

CITY OF LOCKPORT, NEW YORK

**Financial Statements as of
December 31, 2017
Together with
Independent Auditor's Report**

CITY OF LOCKPORT, NEW YORK

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INDEPENDENT AUDITOR'S REPORT

August 9, 2018

To the Members of City Council of
City of Lockport, 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 Lockport, New York (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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(Continued)

INDEPENDENT AUDITOR'S REPORT

(Continued)

Opinions

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, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of an Error

As discussed in Note 3 to the financial statements, the City corrected an error as it related to prior year net position in both the government-wide and the Health Insurance Internal Service Fund financial statements related to the recording of Medical Expense Reimbursement Plan (MERP) payments. Our opinions are not modified with respect to this matter.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding progress – other postemployment benefits plan, schedule of contributions - pension plans, and schedule of proportionate share of the net pension liability (asset) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CITY OF LOCKPORT, NEW YORK

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2017 (UNAUDITED)

INTRODUCTION

This discussion and analysis includes an overall review of the City's financial activities for the year ended December 31, 2017. It is important to note that as of February 2014, the City began operating under a new administration which includes a new Mayor and Budget Director. Financial controls have been tightened with oversight openly accepted from the Office of The State Comptroller. In the fall of 2014, the City also restructured the Finance and Accounting Office to create a Director of Finance and Staff Accountant position in lieu of a Chief Accountant position to better manage the day-to-day accounting, provide accurate and timely reports and provide better budget preparation and management.

The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the City's financial position and results of activities.

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

FINANCIAL HIGHLIGHTS

Overall, net position decreased by \$2,550,992. This was primarily related to increases in liabilities for post-employment benefits due to health insurance for retirees and the handling of proceeds of long-term debt.

The City had an increase of approximately \$1.6 million in fund balances between the General, Water, Sewer, and Refuse funds. In addition, the City decreased its balance within the Debt Reserve Fund by approximately \$95,000 to a total of approximately \$900,000. The City realized revenue in excess of that budgeted in the General Fund by \$169,000 and controlled expenditures below that budgeted by \$977,000 resulting in a surplus of \$1,147,000. The City's revenue in the Water Fund was approximately \$173,000 less than budgeted; however, expenditures were controlled below that budgeted by \$477,000, resulting in a surplus of \$303,000. The City's Sewer Fund had a budget deficit of approximately \$70,000. Sewer Fund expenditures were controlled below that budgeted by \$183,000; however, revenue was less than budgeted by approximately \$254,000.

FINANCIAL HIGHLIGHTS (Continued)

In 2014, the City obtained deficit funding from New York State, in the amount of \$3.945 million to cover past losses within the General, Water, Sewer, and Refuse funds. In addition the City had applied to, and been accepted into the NYS Financial Restructuring Board for Local Governments program to assist the City in the development of a long-range financial recovery plan. The Board has made recommendations to the City on methods to improve its fiscal stability, management, and the delivery of public services and is providing funding to implement these recommendations. The Director of Finance, as Budget Officer, developed the 2016, 2017 and 2018 City Budgets for consideration by the Mayor and City Council that contained no further reductions in staffing, maintained the level of City services afforded to its constituents and proposed a modest 1.8%, 2.0% and 1.84% increase in the real property tax rates, respectively. These Budgets were submitted to the New York State Comptroller's Office for their review and approval pursuant to the requirements of State legislation governing cities under the NYS Financial Restructuring Board program. Both the State Comptroller's Office and the City Council accepted and approved the 2016, 2017 and 2018 Budget as ostensibly drafted by the Budget Officer. In addition, the Director of Finance has provided regular reports on the City's financial performance against the General, Water, Sewer and Refuse funds to the State Comptroller's Office and the City Council and regular cash budgets and cash flow analysis reports to the City Council.

OVERVIEW OF THE FINANCIAL STATEMENTS

Using this Annual Report

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

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

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

There are two statements that present an aggregate view of the City: the Statement of Net Position and the Statement of Activities. Both of these City-wide financial statements distinguish functions of the City defined as governmental activities. These are activities principally supported by property taxes, sales tax, capital grants and contributions, and other intergovernmental revenues such as state and federal grants, along with charges for services and sales.

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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

Governmental Funds

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

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

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

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

Proprietary Funds

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

Fiduciary Funds

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

Notes to Basic Financial Statements

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

Required Supplementary Information

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Statements of Net Position

The largest portion of the City's total assets (76% at 2017 and 77% at 2016) represents its net investment in capital assets (land, buildings, improvements, machinery and equipment). Liabilities consist primarily of long-term debt. The City uses these capital assets to provide services and, as such, these assets are not available for future use. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

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

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

	Governmental Activities		Percentage Change
	<u>2017</u>	<u>2016</u>	
ASSETS:			
Current assets	\$ 18,141,527	\$ 17,206,706	5.4%
Capital assets	<u>57,506,394</u>	<u>56,147,071</u>	2.4%
Total assets	<u>75,647,921</u>	<u>73,353,777</u>	3.1%
DEFERRED OUTFLOWS OF RESOURCES	<u>6,299,215</u>	<u>11,221,515</u>	-43.9%
LIABILITIES:			
Current liabilities	8,077,231	15,973,922	-49.4%
Due within one year	2,012,571	1,015,801	98.1%
Due in more than one year	<u>61,409,679</u>	<u>53,989,297</u>	13.7%
Total liabilities	<u>71,499,481</u>	<u>70,979,020</u>	0.7%
DEFERRED INFLOWS OF RESOURCES	<u>1,323,644</u>	<u>1,675,775</u>	-21.0%
NET POSITION:			
Net investment in capital assets	48,159,823	45,550,099	5.7%
Restricted	2,306,105	2,921,219	-21.1%
Unrestricted	<u>(41,341,917)</u>	<u>(36,550,821)</u>	13.1%
Total net position	<u>\$ 9,124,011</u>	<u>\$ 11,920,497</u>	-23.5%

The current assets of the City increased 5.4%, primarily due to an increase in cash of \$1.1 million, an increase in amounts due from Federal and State governments of approximately \$838,000, and a decrease in loans, taxes, and other receivables totaling approximately \$957,000. Current liabilities decreased 49.4%, which was primarily the result of the redemption of approximately \$7.2 million in Bond Anticipation Notes (BAN). Long-term liabilities increased as a result of the \$6.6 million Serial Bond issuance in the current year.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (Continued)

Statements of Activities

The primary revenue stream for the City's programs is local property taxes, State Aid, and sharing of sales tax from Niagara County and New York State. Taxes and related items represent 54% of total revenues (52% in 2016). Charges for services, approximating 28% of total revenues in both 2017 and 2016, consist mainly of parking tickets, permits and City Clerk fees. Additional sources of income include sale of property, tourism, and utility tax.

Program expenses include an allocable share of employee benefits and depreciation on capital assets for each category presented. Interest expense is not allocated. The most significant category of expense is public safety at approximately 50% of total expenses in 2017 (48% in 2016), consisting principally of the City's police and fire departments.

	Governmental Activities		Percentage Change
	<u>2017</u>	<u>2016</u>	
Program revenue:			
Charges for services	\$ 10,098,801	\$ 10,199,241	-1.0%
Operating grants	753,851	1,368,131	-44.9%
Capital grants	1,957,942	1,277,777	53.2%
General revenue:			
Property taxes	12,842,688	12,493,763	2.8%
Other taxes	6,560,161	6,360,666	3.1%
Other general revenue	<u>3,961,739</u>	<u>4,753,576</u>	-16.7%
Total revenue	<u>36,175,182</u>	<u>36,453,154</u>	-0.8%
Program expenses:			
General governmental support	3,928,627	4,358,852	-9.9%
Public safety	19,223,154	18,681,387	2.9%
Health	7,491	5,274	42.0%
Transportation	3,364,274	3,825,551	-12.1%
Economic assistance and opportunity	212,074	156,613	35.4%
Culture and recreation	918,785	894,167	2.8%
Home and community services	10,676,811	10,654,314	0.2%
Debt service	<u>394,958</u>	<u>434,194</u>	-9.0%
Total expenses	<u>38,726,174</u>	<u>39,010,352</u>	-0.7%
Change in net position	<u>\$ (2,550,992)</u>	<u>\$ (2,557,198)</u>	

The City's revenue from operating grants decreased 44.9%, as the City did not receive funding related to the First Time Homebuyer's Loan program in the current year as it has in previous years. In addition, there was no revenue related to the microenterprise grant program in the current year. The City's revenue from capital grants increased 53.2%, mainly related to a grant from DASNY for the purchase and installation of water intake screens for approximately \$787k.

The City's general governmental support expenditures decreased approximately \$430,000, or 9.9% primarily due to the reduced liability of the OPEB from retirement. The City's public safety expenditures increased approximately \$542,000, or 2.9% as a result of wage increases associated with negotiated collective bargained agreements with the Police Officers' and Firefighters' Unions and associated increased OPEB liability. The City's transportation expenditures decreased \$461,000 due to reduced liability of the OPEB from retirement.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (Continued)

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

General Fund

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

The General Fund experienced an increase in fund balance of approximately \$1,251,000 for 2017. Overall, expenses increased in this fund; however, the increase in revenue related to real property taxes and tax items and sales tax was greater than the increase in expenses.

Community Development Fund

The Community Development Fund is a special revenue fund supported by money from the U.S. Department of Housing and Urban Development. The fund balance slightly increased by approximately \$51,000 in 2017, related to the repayment of rehab loans.

Capital Projects Funds

Used to account for financial resources to be used for the acquisition or construction of major capital facilities. This fund has multiple projects ongoing. The City is in the process of continuing the implementation of a capital improvement plan.

Water Fund

The City's water fund is a special revenue fund, used to account for the City's water services provided to taxpayers. This fund experienced an increase of fund balance of approximately \$402,000 for the year ended 2017 primarily due to vacancies within positions and unspent funds on equipment and equipment maintenance and utilities.

Sewer Fund

The City's sewer fund is a special revenue fund, used to account for sewer services provided to taxpayers. The fund balance decreased slightly by approximately \$18,000 in the current year.

