

**CITY OF LOCKPORT, NEW YORK**

**Financial Statements as of  
December 31, 2014  
Together with  
Independent Auditor's Report**

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

# CITY OF LOCKPORT, NEW YORK

## TABLE OF CONTENTS DECEMBER 31, 2014

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	<u>Page</u>
<b>SECTION A</b>	
CITY OF LOCKPORT, NEW YORK BASIC FINANCIAL STATEMENTS	
INDEPENDENT AUDITOR'S REPORT .....	1 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED).....	4 -11
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements -	
Statement of Net Position .....	12
Statement of Activities .....	13
Fund Financial Statements -	
Balance Sheet - Governmental Funds .....	14
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position .....	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities.....	17
Fiduciary Funds	
Statement of Net Position .....	18
Statement of Changes in Net Position .....	19
Notes to Basic Financial Statements.....	20 - 42
REQUIRED SUPPLEMENTARY INFORMATION:	
Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - General Fund .....	43
Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - Water Fund .....	44
Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - Sewer Fund.....	45
Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - Refuse Fund.....	46

**CITY OF LOCKPORT, NEW YORK**

**TABLE OF CONTENTS**

**DECEMBER 31, 2014**

**(Continued)**

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**SECTION B**

OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	47 - 48
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 .....	49 - 50
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	51
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	52
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	53 - 57

**SECTION A**

**CITY OF LOCKPORT, NEW YORK  
BASIC FINANCIAL STATEMENTS**

## INDEPENDENT AUDITOR'S REPORT

September 30, 2015

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 and each major fund of the City of Lockport, New York (the City), as of and for the year ended December 31, 2014, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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## INDEPENDENT AUDITOR'S REPORT

(Continued)

### **Opinions**

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund of the City, as of December 31, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-11 and 43-46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards expended are fairly stated in all material respects in relation to the basic financial statements as a whole.

(Continued)

## **INDEPENDENT AUDITOR'S REPORT**

(Continued)

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

# **CITY OF LOCKPORT, NEW YORK**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2014 (UNAUDITED)**

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### **INTRODUCTION**

This discussion and analysis includes an overall review of the City's financial activities for the year ended December 31, 2014. 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 extremely tightened with oversight openly accepted from the Office of The State Comptroller. 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 \$6,510,433. This was primarily related to increases in liability of post-employment benefits due to health insurance for City retirees.

The City had an increase of approximately \$4.0 million in fund balance for all governmental funds. This was mainly due to the City receiving deficit financing in the amount of \$3.945 million.

The City obtained deficit funding from New York State, in the amount of \$3.945 million to cover losses within the general, water, sewer, and refuse funds. In addition the City has applied to, and been accepted into the recently enacted NYS Financial Restructuring Board for Local Governments program to assist the City in the development of a long-range financial recovery plan. The Board will be making recommendations to the City on methods to improve its fiscal stability, management, and the delivery of public services.

The City engaged a consultant to assist in the development of the FY 2014 and FY 2015. In addition, in the fall of 2014, the City 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 management of staff.



## 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.

### 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.

## **OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

### Fiduciary Funds

The City is an agent, or fiduciary, for assets that belong to others, such as performance deposits and payroll and other third party withholdings. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net 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 (74% at 2014 and 78% at 2013) 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.

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

	Governmental Activities		Percentage Change
	<u>2014</u>	<u>2013</u>	
Current and other assets	\$ 20,205,474	\$ 16,305,411	23.9%
Capital assets	<u>58,488,055</u>	<u>58,888,641</u>	-0.7%
Total assets	<u>\$ 78,693,529</u>	<u>\$ 75,194,052</u>	4.7%
Long-term debt outstanding	\$ 38,185,900	\$ 28,031,447	36.2%
Other liabilities	<u>19,335,454</u>	<u>19,479,997</u>	-0.7%
Total liabilities	<u>\$ 57,521,354</u>	<u>\$ 47,511,444</u>	21.1%
Net position:			
Investment in capital assets	\$ 49,371,612	\$ 53,504,300	-7.7%
Restricted	1,566,940	3,942,364	-60.3%
Unrestricted	<u>(29,766,377)</u>	<u>(29,764,056)</u>	0.0%
Total net position	<u>\$ 21,172,175</u>	<u>\$ 27,682,608</u>	

The current assets of the City increased significantly due to an influx of cash from the deficit financing in the amount of \$3.945 million. The long term liabilities were also increased due to the deficit financing, as well as the increase in the other post-employment benefit liability of approximately \$4.95 million.

## 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 (53% in 2013). Charges for services, approximating 26% of total revenues (27% in 2013), 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 48% of total expenses in 2014 (43% in 2013), consisting principally of the City's police and fire departments. Total expenses increased by \$902 thousand (2.3%).

	Governmental Activities		Percentage Change
	<u>2014</u>	<u>2013</u>	
Program revenue:			
Charges for services	\$ 8,779,031	\$ 9,346,685	-6.1%
Operating grants	1,152,853	1,391,529	-17.2%
Capital grants	963,528	1,353,431	-28.8%
General revenue:			
Property taxes	11,398,345	12,236,223	-6.8%
Other taxes	6,712,775	6,311,827	6.4%
Other general revenue	<u>4,500,292</u>	<u>4,024,619</u>	11.8%
Total revenue	<u>33,506,824</u>	<u>34,664,314</u>	
Program expenses:			
General governmental support	4,503,284	5,160,564	-12.7%
Public safety	19,390,458	17,016,063	14.0%
Health	1,605	5,877	-72.7%
Transportation	3,652,075	2,844,870	28.4%
Economic Assistance and Opportunity	143,837	216,865	-33.7%
Culture and recreation	1,016,597	1,074,251	-5.4%
Home and community services	11,088,386	12,606,597	-12.0%
Debt service	<u>221,015</u>	<u>190,382</u>	16.1%
Total expenses	<u>40,017,257</u>	<u>39,115,469</u>	2.3%
Deficiency	<u>\$ (6,510,433)</u>	<u>\$ (4,451,155)</u>	

The City's operating grants decreased due to fewer grant awards by the State and Federal governments. Capital grants decreased due to the completion of various capital projects.

Changes in Public Safety, Home and Community Services and Transportation costs are due to the increase in employee benefits and post-employment benefit costs. Economic assistance and opportunity decreased due to reductions in overall available program revenue.

## **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 \$1.4 million for 2014, primarily due to the proceeds of the deficit borrowing. After taking that into account, the surplus in the General Fund for FY 2014 was approximately \$348,000 due to better than anticipated sales tax revenue and reductions in costs of health insurance.

#### 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 decreased by approximately \$40,000 in 2014.

#### 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 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 \$945,000 for the year ended 2014. This was related to the receipt of deficit financing.

#### Sewer Fund

The City's sewer fund is a special revenue fund, used to account for sewer services provided to taxpayers. The fund balance for this fund increased approximately \$696,000 mainly due to the receipt of the deficit financing.

#### Refuse Fund

The City's refuse fund accounts for garbage services provided to tax payers. The fund had an increase in fund balance of approximately \$297,000 for the year ended 2014. This was mainly due to the receipt of deficit financing.

#### 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.

## GENERAL FUND BUDGETARY HIGHLIGHTS

Revenues were greater than budgeted due to the proceeds from the deficit financing and better than expected sales tax revenue and interest and penalties on delinquent real property taxes. If we were to take the proceeds from the deficit financing out of the equation, actual revenues were less than budgeted by approximately \$492,000. The majority of this is a result of the City not receiving a \$1 million dollars in State grant funds intended to offset costs for street paving and other capital improvements.

Actual expenditures were less than budgeted by approximately \$828,000. The largest budgetary variances were those for general governmental support and employee benefits which were approximately \$361,000 and \$293,000 respectively.

