

CITY OF NORTH TONAWANDA, NEW YORK
BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT
WITH
INDEPENDENT AUDITOR'S REPORT
YEAR ENDED DECEMBER 31, 2016

CITY OF NORTH TONAWANDA, NEW YORK

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of Common Council
City of North Tonawanda
North Tonawanda, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of North Tonawanda, New York, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of North Tonawanda'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 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.

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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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of North Tonawanda, New York, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of North Tonawanda's basic financial statements. The Combining and Individual Fund Statements and Schedules, and the Financial Statements of Individual Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Combining and Individual Fund Statements and Schedules, and the Financial Statements of Individual Funds are the responsibility of management and was derived from and relates 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 schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2017 on our consideration of the City of North Tonawanda'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 City of North Tonawanda's internal control over financial reporting and compliance.

Amato, Fox & Company, P.C.

Tonawanda, New York
May 17, 2017

CITY OF NORTH TONAWANDA, NEW YORK

Management's Discussion and Analysis December 31, 2016

This section of the City of North Tonawanda's (City) annual financial report presents a discussion and analysis of the City's financial performance during the fiscal year ended December 31, 2016. Please read it in conjunction with the City's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded liabilities at the close of the 2016 fiscal year by \$43,211,668 (net position). Of this amount, \$4,864,347 is restricted for specific purposes (restricted net position), (\$8,317,258) is unrestricted, and \$46,664,579 is invested in capital assets, net of related debt.
- The City's total net position decreased by \$3,372,304. This change is largely due to increase of the retirement liability resulting from GASB 68.
- As of December 31, 2016, the City's governmental funds reported combined fund balances of \$18,511,127 an increase of \$346,737 in comparison with the prior year. Approximately 19.0% of the combined fund balances, \$3,516,237 is available to meet the City's current and future needs (unassigned fund balance). Approximately 49.5% of the combined fund balances, \$9,170,063 constitutes assigned fund balance which are available to meet specific current and future operational needs.
- At the end of the fiscal year, unassigned fund balance for the General Fund was \$3,516,237 or 10.0% of total general expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - *Management's Discussion and Analysis* (this section), the *Basic Financial Statements* and *Notes to the Financial Statements*.

Basic Financial Statements

Government-wide Financial Statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business.

The *Statement of Net Position* presents information on all City assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

CITY OF NORTH TONAWANDA, NEW YORK

Management's Discussion and Analysis December 31, 2016

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

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities). The City does not have any functions that are intended to recover all or, in part, a portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government support, public safety, transportation, economic assistance and opportunity, culture and recreation, home and community services, and interest and fiscal charges.

The government-wide financial statements can be found on pages 16-18 of this report.

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

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

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

The City maintains three individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, the Capital Projects Fund, and the Special Revenue Funds.

CITY OF NORTH TONAWANDA, NEW YORK

Management's Discussion and Analysis December 31, 2016

The City adopts an annual appropriated budget for its General, Sewer, Water and Capital Funds. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 19-26 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's own programs. The City has two fiduciary funds. The Agency Fund is used to account for funds held by the City as agent for employees' withholdings, monies due to other governments, and other miscellaneous items. The Private Purpose Trust is used to account for donated funds used for the purposes designated by the donors.

The basic fiduciary funds financial statements can be found on page 27 of this report.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The Notes can be found on pages 28-57 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve, over time, as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$43,211,668 at the close of the fiscal year. The summary of the City's net position is on the following page.