Refuse Fund

The City's refuse fund accounts for garbage services provided to taxpayers. The fund had an increase in fund balance of approximately \$91,000 for the year ended 2017. This was mainly due to increased revenue over that budgeted combined with unspent funds on tote replacements and tip fees.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for and the payment of interest and principal on, general governmental obligations. This fund balance decreased approximately \$95,000 to a total of \$901,386.

GENERAL FUND BUDGETARY HIGHLIGHTS

While revenues received exceeded the amount budgeted by approximately \$169,000, expenses were controlled to be far less than those budgeted resulting in a surplus at year end. Actual expenditures were less than budgeted by approximately \$977,000. The largest budgetary variances were those for governmental support, and employee benefits, \$555,000 and \$231,000 respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS (Continued)

Amendments to the budget occur throughout the year for a variety of reasons. These include reserves for encumbrances from prior year's unexpended purchase orders which are added to the current year budget at time of closing of the prior year, grants or other forms of financial aid which were received during the year but not anticipated in the original budget, appropriations of fund balances needed to offset unanticipated and unavoidable expenditures, and transfers of appropriations among object classes within department budgets to address particular requirements not anticipated at the level of object class totals within each department. The reserve for encumbrances on prior year purchase orders are added to the budget as part of the annual financial closing process.

CAPITAL ASSETS

Capital assets, net of depreciation, are as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 3,173,000	\$ 3,173,000
Construction in process	3,675,742	3,840,801
Buildings and improvements	66,592,681	66,441,247
Machinery and equipment	7,354,968	7,079,139
Transportation network	5,929,567	4,920,486
Water and sewer network	12,002,710	10,544,045
Vehicles	4,639,686	4,408,904
Accumulated depreciation	<u>(45,861,960)</u>	<u>(44,260,551)</u>
Totals	<u>\$ 57,506,394</u>	<u>\$ 56,147,071</u>

Net capital assets increased by approximately \$1.4 million during the current year. This primarily reflects the addition of completed water and sewer network and transportation network assets, offset by current year depreciation expense.

LONG-TERM DEBT

Debt

A summary of the City's outstanding obligations are:

	<u>2017</u>	<u>2016</u>
Serial Bonds	\$ 12,561,571	\$ 6,927,000
Other post employment benefits	42,338,866	35,745,192
Compensated absences	2,415,316	2,564,321
Net pension liability	6,106,497	9,706,784
Installment debt	<u>-</u>	<u>61,801</u>
Total debt	<u>\$ 63,422,250</u>	<u>\$ 55,005,098</u>

LONG-TERM DEBT (Continued)

At December 31, 2017, the City has total long-term debt outstanding of \$63,422,250, of which \$2.0 million is estimated to be payable within the next year. The increase in serial bonds is related to the \$6,588,571 in Public Improvement Serial Bonds that were issued on May 25, 2017. The City has pledged its full faith and credit for the serial bonds that are outstanding. The remainder of the City's outstanding obligations arise out of contractual or other legal obligations. Other than serial bonds, the majority of the City's long-term debt arises from obligations for other post-employment benefits (Health Insurance in Retirement) of \$42,338,866 and the net pension liability of \$6,106,497.

FACTORS BEARING ON THE CITY'S FUTURE

Health insurance costs continue to place an inordinate burden on the City's budgets. The majority of the City's employees receive 100% of their health care coverage for themselves, their spouses and their children under the age of 26 at no cost to the employee under collective bargaining agreements. Retirees of the City also receive health care coverage for themselves, their spouses and their children under the age of 26 at no cost to the retiree for the life of the retiree. The City is slowly making headway with its Unions to have employees begin to contribute toward their health insurance benefits both as current employees and retirees. For example, all new Police Officers and Firefighters are now contributing 15% of the premium equivalent for Health Insurance and will continue to pay a minimum of 15% of the premium equivalent for Health Insurance in retirement.

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

The City has had cash flow issues within recent years. On June 16, 2014 the State Assembly of the State of New York approved deficit financing for the City, not to exceed \$5,350,000. A deficit financing bond was ultimately issued in the amount of \$3.945 million to eliminate prior fund deficits that were created due to poor fiscal management in the prior years. The City began payments on principal and interest in earnest during 2016. Along with the reorganization of services and the deficit funding available, the City has been better able to fund services to its constituents and maintain a positive cash position. In fact, the City had a minimum operating cash balance of almost \$5.5 million throughout 2017.

CONTACT FOR CITY'S FINANCIAL MANAGEMENT

This report is designed for those interested parties to provide a general overview of the City's finances. Questions concerning any information within this report or requests for additional information should be addressed to the Office of the City Treasurer or the Director of Finance, One Locks Plaza, City of Lockport, New York 14094.

CITY OF LOCKPORT, NEW YORK

STATEMENT OF NET POSITION DECEMBER 31, 2017

ASSETS

CURRENT ASSETS:

Cash	\$ 7,243,093
Cash - restricted	1,610,727
Other receivables	2,075,202
Due from Federal and State governments	1,318,462
Loans receivable	1,747,733
Taxes receivable, net	2,566,122
Due from other governments	756,040
Prepaid expenses	623,748
Other assets	<u>200,400</u>
Total current assets	<u>18,141,527</u>

NON-CURRENT ASSETS:

Capital assets, net	<u>57,506,394</u>
Total assets	<u>75,647,921</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension related	<u>6,299,215</u>
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LIABILITIES

CURRENT LIABILITIES:

Accounts payable	734,452
Accrued liabilities	3,554,815
Due to other funds, net	398,186
Due to other governments	1,579,368
Unearned revenue	<u>1,810,410</u>
Total current liabilities	<u>8,077,231</u>

LONG-TERM LIABILITIES:

Due within one year	2,012,571
Due in more than one year	<u>61,409,679</u>
Total long-term liabilities	<u>63,422,250</u>
Total liabilities	<u>71,499,481</u>

DEFERRED INFLOWS OF RESOURCES

Pension related	<u>1,323,644</u>
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NET POSITION

Net investment in capital assets	48,159,823
Restricted	2,306,105
Unrestricted	<u>(41,341,917)</u>
Total net position	<u>\$ 9,124,011</u>

The accompanying notes are an integral part of these statements.

CITY OF LOCKPORT, NEW YORK

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Changes in Net Position</u>
PRIMARY GOVERNMENT:					
Governmental activities -					
General governmental support	\$ 3,928,627	\$ 562,918	\$ 354,347	\$ 183,641	\$ (2,827,721)
Public health	7,491	886	-	-	(6,605)
Public safety	19,223,154	109,484	95,097	-	(19,018,573)
Transportation	3,364,274	6,435	154,316	871,185	(2,332,338)
Economic assistance and opportunity	212,074	-	-	-	(212,074)
Culture and recreation	918,785	27,328	18,368	-	(873,089)
Home and community services	10,676,811	9,391,750	131,723	903,116	(250,222)
Interest on long-term debt	394,958	-	-	-	(394,958)
Total governmental activities	<u>\$ 38,726,174</u>	<u>\$ 10,098,801</u>	<u>\$ 753,851</u>	<u>\$ 1,957,942</u>	<u>(25,915,580)</u>
GENERAL REVENUES AND TRANSFERS:					
					12,842,688
					6,560,161
					65,347
					48,532
					2,843,815
					1,004,045
Total general revenues and transfers					<u>23,364,588</u>
Change in net position					<u>(2,550,992)</u>
Net position - beginning of year, as previously reported					11,920,497
PRIOR PERIOD ADJUSTMENT (Note 3)					<u>(245,494)</u>
Net position - beginning of year, as restated					<u>11,675,003</u>
Net position - end of year					<u>\$ 9,124,011</u>

The accompanying notes are an integral part of these statements.

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

	<u>General</u>	<u>Community Development</u>	<u>Capital Projects</u>	<u>Water</u>	<u>Sewer</u>	<u>Refuse</u>	<u>Debt Service</u>	<u>Total</u>
ASSETS								
Cash	\$ 3,102,205	\$ -	\$ -	\$ 287,084	\$ 451,751	\$ 291,679	\$ -	\$ 4,132,719
Cash - restricted	-	6,092	703,249	-	-	-	901,386	1,610,727
Due from Federal and State governments	159,813	-	1,158,649	-	-	-	-	1,318,462
Due from other governments	596,625	-	-	-	159,415	-	-	756,040
Loans receivable	-	1,747,733	-	-	-	-	-	1,747,733
Taxes receivable, net	2,566,122	-	-	-	-	-	-	2,566,122
Other receivables	95,950	-	-	944,405	667,442	366,833	-	2,074,630
Other assets	-	-	-	400	-	-	-	400
Prepaid expenditures	538,839	-	-	42,965	41,944	-	-	623,748
Due from other funds	699,312	13,790	-	620,361	-	-	-	1,333,463
Total assets	\$ 7,758,866	\$ 1,767,615	\$ 1,861,898	\$ 1,895,215	\$ 1,320,552	\$ 658,512	\$ 901,386	\$ 16,164,044
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES								
LIABILITIES:								
Accounts payable	\$ 355,294	\$ -	\$ 142,658	\$ 68,426	\$ 77,485	\$ 90,589	\$ -	\$ 734,452
Accrued liabilities	512,466	-	-	54,951	57,362	-	-	624,779
Due to other funds	13,790	7,500	1,030,381	-	-	71,792	-	1,123,463
Due to other governments	1,579,368	-	-	-	-	-	-	1,579,368
Unearned revenue	62,677	1,747,733	-	-	-	-	-	1,810,410
Total liabilities	2,523,595	1,755,233	1,173,039	123,377	134,847	162,381	-	5,872,472
DEFERRED INFLOWS OF RESOURCES:								
Deferred property taxes	814,499	-	-	-	-	-	-	814,499
Deferred fees for service	-	-	-	364,129	219,560	146,446	-	730,135
Total deferred inflows of resources	814,499	-	-	364,129	219,560	146,446	-	1,544,634
FUND BALANCES:								
Nonspendable	538,839	-	-	42,965	41,944	-	-	623,748
Restricted	-	6,092	688,859	-	-	-	901,386	1,596,337
Assigned	100,936	6,290	-	1,364,744	924,201	349,685	-	2,745,856
Unassigned	3,780,997	-	-	-	-	-	-	3,780,997
Total fund balances	4,420,772	12,382	688,859	1,407,709	966,145	349,685	901,386	8,746,938
Total liabilities, deferred inflows of resources and fund balances	\$ 7,758,866	\$ 1,767,615	\$ 1,861,898	\$ 1,895,215	\$ 1,320,552	\$ 658,512	\$ 901,386	\$ 16,164,044

The accompanying notes are an integral part of these statements.