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>2014</u>	<u>2013</u>
Land	\$ 3,173,000	\$ 3,173,000
Construction in process	3,333,384	5,052,726
Buildings and improvements	68,665,345	66,360,446
Machinery and equipment	6,980,287	6,938,532
Transportation network	4,920,486	4,920,486
Water and sewer network	10,544,045	10,544,045
Vehicles	4,367,149	4,189,639
Accumulated depreciation	<u>(43,495,641)</u>	<u>(42,290,233)</u>
Totals	<u>\$ 58,488,055</u>	<u>\$ 58,888,641</u>

Net capital assets decreased by approximately \$400,000 during the current year. This reflects new improvement and infrastructure projects under construction of approximately \$586,000, machinery and equipment additions of approximately \$42,000, and the purchase of new vehicles of approximately \$178,000. Accumulated depreciation increased approximately \$1,200,000 in 2014.

**Debt**

A summary of the City's outstanding obligations are:

	<u>2014</u>	<u>2013</u>
Serial Bonds	\$ 8,935,000	\$ 5,145,000
Other post employment benefits	21,541,522	16,587,612
Compensated absences	2,866,290	2,725,757
Workers compensation	4,419,472	3,333,737
Health insurance liability	242,173	-
Installment debt	<u>181,443</u>	<u>239,341</u>
 Total debt	 <u>\$ 38,185,900</u>	 <u>\$ 28,031,447</u>

At December 31, 2014, the City has total long-term debt outstanding of \$38,185,900, of which \$804,171 is estimated to be payable within the next year. The City has pledged its full faith and credit for the serial bonds that are outstanding. The remainders of the City's outstanding obligations arise out of contractual or other legal obligations. The majority arises from obligations for other post-employment benefits of \$21,541,522.

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

Health insurance costs continue to increase at rates well above the rate of inflation which makes budgeting difficult. All 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.

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

The City 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 issued in the amount of \$3.945 million to eliminate current and prior fund deficits that were created due to poor fiscal management in the prior years. Along with the reorganization of services and the deficit funding available, the City hopes to be better able to fund services to its constituents. The City will begin payments on principle and interest in earnest in FY 2016.

**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, 2014

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	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 5,268,246
Cash - restricted	4,285,501
Other receivables	2,336,370
Due from Federal and State governments	228,606
Loans receivable	3,338,927
Taxes receivable, net	2,834,043
Due from other funds	5,007
Due from other governments	915,169
Prepaid expenses	793,605
Other assets	200,000
Capital assets, net	<u>58,488,055</u>
Total assets	<u>78,693,529</u>
<b>LIABILITIES</b>	
Accounts payable	888,505
Accrued liabilities	509,134
Due to other governments	1,790,086
Unearned revenue	3,457,908
Bond anticipation notes	12,689,821
Long-term liabilities -	
Bonds payable due within one year	745,000
Installment debt due within one year	59,171
Bonds payable, net of current portion	8,190,000
Installment debt, net of current portion	122,272
Other post employment benefits	21,541,522
Workers compensation and health insurance liabilities	4,661,645
Compensated absences	<u>2,866,290</u>
Total liabilities	<u>57,521,354</u>
<b>NET POSITION</b>	
Net investment in capital assets	49,371,612
Restricted	1,566,940
Unrestricted	<u>(29,766,377)</u>
Total net position	<u>\$ 21,172,175</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, 2014**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>PRIMARY GOVERNMENT:</b>					
Governmental activities -					
General governmental support	\$ 4,503,284	\$ 411,268	\$ -	\$ -	\$ (4,092,016)
Public health	1,605	-	-	-	(1,605)
Public safety	19,390,458	819,819	79,987	-	(18,490,652)
Transportation	3,652,075	-	83,796	963,528	(2,604,751)
Economic assistance and opportunity	143,837	-	-	-	(143,837)
Culture and recreation	1,016,597	-	-	-	(1,016,597)
Home and community services	11,088,386	7,547,944	989,070	-	(2,551,372)
Interest on long-term debt	221,015	-	-	-	(221,015)
Total governmental activities	<u>\$ 40,017,257</u>	<u>\$ 8,779,031</u>	<u>\$ 1,152,853</u>	<u>\$ 963,528</u>	<u>(29,121,845)</u>
GENERAL REVENUES AND TRANSFERS:					
Real property taxes and real property tax items					11,398,345
Nonproperty tax items					6,712,775
Use of money and property					2,448
Sale of property and compensation for loss					95,885
State aid not received for a specific purpose					3,054,934
Other revenues					<u>1,347,025</u>
Total general revenues and transfers					<u>22,611,412</u>
Change in net position					(6,510,433)
Net position - beginning of year					<u>27,682,608</u>
Net position - end of year					<u>\$ 21,172,175</u>

The accompanying notes are an integral part of these statements.

**CITY OF LOCKPORT, NEW YORK**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2014**

	<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>
<b>ASSETS</b>								
Cash and cash equivalents	\$ 3,691,981	\$ -	\$ -	\$ 633,125	\$ 801,898	\$ 141,242	\$ -	\$ 5,268,246
Cash - restricted	1,052,404	44,297	2,509,010	-	-	-	679,790	4,285,501
Due from Federal and State governments	-	-	228,606	-	-	-	-	228,606
Due from other governments	731,309	-	24,445	-	159,415	-	-	915,169
Loans receivable	-	2,577,237	-	-	-	-	-	2,577,237
Taxes receivable, net	2,834,043	-	-	-	-	-	-	2,834,043
Other receivables	165,358	-	-	866,383	726,190	578,439	-	2,336,370
Other assets	200,000	-	-	-	-	-	-	200,000
Prepaid expenditures	660,665	-	-	68,795	64,145	-	-	793,605
Due from other funds	<u>1,285,684</u>	<u>-</u>	<u>105,475</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,391,159</u>
Total assets	<u>\$ 10,621,444</u>	<u>\$ 2,621,534</u>	<u>\$ 2,867,536</u>	<u>\$ 1,568,303</u>	<u>\$ 1,751,648</u>	<u>\$ 719,681</u>	<u>\$ 679,790</u>	<u>\$ 20,829,936</u>
<b>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>								
<b>LIABILITIES:</b>								
Accounts payable	\$ 401,622	\$ -	\$ 28,129	\$ 180,261	\$ 99,003	\$ 179,490	\$ -	\$ 888,505
Accrued liabilities	366,048	-	-	49,771	42,766	-	-	458,585
Due to other funds	-	107,912	31,361	334,333	525,052	349,023	38,471	1,386,152
Due to other governments	1,790,086	-	-	-	-	-	-	1,790,086
Bond anticipation notes	4,571,021	-	8,118,800	-	-	-	-	12,689,821
Unearned revenue	<u>118,981</u>	<u>2,577,237</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,696,218</u>
Total liabilities	<u>7,247,758</u>	<u>2,685,149</u>	<u>8,178,290</u>	<u>564,365</u>	<u>666,821</u>	<u>528,513</u>	<u>38,471</u>	<u>19,909,367</u>
<b>DEFERRED INFLOWS:</b>								
Deferred property taxes	1,055,744	-	-	-	-	-	-	1,055,744
Deferred fees for service	<u>-</u>	<u>-</u>	<u>-</u>	<u>336,015</u>	<u>232,230</u>	<u>160,472</u>	<u>-</u>	<u>728,717</u>
Total deferred inflows	<u>1,055,744</u>	<u>-</u>	<u>-</u>	<u>336,015</u>	<u>232,230</u>	<u>160,472</u>	<u>-</u>	<u>1,784,461</u>
<b>FUND BALANCES:</b>								
Nonspendable	660,665	-	-	68,795	64,145	-	-	793,605
Restricted	925,621	-	-	-	-	-	641,319	1,566,940
Assigned	731,656	-	-	599,128	788,452	30,696	-	2,149,932
Unassigned	<u>-</u>	<u>(63,615)</u>	<u>(5,310,754)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,374,369)</u>
Total fund balances	<u>2,317,942</u>	<u>(63,615)</u>	<u>(5,310,754)</u>	<u>667,923</u>	<u>852,597</u>	<u>30,696</u>	<u>641,319</u>	<u>(863,892)</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 10,621,444</u>	<u>\$ 2,621,534</u>	<u>\$ 2,867,536</u>	<u>\$ 1,568,303</u>	<u>\$ 1,751,648</u>	<u>\$ 719,681</u>	<u>\$ 679,790</u>	<u>\$ 20,829,936</u>