CITY OF NORTH TONAWANDA, NEW YORK

**Management's Discussion and Analysis
December 31, 2016**

Summary of City of North Tonawanda's Net Position- Table 1

	Total Governmental Activities 2016	Total Governmental Activities 2015	Percent of Increase (Decrease)
Current and other assets	\$ 23,808,185	\$ 23,777,456	0.1%
Capital assets	<u>60,268,579</u>	<u>59,351,998</u>	<u>1.5%</u>
Total assets	<u>84,076,764</u>	<u>83,129,454</u>	<u>1.1%</u>
Deferred Outflows of Resources	<u>15,376,241</u>	<u>3,756,803</u>	
Total Deferred Outflows of Resources	<u>15,376,241</u>	<u>3,756,803</u>	
Current liabilities	2,945,498	3,127,840	-5.8%
Long-term liabilities	<u>48,707,297</u>	<u>34,266,296</u>	<u>42.1%</u>
Total liabilities	<u>51,652,795</u>	<u>37,394,136</u>	<u>38.1%</u>
Deferred Inflows of Resources	<u>4,588,542</u>	<u>2,908,149</u>	<u>57.8%</u>
Total Deferred Inflows of Resources	<u>4,588,542</u>	<u>2,908,149</u>	<u>57.8%</u>
Net position:			
Net investment in capital assets	46,664,579	46,073,896	1.3%
Restricted	4,864,347	3,722,179	30.7%
Unrestricted	<u>(8,317,258)</u>	<u>(3,212,103)</u>	<u>158.9%</u>
Total net position	<u>\$ 43,211,668</u>	<u>\$ 46,583,972</u>	<u>-7.2%</u>

The largest portion of the City's net position reflects its investment in capital assets of \$46,664,579 (e.g. land, buildings, improvements, infrastructure, and equipment) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its 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 themselves cannot be used to liquidate these liabilities.

CITY OF NORTH TONAWANDA, NEW YORK

Management's Discussion and Analysis

December 31, 2016

Another portion of the City's net position represents restricted net position of \$4,864,347 which is reserved for insurance, certain encumbrances, workers' compensation, and debt.

The remaining component of total net position is unrestricted, which consists of net position that does not meet the definition of net investment in capital assets or restricted. Unrestricted net position is \$(8,317,258) at December 31, 2016.

Governmental activities. Governmental activities decreased the City's net position by \$3,372,304.

Summary of City of North Tonawanda's Changes in Net Position- Table 2

	<u>2016</u>	<u>2015</u>	<u>Percent of Increase (Decrease)</u>
Revenues:			
Program revenues:			
Charges for services	\$ 9,473,064	\$ 9,521,447	-0.5%
Operating grants and contributions	3,575,543	3,447,556	3.7%
Capital grants and contributions	1,108,522	1,426,598	-22.3%
General revenues:			
Property taxes	15,998,775	15,760,892	1.5%
Real property tax items	1,176,188	1,250,758	-6.0%
Non-property tax items	8,901,679	9,149,735	-2.7%
Use of money and property	375,259	320,430	17.1%
Sale of property and compensation for loss	728,394	584,527	24.6%
Miscellaneous	193,792	249,647	-22.4%
Interfund Revenue	-	9,270	-100.0%
State and Federal Aid	<u>4,739,963</u>	<u>4,749,016</u>	-0.2%
Total revenues	<u>46,271,179</u>	<u>46,469,876</u>	-0.4%

CITY OF NORTH TONAWANDA, NEW YORK

**Management's Discussion and Analysis
December 31, 2016**

Summary of City of North Tonawanda's Changes in Net Position- Table 2 (Continued)

	<u>2016</u>	<u>2015</u>	<u>Percent of Increase (Decrease)</u>
Expenses:			
General government support	\$ 4,954,381	\$ 6,223,563	-20.4%
Public safety	17,618,923	16,020,200	10.0%
Transportation	8,120,268	7,056,858	15.1%
Economic assistance and opportunity	4,024,811	2,933,837	37.2%
Culture and recreation	3,680,794	2,971,339	23.9%
Home and community services	10,926,856	9,489,950	15.1%
Interest and fiscal charges	317,450	376,258	-15.6%
Total expenses	<u>49,643,483</u>	<u>45,072,005</u>	<u>10.1%</u>
Change in net position	(3,372,304)	1,397,871	-341.2%
Net position- beginning	<u>46,583,972</u>	<u>45,186,101</u>	<u>3.1%</u>
Net position - ending	<u>\$ 43,211,668</u>	<u>\$ 46,583,972</u>	<u>-7.2%</u>

Business-type activities. The City does not have any business type activities.