CITY OF LOCKPORT, NEW YORK

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2017**

Total fund balance - governmental funds		\$ 8,746,938
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not current financial resources and; therefore, are not reported in the funds.		
	Cost of capital assets	103,368,354
	Accumulated depreciation	<u>(45,861,960)</u>
		57,506,394
The net position of the internal service funds are not included in the fund financial statements, but are included in the governmental activities of the statement of net position.		
		(166,925)
Compensated absences are not reported in the funds under fund accounting, but are expensed in the statement of activities as the liability is incurred.		
		(2,415,316)
Revenue related to the tax levy is recognized when earned in the statement of activities, but recorded as a deferred inflow of resources in the fund statements if collection is anticipated to exceed sixty days after year-end.		
		814,499
Revenue related to service billings is recognized when earned in the statement of activities, but recorded as unearned revenue in the fund statements if collection is anticipated to exceed sixty days after year-end.		
		730,135
Accrued interest on long-term debt, including serial bonds, is an expense in the funds when paid, but a liability in the statement of net position when incurred.		
		(60,351)
Deferred outflows/inflows of resources related to pensions are applicable to future periods and; therefore are not reported in the funds.		
	Deferred outflow - pension related	6,299,215
	Deferred inflow - pension related	<u>(1,323,644)</u>
Long-term obligations are not due and payable in the current period and; therefore, are not reported as fund liabilities.		
	Serial bonds	(12,561,571)
	Other postemployment benefits	(42,338,866)
	Net pension liability	<u>(6,106,497)</u>
		<u>(61,006,934)</u>
Total net position of governmental activities		<u>\$ 9,124,011</u>

The accompanying notes are an integral part of these statements.

CITY OF LOCKPORT, NEW YORK

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>General</u>	<u>Community Development</u>	<u>Capital Projects</u>	<u>Water</u>	<u>Sewer</u>	<u>Refuse</u>	<u>Debt Service</u>	<u>Total</u>
REVENUES:								
Real property taxes and tax items	\$ 12,882,147	\$ -	\$ -	\$ -	\$ -	\$ 18,420	\$ -	\$ 12,900,567
Nonproperty tax items	6,560,161	-	-	-	-	-	-	6,560,161
Interdepartmental charges	42,648	-	-	-	637,660	-	-	680,308
Departmental income	254,017	-	-	4,145,452	3,383,233	1,291,001	-	9,073,703
Use of money and property	64,182	11	528	-	1	95	530	65,347
Licenses and permits	215,841	-	-	-	-	-	-	215,841
Fines and forfeitures	203,340	-	-	-	-	-	-	203,340
Sale of property and compensation for loss	33,493	-	-	13,493	1,546	-	-	48,532
Miscellaneous	161,005	50,220	875	40,192	-	-	-	252,292
Interfund revenue	407,689	-	-	100,995	-	-	-	508,684
State aid	3,180,193	-	1,957,942	-	-	2,966	-	5,141,101
Federal aid	365,750	48,757	-	-	-	-	-	414,507
Total revenues	24,370,466	98,988	1,959,345	4,300,132	4,022,440	1,312,482	530	36,064,383
EXPENDITURES:								
General governmental support	2,478,121	-	-	62,419	61,660	71,792	-	2,673,992
Public health	7,491	-	-	-	-	-	-	7,491
Public safety	8,253,566	-	-	-	-	-	-	8,253,566
Transportation	1,726,531	-	-	-	-	-	-	1,726,531
Economic assistance and opportunity	127,098	-	-	-	-	-	-	127,098
Culture and recreation	388,145	-	-	-	-	-	-	388,145
Home and community services	385,336	47,757	-	2,059,903	2,277,344	1,113,166	-	5,883,506
Employee benefits	9,021,506	-	-	1,160,620	1,020,621	-	-	11,202,747
Capital outlay	-	-	3,097,391	-	-	-	-	3,097,391
Debt service -								
Principal	789,111	-	-	449,595	636,115	24,580	-	1,899,401
Interest	145,067	-	-	121,404	134,036	11,766	-	412,273
Total expenditures	23,321,972	47,757	3,097,391	3,853,941	4,129,776	1,221,304	-	35,672,141
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,048,494	51,231	(1,138,046)	446,191	(107,336)	91,178	530	392,242
OTHER FINANCING SOURCES AND USES:								
BANs redeemed from appropriations	-	-	883,600	-	-	-	-	883,600
Proceeds from long-term obligations	-	-	6,588,571	-	-	-	-	6,588,571
Operating transfers - in	239,591	-	117,000	35,689	100,000	-	204,861	697,141
Operating transfers - out	(37,244)	-	(268,897)	(80,000)	(11,000)	-	(300,000)	(697,141)
Total other financing sources and uses	202,347	-	7,320,274	(44,311)	89,000	-	(95,139)	7,472,171
CHANGE IN FUND BALANCE	1,250,841	51,231	6,182,228	401,880	(18,336)	91,178	(94,609)	7,864,413
FUND BALANCE - beginning of year	3,169,931	(38,849)	(5,493,369)	1,005,829	984,481	258,507	995,995	882,525
FUND BALANCE - end of year	\$ 4,420,772	\$ 12,382	\$ 688,859	\$ 1,407,709	\$ 966,145	\$ 349,685	\$ 901,386	\$ 8,746,938

The accompanying notes are an integral part of these statements.

CITY OF LOCKPORT, NEW YORK

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2017

Net changes in fund equity - Total governmental funds	\$ 7,864,413
Capital outlays are expenditures in governmental funds, but are capitalized in the statement of net position.	2,980,469
Depreciation is not recorded as a expenditure in the governmental funds, but is recorded as an expense in the statement of activities.	(1,614,786)
Losses from the disposition of capital assets are not recorded on the fund financial statements but are recorded on the government-wide financial statements.	(6,360)
Internal service funds are used by management to charge the cost of certain activities to individual funds. The change in net position of the internal service funds is reported with governmental activities.	1,327,548
Governmental funds record the proceeds of debt as revenue, while the statement of activities records the proceeds as long-term debt.	(6,588,571)
Repayments of long-term debt are recorded as expenditures in the governmental funds, but are recorded as payments of liabilities in the statement of net position.	1,015,801
Property tax revenue is recorded to the extent it is received within 60 days of year-end for governmental funds, but in the statement of activities, this revenue is recorded as earned when the tax levy is issued.	(57,879)
Revenue related to service billings is recorded to the extent it is received within 60 days of year-end for governmental funds, but in the statement of activities, this revenue is recorded as earned when the services are billed.	(74,391)
Some expenses reported in the statement of activities do not require the use of current financial resources and; therefore, are not reported as expenditures in the governmental funds.	
Change in compensated absences	149,005
Change in other postemployment benefits	(6,593,674)
Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned, net of employer contributions is reported as pension expense:	
Pension contributions	2,507,749
Cost of benefits earned, net of employee contributions	(3,477,631)
Interest is accrued on the outstanding bonds on the statement of net position but is not recorded as an expenditure when paid in the government funds.	<u>17,315</u>
Change in net position - Governmental activities	<u>\$ (2,550,992)</u>

The accompanying notes are an integral part of these statements.

CITY OF LOCKPORT, NEW YORK

COMBINING STATEMENT OF NET POSITION - PROPRIETARY FUNDS - INTERNAL SERVICE FUNDS DECEMBER 31, 2017

	<u>Health Insurance</u>	<u>Workers' Compensation</u>	<u>Total</u>
ASSETS			
Cash	\$ 629,316	\$ 1,771,290	\$ 2,400,606
Cash - restricted	709,768	-	709,768
Advance deposit	200,000	-	200,000
Accounts receivable	<u>572</u>	<u>-</u>	<u>572</u>
Total assets	<u>1,539,656</u>	<u>1,771,290</u>	<u>3,310,946</u>
LIABILITIES			
Accrued liabilities	221,702	2,647,983	2,869,685
Due to other funds	<u>608,186</u>	<u>-</u>	<u>608,186</u>
Total liabilities	<u>829,888</u>	<u>2,647,983</u>	<u>3,477,871</u>
NET POSITION			
Restricted	709,768	-	709,768
Unrestricted	<u>-</u>	<u>(876,693)</u>	<u>(876,693)</u>
Total net position	<u>\$ 709,768</u>	<u>\$ (876,693)</u>	<u>\$ (166,925)</u>

The accompanying notes are an integral part of these statements.

CITY OF LOCKPORT, NEW YORK

**COMBINING STATEMENT OF ACTIVITIES - PROPRIETARY FUNDS - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Health Insurance</u>	<u>Workers' Compensation</u>	<u>Total</u>
REVENUES:			
Miscellaneous	\$ 83,912	\$ 72,664	\$ 156,576
Recovery of estimated incurred but not reported	-	595,177	595,177
Interfund activity	<u>6,127,838</u>	<u>866,239</u>	<u>6,994,077</u>
Total revenues	<u>6,211,750</u>	<u>1,534,080</u>	<u>7,745,830</u>
EXPENSES:			
Operating - judgments and claims	<u>5,600,721</u>	<u>817,561</u>	<u>6,418,282</u>
Total expenses	<u>5,600,721</u>	<u>817,561</u>	<u>6,418,282</u>
CHANGE IN NET POSITION	<u>611,029</u>	<u>716,519</u>	<u>1,327,548</u>
NET POSITION - beginning of year, as previously reported	344,233	(1,593,212)	(1,248,979)
PRIOR PERIOD ADJUSTMENT (Note 3)	<u>(245,494)</u>	<u>-</u>	<u>(245,494)</u>
NET POSITION - beginning of year, as restated	<u>98,739</u>	<u>(1,593,212)</u>	<u>(1,494,473)</u>
NET POSITION - end of year	<u>\$ 709,768</u>	<u>\$ (876,693)</u>	<u>\$ (166,925)</u>

The accompanying notes are an integral part of these statements.