# CITY OF LOCKPORT, NEW YORK

## RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION DECEMBER 31, 2014

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Total fund balance - governmental funds \$ (863,892)

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	101,983,696	
Accumulated depreciation	<u>(43,495,641)</u>	58,488,055

Compensated absences are not reported in the funds under fund accounting, but are expensed in the statement of activities as the liability is incurred. (2,866,290)

Revenue related to the tax levy is recognized when earned in the statement of activities, but recorded as a deferred inflow in the fund statements if collection is anticipated to exceed sixty days after year-end. 1,055,744

Revenue related to the service billings is recognized when earned in the statement of activities, but recorded as a unearned revenue in the fund statements if collection is anticipated to exceed sixty days after year-end. 728,717

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. (50,549)

Long-term debt, including serial bonds, other post employment benefits, and workers compensation and health insurance liability is not due and payable in the current period and; therefore, is not reported as fund liabilities.

Serial Bonds	(8,935,000)	
Installment debt	(181,443)	
Other post employment benefits	(21,541,522)	
Workers compensation and health insurance	<u>(4,661,645)</u>	(35,319,610)

Total net position of governmental activities \$ 21,172,175

**CITY OF LOCKPORT, NEW YORK**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<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>
<b>REVENUES:</b>								
Real property taxes and tax items	\$ 11,333,473	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,333,473
Nonproperty tax items	6,712,775	-	-	-	-	-	-	6,712,775
Departmental income	841,961	-	-	3,243,644	3,010,253	1,294,047	-	8,389,905
Use of money and property	479	22	1,588	-	-	121	238	2,448
Licenses and permits	201,258	-	-	-	-	-	-	201,258
Fines and forfeitures	187,868	-	-	-	-	-	-	187,868
Sale of property and compensation for loss	43,836	-	-	2,895	49,154	-	-	95,885
Miscellaneous	194,244	37,377	19,039	26,768	671,977	-	-	949,405
State aid	3,054,934	-	963,528	-	-	-	-	4,018,462
Federal aid	163,783	989,070	-	-	-	-	-	1,152,853
<b>Total revenues</b>	<b>22,734,611</b>	<b>1,026,469</b>	<b>984,155</b>	<b>3,273,307</b>	<b>3,731,384</b>	<b>1,294,168</b>	<b>238</b>	<b>33,044,332</b>
<b>EXPENDITURES:</b>								
General governmental support	2,685,886	-	-	87,923	72,293	-	38,471	2,884,573
Public health	1,605	-	-	-	-	-	-	1,605
Public safety	8,559,264	-	-	-	-	-	-	8,559,264
Transportation	1,572,277	-	-	-	-	-	-	1,572,277
Economic assistance and opportunity	130,709	-	-	-	-	-	-	130,709
Culture and recreation	451,439	-	-	-	-	-	-	451,439
Home and community services	431,452	1,066,485	-	2,116,997	1,993,709	1,073,070	-	6,681,713
Employee benefits	8,920,319	-	-	1,132,457	1,068,934	-	-	11,121,710
Capital outlay	-	-	1,570,015	-	-	-	-	1,570,015
Debt service -								
Principal	273,579	-	-	180,000	349,300	172,000	-	974,879
Interest	79,983	-	-	50,700	83,846	10,800	-	225,329
<b>Total expenditures</b>	<b>23,106,513</b>	<b>1,066,485</b>	<b>1,570,015</b>	<b>3,568,077</b>	<b>3,568,082</b>	<b>1,255,870</b>	<b>38,471</b>	<b>34,173,513</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(371,902)</b>	<b>(40,016)</b>	<b>(585,860)</b>	<b>(294,770)</b>	<b>163,302</b>	<b>38,298</b>	<b>(38,233)</b>	<b>(1,129,181)</b>
<b>OTHER FINANCING SOURCES AND (USES):</b>								
Proceeds from the issuance of debt	-	-	650,000	-	-	-	-	650,000
Proceeds from the issuance of deficit financing	1,086,836	-	-	1,563,189	1,036,389	258,586	-	3,945,000
Premium on debt issuance	-	-	-	-	-	-	397,620	397,620
BANs redeemed from appropriations	-	-	111,981	-	-	-	-	111,981
Operating transfers - in	720,439	-	105,475	-	-	-	-	825,914
Operating transfers - out	-	-	-	(322,607)	(503,307)	-	-	(825,914)
<b>Total other financing sources and uses</b>	<b>1,807,275</b>	<b>-</b>	<b>867,456</b>	<b>1,240,582</b>	<b>533,082</b>	<b>258,586</b>	<b>397,620</b>	<b>5,104,601</b>
<b>CHANGE IN FUND BALANCE</b>	<b>1,435,373</b>	<b>(40,016)</b>	<b>281,596</b>	<b>945,812</b>	<b>696,384</b>	<b>296,884</b>	<b>359,387</b>	<b>3,975,420</b>
<b>FUND BALANCE - beginning of year</b>	<b>882,569</b>	<b>(23,599)</b>	<b>(5,592,350)</b>	<b>(277,889)</b>	<b>156,213</b>	<b>(266,188)</b>	<b>281,932</b>	<b>(4,839,312)</b>
<b>FUND BALANCE - end of year</b>	<b>\$ 2,317,942</b>	<b>\$ (63,615)</b>	<b>\$ (5,310,754)</b>	<b>\$ 667,923</b>	<b>\$ 852,597</b>	<b>\$ 30,696</b>	<b>\$ 641,319</b>	<b>\$ (863,892)</b>

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, 2014

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Net changes in fund equity - Total governmental funds	\$ 3,975,420
Capital outlays are expenditures in governmental funds, but are capitalized in the statement of net position.	804,822
Depreciation is not recorded as a expenditure in the governmental funds, but is recorded in the statement of activities.	(1,205,408)
Proceeds from the issuance of long-term debt are recorded as an other source in the governmental funds but are recorded as long-term debt in the statement of net position.	(4,595,000)
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.	862,898
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.	64,872
Accrued post employment benefits, compensated absences, and workers compensation liability that are long-term; and therefore, not reported as expenditures in the governmental funds.	(6,422,351)
Interest is accrued on the outstanding bonds on the statement of net position but is not recorded as an expenditure in the government funds.	<u>4,314</u>
Change in net position - Governmental activities	<u>\$ (6,510,433)</u>

**CITY OF LOCKPORT, NEW YORK**

**STATEMENT OF NET POSITION - FIDUCIARY FUNDS  
DECEMBER 31, 2014**

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	Private Purpose <u>Trust</u>	<u>Agency</u>
<b>ASSETS:</b>		
Cash	\$ -	\$ 243,023
Cash - restricted	<u>62,119</u>	<u>1,511,907</u>
Total assets	<u>62,119</u>	<u><u>1,754,930</u></u>
<b>LIABILITIES:</b>		
Due to other funds	-	5,007
Agency liabilities	<u>-</u>	<u>1,749,923</u>
Total current liabilities	<u>-</u>	<u><u>\$ 1,754,930</u></u>
<b>NET POSITION:</b>		
Held in trust for private purposes	<u>62,119</u>	
Total net position	<u><u>\$ 62,119</u></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, 2014**

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	Private Purpose <u>Trust</u>
ADDITIONS:	
Interest and earnings	\$ <u>          30</u>
CHANGE IN NET POSITION	30
NET POSITION - beginning of year	<u>          62,089</u>
NET POSITION - end of year	<u><u>          \$ 62,119</u></u>

The accompanying notes are an integral part of these statements.

