of the City of Tonawanda, New York, in the City’s basic financial statements. In addition, the City has not implemented GASB Statements No. 61 and No. 80 to identify and evaluate other potential component units.

Cause—The City has not implemented GASB Statements No. 61 and No. 80. In addition, the Tonawanda Housing Authority keeps its accounting records and prepares its financial statements on a basis of accounting as required by the U. S. Department of Housing and Urban Development. This basis differs significantly from generally accepted accounting principles.

Effect or Potential Effect—The reporting entity has not been completely evaluated for potential component units. As a result, the independent auditors’ report is modified for such exclusion.

Recommendation—We recommend that the City implement GASB Statements No. 61 and No. 80 and consider potential component units for inclusion and disclosure in its financial statements.

Management’s Response—The City has determined that it is not efficient to include the Tonawanda Housing Authority component unit as it does not have a material impact on the fund financial statements. However, the City will consider implementation of GASB Statements No. 61 and No. 80 in future years.

Finding 2017-002—Financial Accounting System

Criteria—For proper segregation of duties, employees with the ability to post financial data should not have administrator rights to the financial software. Further, the City should have adequate procedures and documentation for adding, modifying and deleting user accounts. Additionally, the general controls for information technology (“IT”) should be documented and address all significant areas within the City’s IT environment.

Condition and Context—Similar to prior years, an employee with the ability to edit financial data currently has administrator rights. In addition, the City does not have formal procedures in place to ensure user accounts are added, modified or removed in a timely and efficient manner. We also noted that the City does not maintain a complete policy manual to address IT general controls such as information security, breach notification policy, backup policy, disaster recovery plan, and IT risk assessments.

Cause—The City does not have formal policies or procedures to periodically assess user rights, adequately document and track user changes, or address the aforementioned IT general controls.

Effect or Potential Effect—Unauthorized users may have access to editing or modifying financial data resulting in an increased risk of fraudulent financial reporting. The absence of a formal information security policy prevents the City from holding employees accountable should they use their computers or laptops for personal business or accessing inappropriate websites. In addition, not having a formal policy regarding financial data increases the risk of misappropriation of this data. The City does not have a formal written backup policy, and although backups are performed, if the employee who performs the backups were to become unavailable for an extended length of time, other employees would not have a written guide to back up the system. The absence of formal information technology risk assessments increases the City's exposure to risk from internal and external information technology risks.

Recommendation—We recommend that the City's IT Department have the rights to create, modify and delete users, but should not be given full administrators rights to prevent the ability to edit financial data. Additionally, we recommend the City review and formalize procedures to include policies for administrator rights, information security, breach notification policy, backup policy, disaster recovery plan, and IT risk assessments.

Management's Response—The City will consider restricting administrator rights to the IT Department. Also, the City created a technology committee to address ongoing IT risks. This comment will be looked into further to determine the feasibility to develop alternative procedures surrounding user accounts and the development of an overall IT general controls policy manual.

We consider the deficiency presented below to be a significant deficiency in internal control.

Finding 2017-003—Segregation of Duties

Criteria—Key cash functions should have a clear segregation of duties between the collection of cash, deposit of cash, posting to the general and accounts receivable ledgers, disbursement of cash and performance of bank reconciliations.

Condition and Context—Similar to prior years, the same employee has the ability to collect the cash receipts, prepare the deposit, issue checks, perform bank reconciliations and post journal entries to the system.

Cause—Inadequate segregation of duties over cash functions.

Effect of Potential Effect—The absence of segregation of duties presents the opportunity for the misappropriation of assets and the potential misstatement of the financial statements.

Recommendation—We recommend that the City develop a more structured policy regarding employee job functions to promote segregation of duties.

Management's Response—Management continues to evaluate the feasibility of segregating duties within the Treasurer's Office and has implemented procedures in efforts to provide mitigating controls given the limitations present due to staffing.

We consider the deficiency presented below to be a reportable instance of noncompliance.

Finding 2017-004—Budgetary Noncompliance

Criteria—Unless previously authorized, no officer, council, department or commission shall, during any fiscal year, expend or contract to be expended any money or incur any liability or enter into any contract which by its terms involves the expenditure of money for any purpose, unless provision therefore shall have been made in the annual budget, and in no case in excess of the amount appropriated for such year.

Condition and Context—We noted that there are overspent budget lines during 2017. Budgeted appropriations were overspent within various functional lines of the General Fund and Sewer Fund, and in total within the General Fund.

Cause—The City did not adequately monitor the budget and make necessary adjustments during the year.

Effect or Potential Effect—The City is not in compliance with their adopted budget. Further, the practice of overspending budgeted appropriations creates the risk of the City not having funds available to pay vendors, potential to create or continue operating deficits within funds, and also increases the risk of misappropriation.

Recommendation—We recommend obtaining City Council approval before the legal level of budgetary control is exceeded. Therefore, we recommend that the City Council institutes a policy where department heads must monitor their budget. When a department head realizes a line will be overspent, they should fill out a form to request a transfer from one of their budget lines that is under spent to the line that they will over spend as a result of the transaction. Only after the funds are available should the purchase be made.

View of Responsible Officials and Corrective Action Plan— Management intends to make budget transfers and amendments to address over expenditures prior to occurrence.

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