CITY OF LOCKPORT, NEW YORK

**COMBINING STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - INTERNAL SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Health Insurance</u>	<u>Workers' Compensation</u>	<u>Total</u>
CASH FLOW FROM OPERATING ACTIVITIES:			
Cash received from providing services	\$ 6,211,750	\$ 1,022,903	\$ 7,234,653
Cash payments for contractual expenses	<u>(5,469,895)</u>	<u>(917,561)</u>	<u>(6,387,456)</u>
Net cash flow from operating activities	<u>741,855</u>	<u>105,342</u>	<u>847,197</u>
CHANGE IN CASH AND CASH EQUIVALENTS	741,855	105,342	847,197
CASH AND CASH EQUIVALENTS - beginning of year	<u>597,229</u>	<u>1,665,948</u>	<u>2,263,177</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 1,339,084</u>	<u>\$ 1,771,290</u>	<u>\$ 3,110,374</u>
RECONCILIATION OF CHANGE IN NET POSITION TO NET CASH USED BY OPERATING ACTIVITIES:			
Change in net position	\$ 611,029	\$ 716,519	\$ 1,327,548
Adjustments to reconcile change in net position to net cash used by operating activities:			
Changes in:			
Accounts receivable	(572)	-	(572)
Accrued liabilities	(31,294)	(595,177)	(626,471)
Due from other funds	-	84,000	84,000
Due to other funds	<u>162,692</u>	<u>(100,000)</u>	<u>62,692</u>
NET CASH FLOW FROM OPERATING ACTIVITIES	<u>\$ 741,855</u>	<u>\$ 105,342</u>	<u>\$ 847,197</u>

The accompanying notes are an integral part of these statements.

CITY OF LOCKPORT, NEW YORK

**STATEMENT OF NET POSITION - FIDUCIARY FUNDS
DECEMBER 31, 2017**

	Private Purpose <u>Trust</u>	<u>Agency</u>
ASSETS:		
Cash	\$ -	\$ 50,078
Cash - restricted	62,213	92,312
Due from other funds	<u>-</u>	<u>408,186</u>
Total assets	<u>62,213</u>	<u>550,576</u>
LIABILITIES:		
Due to other funds	-	10,000
Agency liabilities	<u>-</u>	<u>540,576</u>
Total current liabilities	<u>-</u>	<u>\$ 550,576</u>
NET POSITION:		
Held in trust for private purposes	<u>62,213</u>	
Total net position	<u>\$ 62,213</u>	

The accompanying notes are an integral part of these statements.

CITY OF LOCKPORT, NEW YORK

**STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Private Purpose <u>Trust</u>
ADDITIONS:	
Interest and earnings	\$ <u> 31</u>
CHANGE IN NET POSITION	31
NET POSITION - beginning of year	<u> 62,182</u>
NET POSITION - end of year	<u><u> \$ 62,213</u></u>

The accompanying notes are an integral part of these statements.

CITY OF LOCKPORT, NEW YORK

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

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

Financial Reporting Entity

The City is a unit of local government created by the State of New York. The City operates under provisions of New York State law and with authority vested by those statutes and under the provisions of the City Charter adopted by the City Common Council. The City provides services and facilities in the areas of police and fire, highway, culture and recreation, refuse, sanitary sewer service, and water service. The City Common Council is the legislative body responsible for overall operations. The Mayor serves as Chief Executive and Officer of the City. The City Treasurer serves as the Chief Fiscal Officer.

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

The City reports related organizations under the guidance of the GASB. The Standards define the primary government, and redefine and establish the criteria for which potential component units are included in the reporting entity. The Standards also define financial accountability of the primary government as being determined on the basis of fiscal dependency, appointment of a voting majority of a governing board, ability to impose its will or potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. Based on the criteria under the Standards, there are no entities that should be included on the financial statements of the City.

Basis of Presentation

Government-Wide Financial Statements

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

The Statement of Activities presents a comparison between direct expenses and direct revenues for each function of the City's governmental activities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Government-Wide Financial Statements (Continued)

Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Direct revenues include charges paid by the recipients of goods or services offered by the City, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues that are not classified as direct revenues, including all taxes, are presented as general revenues.

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

Fund Financial Statements

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

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

Major Governmental Funds

The City reports all of its funds as major governmental funds:

- **General Fund** - the principal operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- **Community Development Fund** - this is used to account for the various programs of financial assistance (principally federal aid) for urban development. Community Development administers programs directly, as well as acting as a conduit to pass through funds to sub-recipients whose goal is also to benefit the community.
- **Capital Projects Fund** - used to account for and report financial resources to be used in the acquisition, construction or renovation of major capital facilities.
- **Water Fund** - used to account for the receipts and disbursements from providing water services to City residents.
- **Sewer Fund** - used to account for the receipts and disbursements from providing sewer services to City residents.
- **Refuse Fund** - used to account for the receipts and disbursements from providing garbage removal services to City residents.
- **Debt Service Fund** - This fund is used to account for the financial resources accumulated for payment of future principal and interest on long-term indebtedness for all funds.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Funds

- **Internal Service Funds** - account for risk management operations and the related costs that are supported by contributions from the General and Special Revenue Funds.

Fiduciary Funds (Trust and Agency Funds)

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

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

Basis of Accounting/Measurement Focus

The Government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

Property Taxes

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

Tax payments are due and payable during the first week in February, after which it becomes delinquent and interest and penalties accrue. The City also bills for re-levied sewer, water and refuse user charges.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes (Continued)

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

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

Encumbrances

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

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

Budgetary Basis of Accounting

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

Cash and Cash Equivalents

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

Restricted Cash

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

Accounts Receivable

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

Taxes Receivable

The City accounts for taxes receivable at outstanding billed amounts, net of an allowance for uncollectible taxes. Accounts for which no payments have been received for one year are considered delinquent and further collection efforts are begun. After all collection efforts are exhausted, the account is written off. As of December 31, 2017, the allowance for uncollectible taxes is \$298,469, which is estimated based on historical collection experience.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Receivable

The City manages loans given in relation to their Community Development program. These loans are under the restrictions of the Housing and Urban Development guidelines as part of the HOME and CDBG programs.

Prepaid Expenditures

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

Due to/from Other Funds

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

The amounts reported on the Statement of Net Position for due to and due from other funds represents amounts due between different fund types (governmental and fiduciary funds). Eliminations have been made for amounts due to and due from within the same fund type.

Capital Assets

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

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 35,000	Straight-line	100 years
Water distribution network	\$ 35,000	Straight-line	25 - 100 years
Machinery, vehicles and equipment	\$ 35,000	Straight-line	10 - 25 years
Transportation network	\$ 35,000	Straight-line	10 - 75 years
Sanitary sewer network	\$ 35,000	Straight-line	25 - 100 years

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

Unearned Revenue

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

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

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

Compensated Absences

The City labor agreements and City Council rules and regulations provide for sick and vacation leave. Upon retirement, certain eligible employees are entitled to payment for accumulated vacation and sick leave and unused compensatory absences at various rates subject to certain maximum limitations.

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

Postemployment Benefits

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

Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position/fund balance that applies to a future period and so will not be recognized as an outflow of resources (expenses/expenditures) until then.

In addition to liabilities, the Statement of Net position will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, deferred inflow of resources, represents an increase in net position/fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then.

Interfund Transfers

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position - Government-Wide Financial Statements

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

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

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

Fund Balances - Fund Financial Statements

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

- **Nonspendable Fund Balances**
These are amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.
- **Restricted Fund Balances**
These are amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.
- **Committed Fund Balances**
These are amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through resolutions approved by the City Council, prior to the end of the year. The City had no committed fund balance at December 31, 2017.
- **Assigned Fund Balances**
These are amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The City’s policy is that the assignment of fund balances is at the discretion of the Mayor, subject to the majority vote of the City Council.
- **Unassigned Fund Balances**
These are all other spendable amounts.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balances - Fund Financial Statements (Continued)

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions. The City's fund balance policy states that unrestricted fund balance in the general fund should, at a minimum, total 17 percent of the following year's budgeted appropriations. At December 31, 2017, the City was not in compliance with this policy, as unrestricted fund balance in the general fund totaled only 16 percent of budgeted appropriations for 2018.

Use of Estimates

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

Labor Relations

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

2. STEWARDSHIP

Budget Policies

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

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

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

- a. Prior to September 1, each department submits to the Director of Finance their departmental estimates of expenditures and revenue for the ensuing fiscal year.
- b. The Board of Estimate and Apportionment meets to review estimates and make recommendations to the Mayor and Director of Finance.
- c. Prior to October 15, the Mayor submits to the Common Council a proposed budget.
- d. A public hearing is conducted to obtain taxpayer comments.
- e. The Common Council has the power to delete, reduce, increase or add expenditure items to the budget, except as it relates to the city indebtedness or the estimate of revenue and within the strictures of maintaining a balanced budget.
- f. Prior to November 30, the budget is legally adopted through passage or a resolution by the Common Council.

3. PRIOR PERIOD ADJUSTMENT

Correction of an Error

During 2017, the City became aware that certain medical reimbursement expenses were being paid for out of the Health Reimbursement Account (HRA) cash account, which is recorded in the Agency Fund, rather than being paid for out of the Health Insurance Internal Service Fund as Medical Expense Reimbursement Plan (MERP) payments. The payments were eligible payments under the MERP and therefore must be reimbursed to the Agency Fund for HRA purposes. Therefore, the City restated its net position in both the government-wide financial statements and the Health Insurance Internal Service Fund financial statements to reflect the liability at December 31, 2017 of the Internal Service Fund to repay the Agency Fund. The actual cash will be transferred in 2018. Change in net position for 2016 as originally reported should have been reduced by \$160,058 due to this correction.