# CITY OF LOCKPORT, NEW YORK

## NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2014

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### 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, liabilities/deferred inflows, 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, liabilities/deferred inflows, 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)

### **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.

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

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

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

### **Encumbrances**

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

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

### **Budgetary Basis of Accounting**

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

### **Accounts Receivable**

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

### **Taxes Receivable**

The City accounts for taxes receivable at outstanding billed amounts, net of the allowance for uncollectible taxes. Accounts for which no payments have been received for one year are considered delinquent and further collection efforts are begun. After all collection efforts are exhausted, the account is written off. As of December 31, 2014, the allowance for uncollectible taxes is \$138,728 , which is estimated based on historical collection experience.

### **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.

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

### Due to/from Other Funds

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

The amounts reported on the Statement of Net 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/expenditure) 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 assets with constraints on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- **Unrestricted net position**  
All other net assets that do 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 currently has no committed fund balance.
- **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.

### **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.

## 2. STEWARDSHIP (Continued)

### **Revenue Restrictions**

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

### **Fund Balance**

The Community Development fund has a deficit fund balance of \$63,615. This is due to amounts the fund owes back to the general fund for expenditures in the prior years.

The Capital Projects fund has a deficit fund balance of \$5,310,754 . This is primarily due to the bond anticipation notes that have been issued and will be reduced when the notes are converted to long-term debt.

## 3. CASH AND CASH EQUIVALENTS

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

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

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.



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

#### Investment and Deposit Policy (Continued)

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, 2014:

M&T Bank	<u>\$10,128,521</u>
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#### Interest Rate Risk

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

#### Credit Risk

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

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

#### Custodial Credit Risk

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

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

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

#### Custodial Credit Risk (Continued)

At December 31, 2014, 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	\$ 11,175,256	\$ 11,370,796
Collateralized with securities held by the pledging financial institution's trust department or agent in the County's name	\$ 10,586,276	
Covered by FDIC insurance	<u>778,229</u>	
Total	<u>\$ 11,364,505</u>	

### 4. RECEIVABLES

Major revenues accrued by the City at December 31, 2014 include the following:

<u>Fund</u>	<u>Balance</u>
General	
Due from other governments -	
Sales tax	\$ 706,698
Other fees and fines	24,611
Other receivables	
Ambulance billings	9,893
Other	<u>155,465</u>
	<u>\$ 896,667</u>
Water	
Water billings	<u>\$ 866,383</u>
Sewer	
Sewer billings	<u>\$ 726,190</u>
Refuse	
Refuse billings	<u>\$ 578,439</u>

#### 4. RECEIVABLES (Continued)

##### 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, 2014 were as follows:

Community Development Fund:

Loans - Community Development	\$ 140,537
Loans - Home ownership	1,552,352
Loans - Rental Rehab	21,875
Loans - Deferred other	533,261
Loans - Home loans DHCR	279,324
Loans - Low Income	<u>49,888</u>
Total Community Development Loans Receivable	<u>\$ 2,577,237</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, 2014:

City taxes receivable - current	\$ 672,120
City taxes receivable - overdue	646,225
Installment sales agreements	123,352
School taxes receivable	<u>1,531,074</u>
Total taxes	2,972,771
Less: Allowance for uncollectable taxes	<u>(138,728)</u>
Total taxes receivable, net	<u>\$ 2,834,043</u>

##### Interfund Receivables, Payables, Revenues and Expenses

To improve cash management, all City disbursements are made from a consolidated account in the general fund. Also, the cash balances of certain capital funds are consolidated to maximize investment return. Both 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 debt service fund. They also facilitate contributions from the special revenue fund to capital projects funds.

#### 4. RECEIVABLES (Continued)

Interfund receivables, payables and transfers as of and for the year ended December 31, 2014 are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payables</u>	<u>Operating Transfers-in</u>	<u>Operating Transfers-out</u>
General Fund	\$ 1,285,684	\$ -	\$ 720,439	\$ -
Community Fund	-	107,912	-	-
Water Fund	-	334,333	-	322,607
Sewer Fund	-	525,052	-	503,307
Refuse Fund	-	349,023	-	-
Capital Projects Fund	105,475	31,361	105,475	-
Debt Service Fund	-	38,471	-	-
Agency Fund	-	5,007	-	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total	<u>\$ 1,391,159</u>	<u>\$ 1,391,159</u>	<u>\$ 825,914</u>	<u>\$ 825,914</u>

#### 5. CAPITAL ASSETS

Capital asset activity for the City for the year ended December 31, 2014 was as follows:

	<u>Balance at 12/31/13</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 12/31/14</u>
Capital assets, not being depreciated:				
Land	\$ 3,173,000	\$ -	\$ -	\$ 3,173,000
Construction in progress	5,052,726	585,557	(2,304,899)	3,333,384
Total capital assets, not being depreciable	<u>8,225,726</u>	<u>585,557</u>	<u>(2,304,899)</u>	<u>6,506,384</u>
Capital assets, being depreciated				
Buildings and improvements	66,360,446	-	2,304,899	68,665,345
Machinery and equipment	6,938,532	41,755	-	6,980,287
Transportation network	4,920,486	-	-	4,920,486
Water and sewer network	10,544,045	-	-	10,544,045
Vehicles	4,189,639	177,510	-	4,367,149
Total capital assets, being depreciated	<u>92,953,148</u>	<u>219,265</u>	<u>2,304,899</u>	<u>95,477,312</u>
Less accumulated depreciation:				
Buildings and improvements	28,904,496	593,884	-	29,498,380
Machinery and equipment	4,450,942	221,036	-	4,671,978
Transportation network	4,516,916	36,498	-	4,553,414
Water and sewer network	1,896,491	104,497	-	2,000,988
Vehicles	2,521,388	249,493	-	2,770,881
Total accumulated depreciation	<u>42,290,233</u>	<u>1,205,408</u>	<u>-</u>	<u>43,495,641</u>
Total capital assets, beginning depreciated, net	<u>50,662,915</u>	<u>(986,143)</u>	<u>2,304,899</u>	<u>51,981,671</u>
Governmental activities capital assets, net	<u>\$ 58,888,641</u>	<u>\$ (400,586)</u>	<u>\$ -</u>	<u>\$ 58,488,055</u>

**5. CAPITAL ASSETS (Continued)**

Depreciation expense was charged to functions as follows:

General government support	\$ 171,649
Public safety	109,789
Transportation	196,503
Culture and recreation	48,110
Home and community	<u>679,357</u>
	<u>\$ 1,205,408</u>

**6. 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.

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 maturing 5/29/14 at .066%	\$ 3,744,800	\$ -	\$ 3,744,800	\$ -
BAN maturing 5/29/14 at 1.0%	4,485,981	-	4,485,981	-
RAN maturing 10/8/14 at 0.84%	2,700,000	-	2,700,000	-
BAN maturing 5/28/15 at 1.00%	<u>-</u>	<u>8,118,800</u>	<u>-</u>	<u>8,118,800</u>
Total	<u>\$ 10,930,781</u>	<u>\$ 8,118,800</u>	<u>\$ 10,930,781</u>	<u>\$ 8,118,800</u>

On October 28, 2014, the City closed on the issuance of a Bond Anticipation Deficit Financing Note in the amount of \$4,571,021, maturing on October 27, 2015 bearing interest at 3.375%, due at maturity. As the funds used to cover the deficits initiated from the general fund, the obligation has been recognized in the general fund. The note was repaid from the City's general fund in 2015.