	<u>Government-Wide Statement of Net Position</u>	
	<u>Due from (to) other funds, net</u>	<u>Net Position</u>
Balance at December 31, 2016, as previously reported	\$ 10,219	\$ 11,920,497
Adjustment to reflect amount due to fiduciary funds	<u>(245,494)</u>	<u>(245,494)</u>
Balance at December 31, 2016, as restated	<u>\$ (235,275)</u>	<u>\$ 11,675,003</u>

	<u>Health Insurance Fund</u>	
	<u>Due to other funds</u>	<u>Net Position</u>
Balance at December 31, 2016, as previously reported	\$ 200,000	\$ 344,233
Adjustment to reflect amount due to Agency Fund	<u>245,494</u>	<u>(245,494)</u>
Balance at December 31, 2016, as restated	<u>\$ 445,494</u>	<u>\$ 98,739</u>

	<u>Agency Fund</u>	
	<u>Due from other funds</u>	<u>Agency Liabilities</u>
Balance at December 31, 2016, as previously reported	\$ -	\$ 351,024
Adjustment to reflect amount due from Health Insurance Fund	<u>245,494</u>	<u>245,494</u>
Balance at December 31, 2016, as restated	<u>\$ 245,494</u>	<u>\$ 596,518</u>

4. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents and Investments

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

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

Investment and Deposit Policy

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

The following deposits held with one financial institution represent five percent or more of the City's total cash and cash equivalents at December 31, 2017:

M&T Bank	\$7,665,194
Key Bank	\$1,034,655

Interest Rate Risk

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

Credit Risk

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

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

Custodial Credit Risk

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

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

4. CASH AND CASH EQUIVALENTS (Continued)

Custodial Credit Risk (Continued)

At December 31, 2017, the bank balance of the City's cash and cash equivalents of its primary government, including Internal Service Funds and Fiduciary Funds, was exposed to custodial credit risk as follows:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash, including trust funds	\$ 8,699,849	\$ 9,058,423
Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name	\$ 8,943,981	
Covered by FDIC insurance	<u>750,000</u>	
Total	<u>\$ 9,693,981</u>	

5. RECEIVABLES

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

Loans Receivable

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

Community Development Fund:	
Loans - Community Development	\$ 165,087
Loans - Home ownership	940,602
Loans - Rental Rehab	21,753
Loans - Deferred other	459,058
Loans - Home loans DHCR	<u>161,233</u>
	<u>\$ 1,747,733</u>

Taxes Receivable, net

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

City taxes receivable - current	\$ 925,283
City taxes receivable - overdue	818,091
Installment sales agreements	52,638
School taxes receivable	<u>1,068,579</u>
Total taxes	2,864,591
Less: Allowance for uncollectable taxes	<u>(298,469)</u>
Total taxes receivable, net	<u>\$ 2,566,122</u>

5. RECEIVABLES (Continued)

Interfund Receivables, Payables, Revenues and Expenses

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

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

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

	<u>Interfund Receivable</u>	<u>Interfund Payables</u>	<u>Operating Transfers-in</u>	<u>Operating Transfers-out</u>
General Fund	\$ 699,312	\$ 13,790	\$ 239,591	\$ 37,244
Community Development	13,790	7,500	-	-
Water Fund	620,361	-	35,689	80,000
Sewer Fund	-	-	100,000	11,000
Refuse Fund	-	71,792	-	-
Capital Projects Fund	-	1,030,381	117,000	268,897
Debt Service Fund	-	-	204,861	300,000
Health Insurance Fund	-	608,186	-	-
Agency Fund	408,186	10,000	-	-
	<u>408,186</u>	<u>10,000</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,741,649</u>	<u>\$ 1,741,649</u>	<u>\$ 697,141</u>	<u>\$ 697,141</u>

6. CAPITAL ASSETS

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

	Balance <u>1/1/2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	Balance <u>12/31/17</u>
Capital assets, not being depreciated:					
Land	\$ 3,173,000	\$ -	\$ -	\$ -	\$ 3,173,000
Construction - in - progress	<u>3,840,801</u>	<u>2,454,121</u>	<u>-</u>	<u>(2,619,180)</u>	<u>3,675,742</u>
Total capital assets, not being depreciated	<u>7,013,801</u>	<u>2,454,121</u>	<u>-</u>	<u>(2,619,180)</u>	<u>6,848,742</u>
Capital assets, being depreciated:					
Buildings and improvements	66,441,247	-	-	151,434	66,592,681
Machinery and equipment	7,079,139	275,829	-	-	7,354,968
Transportation network	4,920,486	-	-	1,009,081	5,929,567
Water and sewer network	10,544,045	-	-	1,458,665	12,002,710
Vehicles	<u>4,408,904</u>	<u>250,519</u>	<u>(19,737)</u>	<u>-</u>	<u>4,639,686</u>
Total capital assets, being depreciated	<u>93,393,821</u>	<u>526,348</u>	<u>(19,737)</u>	<u>2,619,180</u>	<u>96,519,612</u>
Less accumulated depreciation:					
Buildings and improvements	(29,072,372)	(624,979)	-	-	(29,697,351)
Machinery and equipment	(5,120,330)	(243,662)	-	-	(5,363,992)
Transportation network	(4,584,345)	(116,555)	-	-	(4,700,900)
Water and sewer network	(2,209,985)	(396,230)	-	-	(2,606,215)
Vehicles	<u>(3,273,519)</u>	<u>(233,360)</u>	<u>13,377</u>	<u>-</u>	<u>(3,493,502)</u>
Total accumulated depreciation	<u>(44,260,551)</u>	<u>(1,614,786)</u>	<u>13,377</u>	<u>-</u>	<u>(45,861,960)</u>
Total capital assets, being depreciated, net	<u>49,133,270</u>	<u>(1,088,438)</u>	<u>(6,360)</u>	<u>2,619,180</u>	<u>50,657,652</u>
Governmental activities capital assets, net	<u>\$ 56,147,071</u>	<u>\$ 1,365,683</u>	<u>\$ (6,360)</u>	<u>\$ -</u>	<u>\$ 57,506,394</u>

Depreciation expense was charged to functions as follows:

General government support	\$ 354,855
Public safety	67,017
Transportation	296,646
Culture and recreation	49,088
Home and community	<u>847,180</u>
	<u>\$ 1,614,786</u>

7. SHORT-TERM DEBT

The City may issue revenue anticipation notes (RAN) or tax anticipation notes (TAN), in anticipation of the receipt of certain revenue. These notes are recorded as a liability in the fund that will actually receive the proceeds from the issuance of the notes. The RANs and TANs represent a liability that will be extinguished by the use of expendable, available resources of the fund.

The City may issue bond anticipation notes (BAN) in anticipation of proceeds from the subsequent sale of bonds. These notes are recorded as current liabilities of the funds that will actually receive the proceeds from the issuance of bonds. State law requires that BANs issued for capital purposes be converted to long-term financing within five years after the original issue date. During the current year, the City recognized \$143,563 of interest expense related to BANs.

Short-term liability balances and activity for the year are summarized below:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
BAN matured 5/25/17 at 2.00%	\$ 7,198,171	\$ -	\$ 7,198,171	\$ -
Total	<u>\$ 7,198,171</u>	<u>\$ -</u>	<u>\$ 7,198,171</u>	<u>\$ -</u>

8. PENSION PLAN

Plan Description

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

Funding Policies

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

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

Contributions

The Systems are noncontributory for the employee who joined prior to July 27, 1976. For employees who joined the Systems after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary, except that employees in the Systems more than ten years are no longer required to contribute. For employees who joined after January 1, 2010, employees in the Systems contribute 3% of their salary throughout their active membership. The Comptroller certifies the rates expressed as proportions of members' payroll annually which are used in computing the contributions required to be made by employers to the pension accumulation fund. Employees who join on or after April 1, 2012 will contribute 3% of their reportable salary. Beginning April 1, 2013, the contribution rate for Tier 6 members will vary based on each member's annual compensation varying between 3-6%.

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

	<u>ERS</u>	<u>PFRS</u>
2017	\$ 805,404	\$ 1,702,345
2016	\$ 836,054	\$ 1,779,998
2015	\$ 995,757	\$ 1,685,305

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

8. PENSION PLAN (Continued)

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

At December 31, 2017, the City reported a net pension liability of \$1,952,783 and \$4,153,714 for its proportionate share of the ERS and PFRS net pension liability, respectively. The net pension liability was measured as of March 31, 2017, and the total pension liability used to calculate the net pension liability was determined by the actuarial valuation rolled forward as of that date. The City's proportion of the net pension liability was based on a projection of the City's rolled forward long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At December 31, 2017, the City's proportionate share was .0207826% and .004058% for ERS and PFRS, respectively, which was down from its proportionate share of .0219798% and .2086933% for ERS and PFRS, respectively measured at December 31, 2016.

For the year ended December 31, 2017, the City recognized pension expense of \$1,061,233 and \$2,422,359 related to ERS and PFRS, respectively. At December 31, 2017, the City reported deferred outflows/inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
ERS		
Differences between expected and actual experience	\$ 48,935	\$ 296,541
Changes in assumptions	667,142	-
Net difference between projected and actual earnings on pension plan investments	390,050	-
Changes in proportion and differences between the City's contributions and proportionate share of contributions	7,262	168,831
Contributions subsequent to the measurement date	<u>604,053</u>	<u>-</u>
Total	<u>\$ 1,717,442</u>	<u>\$ 465,372</u>
PFRS		
Differences between expected and actual experience	\$ 544,896	\$ 717,670
Changes in assumptions	2,046,359	-
Net difference between projected and actual earnings on pension plan investments	620,351	-
Changes in proportion and differences between the City's contributions and proportionate share of contributions	93,408	140,602
Contributions subsequent to the measurement date	<u>1,276,759</u>	<u>-</u>
Total	<u>\$ 4,581,773</u>	<u>\$ 858,272</u>

The City recognized \$604,053 and \$1,276,759 as a deferred outflow of resources related to ERS and PFRS, respectively resulting from contributions made subsequent to the measurement date at March 31, 2017 that will be recognized as a reduction of the net pension liability in the year ended December 31, 2018.

8. PENSION PLAN (Continued)

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

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

Plan's Year Ended March 31:

2018	\$ 312,257
2019	312,257
2020	293,634
2021	(270,131)
2022	-
Thereafter	-
	<u>\$ 648,017</u>

Plan's Year Ended March 31:

2018	\$ 802,749
2019	802,749
2020	756,448
2021	(24,554)
2022	109,350
Thereafter	-
	<u>\$2,446,742</u>

Actuarial Assumptions

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

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

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

Long-term Rate of Return

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

8. PENSION PLAN (Continued)

Long-term Rate of Return (Continued)

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

Asset Type	Target Allocations in %	Long-Term expected real rate of return in %
Domestic Equity	36	4.55
International Equity	14	6.35
Private Equity	10	7.75
Real Estate	10	5.80
Absolute Return	2	4.00
Opportunistic Portfolio	3	5.89
Real Asset	3	5.54
Bonds & Mortgages	17	1.31
Cash	1	-0.25
Inflation-Indexed Bonds	4	1.50
	<u>100%</u>	

Discount Rate

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

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

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

	1% Decrease 6.00%	Current Discount 7.00%	1% Increase 8.00%
ERS Proportionate Share of Net pension liability (asset)	<u>\$ 6,236,803</u>	<u>\$ 1,952,783</u>	<u>\$ (1,669,347)</u>
	1% Decrease 6.00%	Current Discount 7.00%	1% Increase 8.00%
PFRS Proportionate Share of net pension liability (asset)	<u>\$11,775,540</u>	<u>\$ 4,153,714</u>	<u>\$ (2,239,131)</u>

8. PENSION PLAN (Continued)

Pension Plan Fiduciary Net Position (000's)

The components of the current-year net pension liability of the employers as of March 31, 2017 for ERS and PFRS respectively follow:

ERS

Total pension liability	\$ 177,400,586
Net position	<u>(168,004,363)</u>
Net pension liability (asset)	<u>\$ 9,396,223</u>
ERS net position as a percentage of total pension liability	94.7%

PFRS

Total pension liability	\$ 31,670,483
Net position	<u>(29,597,831)</u>
Net pension liability (asset)	<u>\$ 2,072,652</u>
PFRS net position as a percentage of total pension liability	93.5%

9. OTHER POSTEMPLOYMENT BENEFIT PLAN

Plan Description

The City administers the City of Lockport Retiree Medical, Dental and Life Insurance Plan (the Plan) as a single-employer defined benefit Other Postemployment Benefit plan (OPEB). The Plan provides for continuation of medical benefits for all retirees and their spouses and can be amended by action of the City subject to applicable collective bargaining and employment agreements. The City currently has 190 retirees eligible to receive benefits under the Plan at December 31, 2017. The Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy

The obligations of the plan members, employers and other entities are established by action of the City pursuant to applicable collective bargaining and employment agreements. The City currently provides health insurance for all of its active and retired employees and their spouses and children under the age of 26 at no cost to the employees or retirees. Surviving spouses and children under the age of 26 of a deceased employee or retiree can continue to participate but must pay 100% of the premium.

The City currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The amount paid by the City during 2017 was \$1,697,229. The cost of administering the Plan is paid by the City.

9. OTHER POSTEMPLOYMENT BENEFIT PLAN (Continued)

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost is calculated based on the Annual Required Contribution (ARC) of the employer, an amount actuarially determined in accordance with generally accepted accounting principles. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and the City's net OPEB obligation to the Plan at December 31, 2017:

	Governmental <u>Activities</u>
Annual required contribution	\$ 8,315,338
Interest	1,176,893
Adjustment	<u>(1,201,328)</u>
Annual OPEB cost (expense)	8,290,903
Contributions made	<u>(1,697,229)</u>
Increase in net OPEB obligation	6,593,674
Net OPEB obligation - beginning of year	<u>35,745,192</u>
Net OPEB obligation - end of year	<u>\$ 42,338,866</u>
Percentage of annual OPEB cost contributed	20.5%

Funded Status and Funding Progress

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Plan is currently not funded.

Trend Information

The following table provides trend information for the Plan:

	Annual OPEB <u>Cost</u>	Annual <u>Contributions</u>	Percent of Annual OPEB Cost <u>Contributed</u>	Net OPEB Obligation at <u>December 31</u>
2017	\$ 8,290,903	\$ 1,697,229	20.5%	\$ 42,338,866
2016	\$ 7,985,210	\$ 1,679,376	21.0%	\$ 35,745,192
2015	\$ 9,435,577	\$ 1,537,741	16.3%	\$ 29,439,358

9. OTHER POSTEMPLOYMENT BENEFIT PLAN (Continued)

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following assumptions were made at December 31, 2017:

Actuarial cost method	Projected unit credit
Discount rate*	3.50%
Medical care cost trend rate	The SOA Long-Run Cost Trend Model is used, starting at 6.90% for 2017 and ultimately trending down to 3.94% by 2075.
Unfunded actuarial accrued liability:	
Amortization period	30 years
Amortization method	Level dollar
Amortization basis	Open

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

10. LONG-TERM LIABILITIES

Serial Bonds

The City borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These long-term liabilities are full faith and credit debt of the City. The provision to be made in the future budgets for capital indebtedness represents the amount, exclusive of interest, authorized to be collected in future years from taxpayers and others for liquidation of the long-term liabilities. During the current year, the City recognized \$250,037 of expense for long-term serial bond interest.

Other Long Term Liabilities

In addition to the above long-term debt, the City had a non-current liability for compensated absences, which represents the value of the earned and unused sick days. The City has a non-current liability for a capital lease for the acquisition of equipment. The interest expense from the installment purchase debt totaled \$1,358 in the current year.

The following is a summary of changes in long-term liabilities for the year ended December 31, 2017:

	Balance January 1, <u>2017</u>	<u>Increase</u>	<u>Decrease</u>	Balance December 31, <u>2017</u>	Due Within <u>One Year</u>
Serial bonds	\$ 6,927,000	\$ 6,588,571	\$ 954,000	\$ 12,561,571	\$2,012,571
Other post employment benefits	35,745,192	8,290,903	1,697,229	42,338,866	-
Compensated absences (A)	2,564,321	-	149,005	2,415,316	-
Net pension liability	9,706,784	-	3,600,287	6,106,497	-
Installment debt	61,801	-	61,801	-	-
	<u>\$ 55,005,098</u>	<u>\$ 14,879,474</u>	<u>\$ 6,462,322</u>	<u>\$ 63,422,250</u>	<u>\$2,012,571</u>
Total governmental long-term debt	<u>\$ 55,005,098</u>	<u>\$ 14,879,474</u>	<u>\$ 6,462,322</u>	<u>\$ 63,422,250</u>	<u>\$2,012,571</u>

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

Deficit Financing

On September 4, 2014, the State Assembly of the State of New York passed a bill to allow the City to issue serial bonds in an amount not to exceed \$5,350,000 for the objective of liquidating deficits within the general, water, sewer and refuse funds for fiscal years between January 1, 2011 through December 31, 2013. Ultimately, the City issued Series 2014 Serial Bonds totaling \$3,945,000 on December 30, 2013.

Under the conditions of this funding, the City must submit quarterly reports of summarized budgetary data. These reports must be completed within 30 days after quarter-end and must be submitted to the members of the Common Council of the City, the Director of the NYS Division of the Budget, the State Comptroller and the chairs of the senate finance committee and the ways and means committee. The City must also prepare quarterly trial balances of the general and special revenue funds in accordance with generally accepted accounting principles and submit within the same manner as the budget information.

10. LONG-TERM LIABILITIES (Continued)

Deficit Financing (Continued)

All tentative budgets prepared while such debt is outstanding, after fiscal year beginning January 1, 2015, must be submitted to the State Comptroller no later than 30 days before the last date on which the budget must be finally adopted so that it may be examined and the State Comptroller can make recommendation.

The City had the following bonds payable obligations during the year and outstanding as of December 31, 2017:

	Year of <u>Issue</u>	Year of <u>Maturity</u>	Interest <u>Rate</u>	Original <u>Issue</u>	Principal Outstanding <u>1/1/2017</u>	<u>Payments</u>	<u>Issued</u>	Principal Outstanding <u>12/31/2017</u>
General								
	2008	2022	4.23%	\$ 839,635	\$ 295,000	\$ 65,000	\$ -	\$ 230,000
	2012	2022	.6% - 2.4%	165,000	85,000	10,000	-	75,000
	2014	2024	2.65% - 3%	650,000	545,000	60,000	-	485,000
	2014	2024	5.00%	1,086,835	989,035	103,310	-	885,725
	2013	2017	2.198%	302,500	61,801	61,801	-	-
	2017	2029	2% - 2.875%	3,041,000	-	-	3,041,000	3,041,000
					<u>1,975,836</u>	<u>300,111</u>	<u>3,041,000</u>	<u>4,716,725</u>
Sewer								
	2004	2019	1.2% - 4.67%	856,338	195,000	65,000	-	130,000
	2005	2019	3.5% - 4.0%	2,031,600	340,000	115,000	-	225,000
	2008	2022	4.24%	152,811	70,000	10,000	-	60,000
	2008	2037	4.13% - 4.789%	1,392,363	1,012,000	39,000	-	973,000
	2012	2022	.6 - 2.4%	495,000	285,000	45,000	-	240,000
	2014	2024	5.00%	1,036,390	943,130	98,515	-	844,615
	2017	2029	2% - 2.875%	2,129,259	-	-	2,129,259	2,129,259
					<u>2,845,130</u>	<u>372,515</u>	<u>2,129,259</u>	<u>4,601,874</u>
Water								
	2005	2019	3.5% - 4.0%	518,000	120,000	40,000	-	80,000
	2008	2022	4.23%	428,870	185,000	30,000	-	155,000
	2012	2018	3.25% - 4.1%	630,400	205,000	100,000	-	105,000
	2014	2024	5.00%	1,563,190	1,422,520	148,595	-	1,273,925
	2017	2029	2% - 2.875%	1,418,312	-	-	1,418,312	1,418,312
					<u>1,932,520</u>	<u>318,595</u>	<u>1,418,312</u>	<u>3,032,237</u>
Refuse								
	2014	2024	5.00%	258,585	235,315	24,580	-	210,735
Total								
					<u>\$ 6,988,801</u>	<u>\$ 1,015,801</u>	<u>\$ 6,588,571</u>	<u>\$ 12,561,571</u>

10. LONG-TERM LIABILITIES (Continued)

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

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2018	\$ 2,012,571	\$ 443,956	\$ 2,456,527
2019	1,844,000	321,332	2,165,332
2020	1,668,000	269,620	1,937,620
2021	1,678,000	219,544	1,897,544
2022	1,608,000	169,841	1,777,841
2023-2027	3,141,000	313,206	3,454,206
2028-2032	325,000	100,855	425,855
2033-2037	<u>285,000</u>	<u>34,253</u>	<u>319,253</u>
Total	<u>\$ 12,561,571</u>	<u>\$ 1,872,608</u>	<u>\$ 14,434,179</u>

Interest on long-term debt for the year was composed of:

Interest paid	\$ 412,273
Plus: Interest accrued in the current year	60,351
Less: Interest accrued in the prior year	<u>(77,666)</u>
Total interest expense	<u>\$ 394,958</u>

11. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years.