## 7. PENSION PLAN

### Plan Description

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

### Funding Policies

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

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

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>
2014	\$ 1,249,912	\$ 1,924,506
2013	\$ 1,282,317	\$ 2,322,234
2012	\$ 1,261,892	\$ 1,955,875

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

## 8. OTHER POST EMPLOYMENT 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 186 retirees eligible to receive benefits under the Plan at December 31, 2014. 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 2014 was \$2,552,538. The cost of administering the Plan is paid by the City.

### Annual OPEB Cost and Net OPEB Obligation

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

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and the City's net OPEB obligation to the Plan at December 31, 2014:

Annual required contribution	\$ 7,476,797
Interest	663,504
Adjustment	<u>(633,853)</u>
Annual OPEB cost (expense)	7,506,448
Contributions made	<u>(2,552,538)</u>
Increase in net OPEB obligation	4,953,910
Net OPEB obligation - beginning of year	<u>16,587,612</u>
Net OPEB obligation - end of year	<u>\$ 21,541,522</u>
Percentage of annual OPEB cost contributed	34.0%

### 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.

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

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

The schedule of funding progress presents information on the actuarial value of plan assets relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2014	\$ -	\$ 103,028,122	\$ 103,028,122	0.0%	\$ 14,006,996	736%
12/31/2013	\$ -	\$ 95,743,119	\$ 95,743,119	0.0%	\$ 13,704,873	699%
12/31/2012	\$ -	\$ 91,202,018	\$ 91,202,018	0.0%	\$ 13,857,018	658%

The following table provides trend information for the Plan:

	Annual OPEB Cost	Annual Contributions	Percent of Annual OPEB Cost Contributed	Net OPEB Obligation at December 31
2014	\$ 7,506,448	\$ 2,552,538	34.0%	\$ 21,541,522
2013	\$ 7,196,437	\$ 2,223,865	30.9%	\$ 16,587,612
2012	\$ 6,878,227	\$ 2,348,088	34.1%	\$ 11,615,040

**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, 2014:

Actuarial cost method	Projected unit credit
Discount rate*	4.0%
Medical care cost trend rate	The SOA Long-Run Cost Trend Model is used, starting at 15% for 2014 and ultimately trending down to 4.30% by 2084.



## 8. OTHER POST EMPLOYMENT BENEFIT PLAN (Continued)

Unfunded actuarial accrued liability:	
Amortization period	30 years
Amortization method	Level dollar
Amortization basis	Open

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

## 9. LONG-TERM LIABILITIES

### Serial Bonds

The City borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These long-term liabilities are full faith and credit debt of the City. The provision to be made in the future budgets for capital indebtedness represents the amount, exclusive of interest, authorized to be collected in future years from taxpayers and others for liquidation of the long-term liabilities. During the current year, the City recognized \$193,074 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 \$27,941 in the current year.

The following is a summary of changes in long-term liabilities for the year ended December 31, 2014:

	Balance at January 1, 2014	Increase	Decrease	Balance at December 31, 2014	Current
Serial bonds	\$ 5,145,000	\$ 4,595,000	\$ 805,000	\$ 8,935,000	\$ 745,000
Other post employment benefits	16,587,612	7,506,448	2,552,538	21,541,522	-
Compensated absences (A)	2,725,757	140,533	-	2,866,290	-
Workers compensation liability	3,333,737	1,085,735	-	4,419,472	-
Health insurance liability	-	242,173	-	242,173	-
Installment debt	239,341	-	57,898	181,443	59,171
Total governmental long-term debt	<u>\$ 28,031,447</u>	<u>\$ 13,569,889</u>	<u>\$ 3,415,436</u>	<u>\$ 38,185,900</u>	<u>\$ 804,171</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. The notes were issued on December 30, 2013.

## 9. LONG-TERM LIABILITIES (Continued)

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.

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 and installment purchase debt payable obligations during the year and outstanding as of December 31, 2014:

	Year of <u>Issue</u>	Year of <u>Maturity</u>	Interest <u>Rate</u>	Original <u>Issue</u>	Principal Outstanding <u>12/31/2013</u>	<u>Payments</u>	<u>Issued</u>	Principal Outstanding <u>12/31/2014</u>
General								
	2005	2019	3.5% - 4.0%	\$ 256,300	\$ 20,000	\$ 20,000	\$ -	\$ -
	2008	2022	4.23%	839,635	500,000	70,000	-	430,000
	2012	2022	.6% - 2.4%	165,000	145,000	20,000	-	125,000
	2012	2016	.6% - 1.2%	40,000	30,000	10,000	-	20,000
	2012	2016	.6% - 1.2%	160,580	90,000	28,000	-	62,000
	2014	2024	5.00%	1,086,835	-	-	1,086,835	1,086,835
	2013	2017	2.198%	302,500	239,341	57,898	-	181,443
					<u>1,024,341</u>	<u>205,898</u>	<u>1,086,835</u>	<u>1,905,278</u>
Capital								
	2014	2024	2.65% - 3%	650,000	-	-	650,000	650,000
Sewer								
	2004	2019	1.2% - 4.67%	856,338	375,000	60,000	-	315,000
	2005	2019	3.5% - 4.0%	2,031,600	735,000	170,000	-	565,000
	2008	2022	4.24%	152,811	100,000	10,000	-	90,000
	2008	2037	4.62%	1,392,363	1,170,000	40,000	-	1,130,000
	2012	2022	.6 - 2.4%	455,000	430,000	50,000	-	380,000
	2012	2022	.6 - 2.4%	40,000	15,000	-	-	15,000
	2014	2024	5.00%	1,036,390	-	-	1,036,390	1,036,390
					<u>2,825,000</u>	<u>330,000</u>	<u>1,036,390</u>	<u>3,531,390</u>
Water								
	2005	2019	3.5% - 4.0%	518,000	240,000	40,000	-	200,000
	2008	2022	4.23%	428,870	275,000	30,000	-	245,000
	2012	2018	3.25% - 4.1%	630,400	480,000	85,000	-	395,000
	2014	2024	5.00%	1,563,190	-	-	1,563,190	1,563,190
					<u>995,000</u>	<u>155,000</u>	<u>1,563,190</u>	<u>2,403,190</u>
Refuse								
	2012	2016	2.00%	834,420	540,000	172,000	-	368,000
	2014	2024	5.00%	258,585	-	-	258,585	258,585
					<u>540,000</u>	<u>172,000</u>	<u>258,585</u>	<u>626,585</u>
Total								
					<u>\$ 5,384,341</u>	<u>\$ 862,898</u>	<u>\$ 4,595,000</u>	<u>\$ 9,116,443</u>

## 9. LONG-TERM LIABILITIES (Continued)

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

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2015	\$ 804,171	\$ 327,343	\$ 1,131,514
2016	1,225,471	336,685	1,562,156
2017	1,016,801	294,782	1,311,583
2018	980,000	256,162	1,236,162
2019	895,000	212,132	1,107,132
2020-2024	3,415,000	614,310	4,029,310
2025-2029	320,000	138,868	458,868
2030-2034	280,000	76,612	356,612
2035-2039	<u>180,000</u>	<u>12,731</u>	<u>192,731</u>
Total	<u>\$ 9,116,443</u>	<u>\$ 2,269,625</u>	<u>\$ 11,386,068</u>

## 10. 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 \$6,500,659 at December 31, 2014. Employees contributed \$592,316 into the plan in 2014.