Participation in the plan is optional. The deferred compensation is not available until termination, retirement, death or unforeseeable emergency.

The plan is administered by an independent firm which is responsible for administration, the fund's investments and record keeping. Investments and related net position for employee's contributions totaled \$8,841,890 at December 31, 2017. Employees contributed \$582,234 into the plan in 2017.

12. RISK FINANCING ACTIVITIES

The City is self-insured for general liability including, but not limited to, property damage and personal injury, workers' compensation and medical insurance. The following deductibles apply for 2017: General Liability - \$0 - \$1,000. Public Officials Liability - \$10,000 - \$25,000. Law Enforcement Liability - \$15,000. Automobile Liability - \$0 - \$2,500. Commercial Property - \$5,000 (Flood, Earthquake \$25,000). Commercial Crime - \$1,000.

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

12. RISK FINANCING ACTIVITIES (Continued)

The workers' compensation plan maintains excess insurance, which insures against catastrophic claim losses for amounts over \$650,000, per occurrence, up to the limitations provided under the contract. The plan establishes reserve liabilities based on the estimated cost of individual claims incurred. Those estimates are determined based on many factors, one of the most significant being past experience. Since the reserve liability is an estimate it may not reflect the plan's ultimate liability.

	<u>Workers' Compensation</u>
Estimated claims December 31, 2016	\$ 3,243,160
Decrease in liability	<u>(595,177)</u>
Total estimated claims December 31, 2017	<u>\$ 2,647,983</u>

The health insurance plan maintains specific stop loss insurance, which insures against an individual catastrophic health event for amounts over \$100,000.

	<u>Health Insurance</u>
Estimated claims December 31, 2016	\$ 251,629
Decrease in liability	<u>(31,360)</u>
Total estimated claims December 31, 2017	<u>\$ 220,269</u>

13. COMMITMENTS AND CONTINGENCIES

Landfill Closure Costs

In 1994, the City closed a municipal landfill at a cost of \$1.4 million. The City has contracted with an outside firm to perform annual maintenance and monitoring at a fee of \$3,600 for 2017, increasing \$100 per year through 2021.

Assessments

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

Other

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

14. FUND BALANCE

As of December 31, 2017, fund balances were composed of the following:

	General Fund	Community Development Fund	Water Fund	Sewer Fund	Refuse Fund	Capital Projects Fund	Debt Service Fund
Nonspendable							
Prepaid expenditures	\$ 538,839	\$ -	\$ 42,965	\$ 41,944	\$ -	\$ -	\$ -
Restricted							
Capital projects	-	-	-	-	-	688,859	-
Community development	-	6,092	-	-	-	-	-
Debt service	-	-	-	-	-	-	901,386
	<u>-</u>	<u>6,092</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>688,859</u>	<u>901,386</u>
Assigned							
General governmental support	63,522	-	69	-	-	-	-
Public safety	16,244	-	-	-	-	-	-
Transportation	8,212	-	-	-	-	-	-
Economic assistance and opportunity	12,017	-	-	-	-	-	-
Culture and recreation	799	-	-	-	-	-	-
Home and community services	142	-	68,820	51,994	-	-	-
Other	-	6,290	1,295,855	872,207	349,685	-	-
	<u>100,936</u>	<u>6,290</u>	<u>1,364,744</u>	<u>924,201</u>	<u>349,685</u>	<u>-</u>	<u>-</u>
Unassigned	<u>3,780,997</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 4,420,772</u>	<u>\$ 12,382</u>	<u>\$ 1,407,709</u>	<u>\$ 966,145</u>	<u>\$ 349,685</u>	<u>\$ 688,859</u>	<u>\$ 901,386</u>

15. TAX ABATEMENTS

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

Industrial Real Property Tax Abatement

To increase economic development and job growth, the NCIDA has PILOT programs for commercial and industrial projects. Projects include a PILOT with real property tax abatement of 10 years for Commercial projects and 15 years for Industrial projects.

Opportunity Zones Program

To increase investment within the distressed downtown areas of Niagara County, the Opportunity Zones program provides incentives for small retail related companies and commercial businesses to expand or relocate to Niagara County with a 5-year PILOT agreement.

15. TAX ABATEMENTS (Continued)

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

Year Began	Agreement / Property	Total Assessed Value	Abatement Rate	Pilot Taxable Value	City Tax Rate / 1000	Regular Taxable Amount	Pilot Payment Received	Taxes Abated
2013	160 East Ave, LLC	\$ 915,700	38%	\$ 351,825	\$ 17.4206	\$ 15,952	\$ 6,129	\$ 9,823
2014	190 Walnut(201 Walnut II)	\$ 1,215,000	0%	\$ 46,600	\$ 17.4206	\$ 21,166	\$ 812	\$20,354
2011	210 Walnut	\$ 882,200	40%	\$ 401,240	\$ 17.4206	\$ 15,368	\$ 6,990	\$ 8,379
2003	Candlelight Cabinetry	\$ 1,059,100	50%	\$ 469,450	\$ 17.4206	\$ 18,450	\$ 8,178	\$10,272
2015	Cosello Investors	\$ 2,470,900	30%	\$ 1,630,690	\$ 17.4206	\$ 43,045	\$ 28,408	\$14,637
2014	Geise Properties	\$ 178,800	0%	\$ 7,600	\$ 17.4206	\$ 3,115	\$ 132	\$ 2,982
2016	Hawley Development	\$ 831,600	25%	\$ 639,675	\$ 17.4206	\$ 14,487	\$ 11,144	\$ 3,343
2015	Hydraulic Race	\$ 126,000	0%	\$ 53,900	\$ 17.4206	\$ 2,195	\$ 939	\$ 1,256
2014	Lake Effect	\$ 73,000	0%	\$ 4,600	\$ 17.4206	\$ 1,272	\$ 80	\$ 1,192
2007	Lockport Retail	\$ 2,177,400	45%	\$ 1,012,060	\$ 17.4206	\$ 37,932	\$ 17,631	\$20,301
2002	Merritt Machinery	\$ 394,600	40%	\$ 186,160	\$ 17.4206	\$ 6,874	\$ 3,243	\$ 3,631
2016	Ultimate Physical	\$ 195,000	0%	\$ 65,400	\$ 17.4206	\$ 3,397	\$ 1,139	\$ 2,258
2017	Iskalo 57 Canal,LLC	\$ 349,000	100%	\$ 349,000	\$ 17.4206	\$ 6,080	\$ 6,080	\$ -

The City has five real property tax abatement agreements with housing development and redevelopment companies organized pursuant to Article V or Article XI of the Private Housing Finance Law of the State of New York ("PHFL") for the purpose of creating or preserving affordable housing in the City.

Generally, these agreements provide for a 100 percent abatement of real property taxes in exchange for a payment in lieu of taxes (PILOT) based on a percentage of shelter rents, and continue until the property no longer provides the required affordable housing or no longer complies with the requirements of the PHFL.

Year Began	Agreement / Property	Total Assessed Value	City Tax Rate / 1000	Tax Value	Taxes Abated
2009	Falls Railroad	\$ 655,700.00	\$ 17.4206	\$ 1,113	\$ 1,113
2006	Urban Park II	\$ 3,224,000.00	\$ 17.4206	\$ 55,623	\$ 55,623
2003	Autumn Garden Apartments	\$ 2,298,800.00	\$ 17.4206	\$ 8,000	\$ 8,000
1969	Lockport Housing Authority	\$ 8,119,300.00	\$ 17.4206	\$ 90,221	\$ 88,972
2012	Lkpt Canal Homes	\$ 1,561,500.00	\$ 16.9934	\$ 29,986	\$ 9,986

The City is also subject to Mortgage and Sales tax abatements granted by the NCIDA in order to increase business activity and employment in the region. The amount of mortgage tax abated in the City for the year ended December 31, 2017 was \$18,750. The amount of sales tax abated in the City of for the year ended December 31, 2017 was \$23,988.

16. FUTURE GASB PRONOUNCEMENTS

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

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

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

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

In March 2017, the GASB issued Statement No. 85, *Omnibus*. This Statement establishes practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The City is required to adopt the provisions of this Statement for the year ending December 31, 2018.

16. FUTURE GASB PRONOUNCEMENTS (Continued)

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This Statement establishes consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The City is required to adopt the provisions of this Statement for the year ending December 31, 2018.

In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement establishes accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The City is required to adopt the provisions of this Statement for the year ending December 31, 2020.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement improves the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The City is required to adopt the provisions of this Statement for the year ending December 31, 2019.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The City is required to adopt the provisions of this Statement for the year ending December 31, 2020.

CITY OF LOCKPORT, NEW YORK

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND - (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Original Budget	Final Budget	Actual Amounts	Encumbrances	Variance with Final Budget Positive (Negative)
REVENUES:					
Real property taxes and tax items	\$ 12,737,502	\$ 12,737,502	\$ 12,882,147	\$ -	\$ 144,645
Nonproperty tax items	6,284,750	6,305,737	6,560,161	-	254,424
Interdepartmental charges	34,000	68,948	42,648	-	(26,300)
Departmental income	286,100	291,300	254,017	-	(37,283)
Use of money and property	65,000	65,000	64,182	-	(818)
Licenses and permits	195,000	195,000	215,841	-	20,841
Fines and forfeitures	225,000	225,000	203,340	-	(21,660)
Sale of property and compensation for loss	40,000	45,431	33,493	-	(11,938)
Miscellaneous	91,000	98,500	161,005	-	62,505
Interfund revenue	407,000	407,000	407,689	-	689
State aid	3,087,579	3,234,827	3,180,193	-	(54,634)
Federal aid	507,681	526,829	365,750	-	(161,079)
Total revenues	23,960,612	24,201,074	24,370,466	-	169,392
EXPENDITURES:					
General governmental support	3,215,884	3,096,800	2,478,121	63,522	555,157
Public health	6,000	7,500	7,491	-	9
Public safety	8,218,526	8,365,319	8,253,566	16,244	95,509
Transportation	1,684,202	1,779,312	1,726,531	8,212	44,569
Economic assistance and opportunity	147,500	147,500	127,098	12,017	8,385
Culture and recreation	369,683	426,626	388,145	799	37,682
Home and community services	388,749	390,764	385,336	142	5,286
Employee benefits	9,201,588	9,252,241	9,021,506	-	230,735
Debt service -					
Principal	784,111	789,111	789,111	-	-
Interest	144,369	145,069	145,067	-	2
Total expenditures	24,160,612	24,400,242	23,321,972	100,936	977,334
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(200,000)	(199,168)	1,048,494	(100,936)	1,146,726
OTHER FINANCING SOURCES (USES):					
Operating transfers - in	200,000	200,000	239,591	-	39,591
Operating transfers - out	-	(37,245)	(37,244)	-	1
Total other financing sources and uses	200,000	162,755	202,347	-	39,592
CHANGE IN FUND BALANCE	\$ -	\$ (36,413)	\$ 1,250,841	\$ (100,936)	\$ 1,186,318
FUND BALANCE - beginning of year			3,169,931		
FUND BALANCE - end of year			\$ 4,420,772		

CITY OF LOCKPORT, NEW YORK

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - WATER FUND - (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Encumbrances</u>	Variance with Final Budget Positive (Negative)
REVENUES:					
Departmental income	\$ 4,349,039	\$ 4,349,039	\$ 4,145,452	\$ -	\$ (203,587)
Sale of property and compensation for loss	1,500	1,500	13,493	-	11,993
Miscellaneous	2,000	2,000	40,192	-	38,192
Interfund revenue	<u>121,000</u>	<u>121,000</u>	<u>100,995</u>	<u>-</u>	<u>(20,005)</u>
Total revenues	<u>4,473,539</u>	<u>4,473,539</u>	<u>4,300,132</u>	<u>-</u>	<u>(173,407)</u>
EXPENDITURES:					
General governmental support	139,572	79,572	62,419	69	17,084
Home and community services	2,411,561	2,540,135	2,059,903	68,820	411,412
Employee benefits	1,172,720	1,202,990	1,160,620	-	42,370
Debt service -					
Principal	454,595	454,595	449,595	-	5,000
Interest	<u>122,247</u>	<u>122,247</u>	<u>121,404</u>	<u>-</u>	<u>843</u>
Total expenditures	<u>4,300,695</u>	<u>4,399,539</u>	<u>3,853,941</u>	<u>68,889</u>	<u>476,709</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>172,844</u>	<u>74,000</u>	<u>446,191</u>	<u>(68,889)</u>	<u>303,302</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers - in	-	-	35,689	-	35,689
Operating transfers - out	<u>(172,844)</u>	<u>(80,000)</u>	<u>(80,000)</u>	<u>-</u>	<u>-</u>
Total other financing sources and uses	<u>(172,844)</u>	<u>(80,000)</u>	<u>(44,311)</u>	<u>-</u>	<u>35,689</u>
CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ (6,000)</u>	401,880	<u>\$ (68,889)</u>	<u>\$ 338,991</u>
FUND BALANCE - beginning of year			<u>1,005,829</u>		
FUND BALANCE - end of year			<u>\$ 1,407,709</u>		

CITY OF LOCKPORT, NEW YORK

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - SEWER FUND - (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual Amounts</u>	<u>Encumbrances</u>	Variance with Final Budget Positive (Negative)
REVENUES:					
Interdepartmental charges	\$ 637,660	\$ 637,660	\$ 637,660	\$ -	\$ -
Departmental income	3,432,500	3,635,870	3,383,233	-	(252,637)
Use of money and property	-	-	1	-	1
Sale of property and compensation for loss	<u>2,500</u>	<u>2,500</u>	<u>1,546</u>	-	<u>(954)</u>
Total revenues	<u>4,072,660</u>	<u>4,276,030</u>	<u>4,022,440</u>	-	<u>(253,590)</u>
EXPENDITURES:					
General governmental support	52,750	66,819	61,660	-	5,159
Home and community services	2,118,547	2,463,448	2,277,344	51,994	134,110
Employee benefits	1,036,730	1,033,261	1,020,621	-	12,640
Debt service -					
Principal	636,125	636,125	636,115	-	10
Interest	<u>165,395</u>	<u>165,541</u>	<u>134,036</u>	-	<u>31,505</u>
Total expenditures	<u>4,009,547</u>	<u>4,365,194</u>	<u>4,129,776</u>	<u>51,994</u>	<u>183,424</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>63,113</u>	<u>(89,164)</u>	<u>(107,336)</u>	<u>(51,994)</u>	<u>(70,166)</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers - in	100,000	100,000	100,000	-	-
Operating transfers - out	<u>-</u>	<u>(11,000)</u>	<u>(11,000)</u>	-	-
Total other financing sources and uses	<u>100,000</u>	<u>89,000</u>	<u>89,000</u>	-	-
CHANGE IN FUND BALANCE	<u>\$ 163,113</u>	<u>\$ (164)</u>	<u>(18,336)</u>	<u>\$ (51,994)</u>	<u>\$ (70,166)</u>
FUND BALANCE - beginning of year			<u>984,481</u>		
FUND BALANCE - end of year			<u>\$ 966,145</u>		

CITY OF LOCKPORT, NEW YORK

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - REFUSE FUND - (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES:				
Real property taxes and tax items	\$ 19,000	\$ 19,000	\$ 18,420	\$ (580)
Departmental income	1,269,900	1,269,900	1,291,001	21,101
Use of money and property	100	100	95	(5)
State aid	-	-	2,966	2,966
Total revenues	<u>1,289,000</u>	<u>1,289,000</u>	<u>1,312,482</u>	<u>23,482</u>
EXPENDITURES:				
General governmental support	-	71,792	71,792	-
Home and community services	1,180,862	1,180,862	1,113,166	67,696
Debt service -				
Principal	24,580	24,580	24,580	-
Interest	11,766	11,766	11,766	-
Total expenditures	<u>1,217,208</u>	<u>1,289,000</u>	<u>1,221,304</u>	<u>67,696</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>71,792</u>	<u>-</u>	<u>91,178</u>	<u>91,178</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	(71,792)	-	-	-
Total other financing sources and uses	<u>(71,792)</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>91,178</u>	<u>\$ 91,178</u>
FUND BALANCE - beginning of year			<u>258,507</u>	
FUND BALANCE - end of year			<u>\$ 349,685</u>	

CITY OF LOCKPORT, NEW YORK

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN - (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>Actuarial Valuation Date</u>	<u>Year Ended</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Actuarial Accrued Liability (AAL)</u>	<u>(b-a) Unfunded AAL (UAAL)</u>	<u>(a/b) Funded Ratio</u>	<u>(c) Covered Payroll</u>	<u>((b-a)/c) UAAL as a percentage of Covered Payroll</u>
1/1/2016	December 31, 2017	\$ -	\$ 123,125,410	\$ 123,125,410	0.00%	\$ 12,942,524	951%
1/1/2016	December 31, 2016	\$ -	\$ 118,198,237	\$ 118,198,237	0.00%	\$ 10,223,475	1156%
1/1/2014	December 31, 2015	\$ -	\$ 108,207,693	\$ 108,207,693	0.00%	\$ 12,712,132	851%

CITY OF LOCKPORT, NEW YORK

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET) - (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2017**

NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN - ERS	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Proportion of the net pension liability (asset)	0.021%	0.022%	0.025%	Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.						
Proportionate share of the net pension liability (asset)	\$ 1,953	\$ 3,528	\$ 840							
Covered-employee payroll	\$ 5,314	\$ 5,149	\$ 7,562							
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	36.75%	68.52%	11.11%							
Plan fiduciary net position as a percentage of the total pension liability (asset)	94.70%	90.70%	97.90%							

NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN - PFRS	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Proportion of the net pension liability (asset)	0.200%	0.209%	0.232%	Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.						
Proportionate share of the net pension liability (asset)	\$ 4,154	\$ 6,179	\$ 638							
Covered-employee payroll	\$ 7,269	\$ 7,287	\$ 4,959							
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	57.15%	84.79%	12.87%							
Plan fiduciary net position as a percentage of the total pension liability (asset)	93.50%	90.20%	99.00%							

CITY OF LOCKPORT, NEW YORK

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS - PENSION PLANS - (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN - ERS										
Contractually required contribution	\$ 836	\$ 996	\$ 1,250							
Contributions in relation to the contractually required contribution	836	996	1,250							
Contribution deficiency (excess)	\$ -	\$ -	\$ -							
Covered-employee payroll	\$ 5,314	\$ 5,149	\$ 7,562							
Contributions as a percentage of covered-employee payroll	15.73%	19.34%	16.53%							

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

	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN - PFRS										
Contractually required contribution	\$ 1,780	\$ 1,685	\$ 1,925							
Contributions in relation to the contractually required contribution	1,780	1,685	1,925							
Contribution deficiency (excess)	\$ -	\$ -	\$ -							
Covered-employee payroll	\$ 7,269	\$ 7,287	\$ 4,959							
Contributions as a percentage of covered-employee payroll	24.49%	23.12%	38.82%							

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