## 11. 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 2014: 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 \$50,000). 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.

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.

## 11. RISK FINANCING ACTIVITIES (Continued)

	<u>Workers' Compensation</u>
Estimated claims December 31, 2013	\$ 3,333,737
Increase in liability	<u>1,085,735</u>
Total Estimated claims December 31, 2014	<u>\$ 4,419,472</u>

	<u>Health Insurance</u>
Estimated claims December 31, 2013	\$ -
Increase in liability	<u>242,173</u>
Total Estimated claims December 31, 2014	<u>\$ 242,173</u>

The health insurance plan maintains specific stop loss insurance which insure against an individual catastrophic Health event for amounts over \$10,000.

## 12. 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 \$3,300 for 2014 and \$3,400 for years through 2016. The estimated annual maintenance cost for the landfill, for the remaining 10 years of monitoring are estimated at a maximum of \$5,000 per year.

### Assessments

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

### Other

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

### 13. FUND BALANCE

As of December 31, 2014, fund balances were composed of the following:

	General Fund	Community Development Fund	Water Fund	Sewer Fund	Refuse Fund	Capital Fund	Debt Service Fund
Nonspendable							
Prepaid expenditures	\$ 660,665	\$ -	\$ 68,795	\$ 64,145	\$ -	\$ -	\$ -
Restricted							
Workers compensation	925,621	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	641,319
	<u>925,621</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>641,319</u>
Assigned							
Self-insured healthcare	200,000	-	-	-	-	-	-
Deficit financing repayment	514,242	-	599,128	788,452	30,696	-	-
Other assigned	17,414	-	-	-	-	-	-
	<u>731,656</u>	<u>-</u>	<u>599,128</u>	<u>788,452</u>	<u>30,696</u>	<u>-</u>	<u>-</u>
Unassigned	-	(63,615)	-	-	-	(5,310,754)	-
Total	<u>\$ 2,317,942</u>	<u>\$ (63,615)</u>	<u>\$ 667,923</u>	<u>\$ 852,597</u>	<u>\$ 30,696</u>	<u>\$ (5,310,754)</u>	<u>\$ 641,319</u>

### 14. FUTURE GASB PRONOUNCEMENTS

In June 2012, the GASB issued Statements No. 68 *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. Statement No. 68 establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of Statement No. 68, as well as for non-employer governments that have a legal obligation to contribute to those plans. The City is required to adopt the provisions of these Statements for the year ending December 31, 2015, with early adoption encouraged. The City's management has not yet assessed the impact of this statement on its future financial statements.

In November 2013, the GASB issued Statement No. 71, *Pension Transitions for Contributions Made Subsequent to the Transition Date - an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The City's management has not yet assessed the impact of this statement on its future financial statements. The City is required to adopt the provisions of this Statement in conjunction with GASB Statement No. 68, for the year ending December 31, 2015, with early adoption encouraged.

#### **14. FUTURE GASB PRONOUNCEMENTS (Continued)**

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 August 2015, the GASB issued Statement *No. 77 Tax Abatement Disclosures*. This Statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues. The provisions of this Statement should be applied to all state and local governments subject to such tax abatement agreements. The City is required to adopt the provisions of these Statements for the year ending December 31, 2018, with early adoption encouraged.

#### **15. SUBSEQUENT EVENTS**

##### **Bond Anticipation Note**

On May 28, 2015, the City issued \$7,360,600 in bond anticipation notes due on May 26, 2016 at a rate of 1.08%. These notes were issued to pay part of the costs of capital projects ongoing.

CITY OF LOCKPORT, NEW YORK

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL - GENERAL FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2014

	Original Budget	Final Budget	Actual Amounts	Encumbrances	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>					
Real property taxes and tax items	\$ 11,070,054	\$ 11,070,054	\$ 11,333,473	\$ -	\$ 263,419
Nonproperty tax items	6,178,000	6,178,000	6,712,775	-	534,775
Departmental income	981,700	1,006,700	841,961	-	(164,739)
Use of money and property	4,000	4,000	479	-	(3,521)
Licenses and permits	170,000	170,000	201,258	-	31,258
Fines and forfeitures	290,000	290,000	187,868	-	(102,132)
Sale of property and compensation for loss	290,200	301,455	43,836	-	(257,619)
Miscellaneous	5,000	10,220	194,244	-	184,024
State aid	3,990,040	4,089,171	3,054,934	-	(1,034,237)
Federal aid	16,900	107,440	163,783	-	56,343
<b>Total revenues</b>	<b>22,995,894</b>	<b>23,227,040</b>	<b>22,734,611</b>	<b>-</b>	<b>(492,429)</b>
<b>EXPENDITURES:</b>					
General governmental support	2,930,089	3,063,851	2,685,886	17,414	360,551
Public health	3,500	1,605	1,605	-	-
Public safety	8,367,225	8,568,243	8,559,264	-	8,979
Transportation	1,612,083	1,577,035	1,572,277	-	4,758
Economic assistance and opportunity	113,800	130,746	130,709	-	37
Culture and recreation	584,653	451,841	451,439	-	402
Home and community services	435,437	436,912	431,452	-	5,460
Employee benefits	9,084,701	9,213,080	8,920,319	-	292,761
Debt service -					
Principal	506,844	425,659	273,579	-	152,080
Interest	78,001	83,262	79,983	-	3,279
<b>Total expenditures</b>	<b>23,716,333</b>	<b>23,952,234</b>	<b>23,106,513</b>	<b>17,414</b>	<b>828,307</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(720,439)</b>	<b>(725,194)</b>	<b>(371,902)</b>	<b>(17,414)</b>	<b>335,878</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from the issuance of debt	-	-	1,086,836	-	1,086,836
Operating transfers - in	720,439	720,439	720,439	-	-
<b>Total other financing sources and uses</b>	<b>720,439</b>	<b>720,439</b>	<b>1,807,275</b>	<b>-</b>	<b>1,086,836</b>
<b>CHANGE IN FUND BALANCE</b>	<b>\$ -</b>	<b>\$ (4,755)</b>	<b>1,435,373</b>	<b>\$ (17,414)</b>	<b>\$ 1,422,714</b>
FUND BALANCE - beginning of year			882,569		
FUND BALANCE - end of year			<u>\$ 2,317,942</u>		

**CITY OF LOCKPORT, NEW YORK**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - WATER FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual Amounts</u>	<u>Encumbrances</u>	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>					
Departmental income	\$ 3,976,000	\$ 3,981,000	\$ 3,243,644	\$ -	\$ (737,356)
Sale of property and compensation for loss	5,000	5,000	2,895	-	(2,105)
Miscellaneous	<u>10,000</u>	<u>20,341</u>	<u>26,768</u>	-	<u>6,427</u>
<b>Total revenues</b>	<u>3,991,000</u>	<u>4,006,341</u>	<u>3,273,307</u>	-	<u>(733,034)</u>
<b>EXPENDITURES:</b>					
General governmental support	80,000	93,616	87,923	-	5,693
Home and community services	2,037,900	2,141,850	2,116,997	33,555	(8,702)
Employee benefits	1,260,000	1,275,074	1,132,457	-	142,617
Debt service -					
Principal	266,618	187,051	180,000	-	7,051
Interest	<u>46,482</u>	<u>50,700</u>	<u>50,700</u>	-	-
<b>Total expenditures</b>	<u>3,691,000</u>	<u>3,748,291</u>	<u>3,568,077</u>	<u>33,555</u>	<u>146,659</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>300,000</u>	<u>258,050</u>	<u>(294,770)</u>	<u>(33,555)</u>	<u>(586,375)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from the issuance of debt	-	-	1,563,189	-	1,563,189
Operating transfers - out	<u>(300,000)</u>	<u>(300,000)</u>	<u>(322,607)</u>	-	<u>(22,607)</u>
<b>Total other financing sources and uses</b>	<u>(300,000)</u>	<u>(300,000)</u>	<u>1,240,582</u>	-	<u>1,540,582</u>
<b>CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ (41,950)</u>	945,812	<u>\$ (33,555)</u>	<u>\$ 954,207</u>
<b>FUND BALANCE - beginning of year</b>			<u>(277,889)</u>		
<b>FUND BALANCE - end of year</b>			<u>\$ 667,923</u>		



**CITY OF LOCKPORT, NEW YORK**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - SEWER FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Original Budget	Final Budget	Actual Amounts	Encumbrances	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>					
Departmental income	\$ 3,585,000	\$ 3,585,000	\$ 3,010,253	\$ -	\$ (574,747)
Sale of property and compensation for loss	103,000	103,000	49,154	-	(53,846)
Miscellaneous	<u>601,855</u>	<u>612,638</u>	<u>671,977</u>	-	<u>59,339</u>
Total revenues	<u>4,289,855</u>	<u>4,300,638</u>	<u>3,731,384</u>	-	<u>(569,254)</u>
<b>EXPENDITURES:</b>					
General governmental support	70,000	88,312	72,293	-	16,019
Home and community services	2,240,423	2,316,604	1,993,709	60,227	262,668
Employee benefits	1,099,600	1,121,567	1,068,934	-	52,633
Debt service -					
Principal	493,838	396,030	349,300	-	46,730
Interest	<u>86,247</u>	<u>90,314</u>	<u>83,846</u>	-	<u>6,468</u>
Total expenditures	<u>3,990,108</u>	<u>4,012,827</u>	<u>3,568,082</u>	<u>60,227</u>	<u>384,518</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>299,747</u>	<u>287,811</u>	<u>163,302</u>	<u>(60,227)</u>	<u>(184,736)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from the issuance of debt	-	-	1,036,389	-	1,036,389
Operating transfers - out	<u>(420,438)</u>	<u>(420,438)</u>	<u>(503,307)</u>	-	<u>(82,869)</u>
Total other financing sources and uses	<u>(420,438)</u>	<u>(420,438)</u>	<u>533,082</u>	-	<u>953,520</u>
CHANGE IN FUND BALANCE	\$ (120,691)	\$ (132,627)	696,384	\$ (60,227)	\$ 768,784
FUND BALANCE - beginning of year			<u>156,213</u>		
FUND BALANCE - end of year			<u>\$ 852,597</u>		

**CITY OF LOCKPORT, NEW YORK**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - REFUSE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Encumbrances</u>	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>					
Departmental income	\$ 1,263,000	\$ 1,263,000	\$ 1,294,047	\$ -	\$ 31,047
Use of money and property	<u>100</u>	<u>100</u>	<u>121</u>	<u>-</u>	<u>21</u>
Total revenues	<u>1,263,100</u>	<u>1,263,100</u>	<u>1,294,168</u>	<u>-</u>	<u>31,068</u>
<b>EXPENDITURES:</b>					
Home and community services	1,080,300	1,080,300	1,073,070	52,709	(45,479)
Employee benefits	-	-	-	-	-
Debt service -					
Principal	172,000	172,000	172,000	-	-
Interest	<u>10,800</u>	<u>10,800</u>	<u>10,800</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>1,263,100</u>	<u>1,263,100</u>	<u>1,255,870</u>	<u>52,709</u>	<u>(45,479)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>38,298</u>	<u>(52,709)</u>	<u>(14,411)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from the issuance of debt	<u>-</u>	<u>-</u>	<u>258,586</u>	<u>-</u>	<u>258,586</u>
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>258,586</u>	<u>-</u>	<u>258,586</u>
CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	296,884	<u>\$ (52,709)</u>	<u>\$ 244,175</u>
FUND BALANCE - beginning of year			<u>(266,188)</u>		
FUND BALANCE - end of year			<u>\$ 30,696</u>		

**SECTION B**

**OMB CIRCULAR A-133**

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

September 30, 2015

To the Honorable Members of City Council of  
City of Lockport, New York:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the City of Lockport, New York (the City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 30, 2015.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses [Findings 2014-001 through 2014-004].

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

(Continued)

**Internal Control Over Financial Reporting (Continued)**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies

[Findings 2014-005 through 2014-007].

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**City of Lockport's Response to Findings**

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

**Purpose of this Report**

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

September 30, 2015

To the Honorable Members of City Council of  
City of Lockport, New York:

**Report on Compliance for Each Major Federal Program**

We have audited the City of Lockport, New York's (the City's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2014. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

**Opinion on Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.

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(Continued)

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**  
(Continued)

**Report on Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**CITY OF LOCKPORT, NEW YORK**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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Federal Grantor/Pass Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Community Development Block Grants/Entitlement Grants	14.228	N/A	\$ 951,967
HOME Investment Partnerships Program	14.239	N/A	<u>37,103</u>
Total U.S. Department of Housing and Urban Development			<u>989,070</u>
U.S. Department of Justice			
Joint Law Enforcement Operations	16.111	N/A	5,000
Violence Against Women Formula Grants	16.588	N/A	<u>34,199</u>
Total U.S. Department of Justice			<u>39,199</u>
U.S. Department of Homeland Security			
Passed through the NYS Department of Homeland Security and Emergency Services			
Disaster Grants - Public Assistance	97.036	N/A	<u>134,264</u>
Total U.S. Department of Homeland Security			<u>134,264</u>
Total Expenditures of Federal Awards			<u>\$ 1,162,533</u>

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



# **CITY OF LOCKPORT, NEW YORK**

## **NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS DECEMBER 31, 2014**

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### **1. REPORTING ENTITY**

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

### **2. PASS-THROUGH PROGRAMS**

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

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

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

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

### **4. INDIRECT COSTS**

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

### **5. MATCHING COSTS**

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

### **6. SUBRECIPIENTS**

The City passes through funding to the Greater Lockport Development Corporation for two contracts under the Community Development Block Grant program, CFDA #14.228. Expenditures for the year ended December 31, 2014 were \$828,080.

## CITY OF LOCKPORT, NEW YORK

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2014

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#### A. SUMMARY OF AUDITOR'S RESULTS

1. The independent auditor's report expresses unmodified opinions on the basic financial statements of the City of Lockport, New York (the City).
2. There were material weaknesses and significant deficiencies relating to the audit of the basic financial statements that were reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the basic financial statements of the City were disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and Report on Internal Control over Compliance Required by OMB Circular A-133.
5. The auditor's report on compliance for the City's major federal award programs expresses an unmodified opinion.
6. There are no audit findings relative to the major federal award programs for the City.
7. The program tested as major programs was:
  - CFDA No.14.228 Community Development Block Grants
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City was determined to not be a low-risk auditee.

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

*We consider the following findings to be material weaknesses:*

### **2014-001 – Audit Adjustments**

*Condition:* The financial statements for the year ended December 31, 2014 required significant adjustments in order to be fairly presented in accordance with generally accepted accounting principles.

*Criteria:* The City should ensure that all transactions are properly recorded within the City's accounting system.

*Effect:* The City's accounting records did not accurately reflect the financial position of the City for the year ended December 31, 2014; and therefore required significant journal entries to correct both fund level and government-wide statements.

*Cause:* A lack of controls over the financial reporting process led to various significant journal entries which needed to be recorded.

*Recommendation:* We recommend that the City ensure that regular, timely reconciliations of financial information on an ongoing basis be performed to ensure that amounts reported within the City's accounting system are correct.

*Response:* The Finance and Accounting Office has developed processes by which the books are closed on a monthly basis. Bank reconciliations are completed monthly with cash being tied to trial balance sheets. In addition, the Finance and Accounting Office has developed processes to ensure that the general ledger accurately reflects the spending and collection activity in all Funds.

### **2014-002 – Community Development Activity**

*Condition:* The financial activity of the Community Development department of the City, which administers grant funds and loans under the Housing and Urban Development (HUD) guidelines, has not been recorded within the City's financial accounting software.

*Criteria:* All financial activity for the City should be recorded and reconciled within the City's accounting software to ensure the records of the City are complete and accurate.

*Effect:* The City's accounting system did not properly reflect the activity of the Community Development department for the year ended December 31, 2014.

*Cause:* A lack of communication between the Community Development department and the office of the City Treasurer has caused information not to be received and recorded within the books.

*Recommendation:* We recommend the Community Development department report activity monthly to the Treasurer's office to ensure the accuracy and completeness of the City's accounting information.

### **2014-002 – Community Development Activity (continued)**

*Response:* The Finance and Accounting Office is completing the process of reconciling the Community Development loans and bank accounts, tying these to the cash and balance sheets for the fund and properly recording this information on the City's general ledger. This process has identified loans, receivables and bank accounts that were previously not reported. The City Council, on the advice of the Director of Finance, has adopted a Cash Handling Policy designed to ensure that most bank accounts of the City are under the custody of the City Treasurer and that all accounts, regardless of the custodian are identified and reconciled monthly. Further, the Director of Finance is working to develop a policy and procedure designed to capture and properly report all loan and grant reimbursement activity and provide this to the City Treasurer's Office regularly.

### **2014-003 – Community Development Loan Receivables**

*Condition:* During our audit of the loans receivable for the Community Development department we noted that significant write-offs and adjustments were needed to adjust the amounts to reflect the net realizable value to the City.

*Criteria:* Loans receivable as well as the unearned revenue should be reconciled monthly to ensure that the proper amounts are being recorded.

*Effect:* Loan receivables were overstated because loans deemed uncollectible or were satisfied, had not been adjusted in the accounting software.

*Cause:* The controls were not in place to ensure loans were reconciled on an ongoing basis.

*Recommendation:* The City should implement controls to ensure that loans are reconciled on a monthly basis to ensure they reflect the true realizable value to the City.

*Response:* The Office of Finance and Accounting has conducted an internal audit of all Community Development Loan programs and reconciled the accounts receivable to cash. During this audit it has been determined that the management of the loan programs, loans issued, loan repayments and loan satisfaction has been poor. Areas of improvement have been identified and the Director of Finance will be drafting policies and procedures for the management of these loans. In addition, the tracking and recording of repayments will be transferred to the Office of Finance and Accounting. All activity will be reconciled monthly.

### **2014-004 – Capital Projects Fund**

*Condition:* The City has created multiple accounts within the general ledger that are representative of each capital project cash balances. The sum of these cash accounts total to the amount in the actual cash that is held in one bank account. In conjunction with the City's third-party consultant, we noted that some of the City's capital project cash balances were negative, which means that one project was using the funding of another. In discussions with management, it was identified that capital projects were being completed regardless of whether or not the funding had been secured. Therefore, funding from other projects or unspent funding from completed projects were being used to fund ongoing and current capital projects.

*Criteria:* Capital project funding should be identified, secured, and received prior to expending monies for those projects. Unspent debt proceeds from a capital project should be put into a debt service reserve only to be used to pay debt payments.

#### **2014-004 – Capital Projects Fund (continued)**

*Effect:* Capital projects of the City were not being reconciled and closed out on a timely basis which allowed projects to use funding from another unrelated project.

*Cause:* The City was not reconciling and closing projects on an ongoing basis in the capital fund when they were completed.

*Recommendation:* During 2015, the City reconciled the capital fund and closed completed projects which moved monies to the debt service fund to repay debt. The City should continue to reconcile these projects on an ongoing basis. Projects that have not been funded should not expend funds until they are received.

*Response:* The Finance and Accounting Office has reconciled all capital projects and tied all activity, funding sources and cash for each project. This has resulted in adjustments approaching \$800,000 to all funds and capital and debt reserves. The Director of Finance has created a process and procedure to ensure that expenses and revenue are properly reported and posted to the appropriate fund and funding source.

***We consider the following findings to be significant deficiencies:***

#### **2014-005 - SEGREGATION OF DUTIES – PAYROLL**

*Condition:* In our discussion with management and various departments, we noted that there is one person who records, processes payroll and is responsible for inputting new employee information and editing existing employee information. There are no other employees fully or effectively cross-trained in her duties and; therefore, a vacancy for any reason would pose a risk. Furthermore, since there is no one formally reviewing the payroll once it is processed, errors could go undetected or unidentified by the individual with sole control over the activity.

*Criteria:* No single individual should be responsible for all duties within a specific area. Incompatible duties such as the recording and approval of payroll as well as changing rates or adding of employees should be separated.

*Effect:* The payroll process is not properly segregated or reviewed by the City.

*Cause:* The City does not have the appropriate personnel in place to properly segregate duties.

*Recommendation:* We recommend that the City determine what the best mechanism will be to enable the proper segregation of duties and reduce the risk.

*Response:* The City has hired a Director of Finance which will be overseeing the payroll function for the City. In addition, the City has hired a staff accountant that will be trained to process payroll. Finally, the City will be conducting a payroll certification audit comparing records in the Civil Service Office with that of Payroll to ensure accuracy and integrity.

## **2014-006 – RECORDING OF JOURNAL ENTRIES**

*Condition:* Journal entries do not require approval prior to posting. Therefore, journal entries can be made without adequate review, supporting documentation or authorization.

*Criteria:* To ensure journal entries are posted properly, they should be reviewed by someone other than the person preparing the entry to ensure appropriateness.

*Effect:* Journal entries posted into the system are not properly reviewed.

*Cause:* The City does not have a formal procedure in place to review journal entries.

*Recommendation:* The City should implement a procedure which outlines how journal entries are prepared, posted and approved within the accounting software. The City should also ensure that changes are made within the accounting software so that journal entries cannot be prepared and posted by the same individual unless they are approved by someone independent of the preparation.

*Response:* The Director of Finance has implemented new procedures that have limited the individuals authorized to enter journal entries. In addition, the Director of Finance reviews all journal entries made on a weekly basis.

## **2014-007 – GRANTS MANAGEMENT**

*Condition:* The City administers various grants at the departmental level. When inquiring as to what grants the City was administering, the various departments had to be contacted to find out what grants they were receiving and who the funding sources were. The City's Treasurer was unaware of which grant awards that the City had received or if eligible expenditures had been incurred.

*Criteria:* In order for the City to properly plan its budget and to record federal and state reimbursements correctly, they should be notified of the funding sources and grants that departments have applied for and received.

*Effect:* The City is unaware of all of its funding sources and therefore could not easily provide a listing of federal expenditures for the audit. Additionally, the City also may not be timely vouching for and tracking receipts of grant receivables that are owed back to the city.

*Cause:* Various departments are not communicating their funding sources to the Treasurer's office, or nor is the Treasurer's office proactively identifying grant activity to record.

*Recommendation:* We recommend that a procedure be established whereby each department, when applying for funding, send over grant information to the Treasurer to ensure they are aware of possible funding sources. When grant monies are expended and vouchered for, copies of the completed vouchers should be sent to the Treasurer as well.

*Response:* The Director of Finance is working to develop a policy and procedure designed to capture and properly report all grants and grant reimbursement activity to provide this information to the City Treasurer's Office regularly. It is anticipated that this policy and procedure will be issued by the end of FY 2015.