CITY OF NORTH TONAWANDA, NEW YORK

Management's Discussion and Analysis December 31, 2016

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.

Governmental Funds. The general governmental functions are contained in the General, Special Revenue and Capital Projects Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At December 31, 2016, the City's governmental funds reported combined fund balances of \$18,511,127, an increase of \$346,737 in comparison with the prior year. Approximately 19.0% of the combined fund balances, \$3,516,237, constitutes unassigned fund balance, which is available to meet the City's current and future operational needs. Approximately 49.5% of the combined fund balances, \$9,170,063 constitutes assigned fund balance which are available to meet specific current and future operational needs. The remainder of fund balance is restricted to indicate that it is not available for new spending because it has already been committed.

The General Fund is the chief operating fund of the City. At December 31, 2016, unassigned fund balance of the General Fund was \$3,516,237, while total fund balance reached \$8,472,982. As a measure of General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 10.0% of total fund expenditures, while total fund balance also represents 24.2% of that same amount.

Revenues for governmental functions totaled \$46,199,755 in fiscal year ended December 31, 2016, which represents a decrease of .58% from the fiscal year ended December 31, 2015.

CITY OF NORTH TONAWANDA, NEW YORK

**Management's Discussion and Analysis
December 31, 2016**

The following table presents the amount of revenues from various sources, as well as, increases or decreases from the prior year:

Revenues Classified by Source: Governmental Funds- Table 3

	December 31, 2016 Amount	Percent of Total	December 31, 2015 Amount	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Revenues					
Real property taxes and tax items	\$ 17,174,963	37.18%	\$ 17,011,650	\$ 163,313	0.96%
Non-property tax items	8,901,679	19.27%	9,149,735	(248,056)	-2.71%
Departmental income	8,682,833	18.79%	8,585,965	96,868	1.13%
Intergovernmental charges	70,296	0.15%	267,583	(197,287)	-73.73%
Use of money and property	303,835	0.66%	320,430	(16,595)	-5.18%
Licenses and permits	289,434	0.63%	290,453	(1,019)	-0.35%
Fines and forfeitures	430,501	0.93%	377,446	53,055	14.06%
Sale of property and compensation for loss	728,394	1.58%	584,527	143,867	24.61%
Miscellaneous	193,792	0.42%	249,647	(55,855)	-22.37%
Interfund Revenue	-	0.00%	9,270	(9,270)	-100.00%
State and Federal Aid	9,424,028	20.40%	9,623,170	(199,142)	-2.07%
Total Revenues	\$ 46,199,755	100.00%	\$ 46,469,876	\$ (270,121)	-0.58%

The following provides an explanation of revenues by source that changed significantly over the prior year:

- Intergovernmental charges decreased because the city completed a capital project in 2015 that was partially funded by another government agency.
- Sale of property and compensation for loss increased due to highly favorable results on the 2016 in-rem proceedings.

CITY OF NORTH TONAWANDA, NEW YORK

**Management's Discussion and Analysis
December 31, 2016**

The following table presents expenditures, by function, compared to prior year amounts:

Expenditures by Function: Governmental Funds Table 4

	<u>December 31, 2016 Amount</u>	<u>Percent of Total</u>	<u>December 31, 2015 Amount</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent of Increase (Decrease)</u>
Expenditures:					
General governmental support	\$ 4,190,743	8.64%	\$ 4,335,570	\$ (144,827)	-3.34%
Public safety	10,950,429	22.58%	10,208,757	741,672	7.27%
Transportation	5,496,721	11.33%	5,822,490	(325,769)	-5.60%
Economic assistance and opportunity	3,014,962	6.22%	2,828,040	186,922	6.61%
Culture and recreation	3,073,483	6.34%	2,973,229	100,254	3.37%
Home and community services	6,740,510	13.90%	7,469,716	(729,206)	-9.76%
Employee benefits	12,440,607	25.65%	12,550,762	(110,155)	-0.88%
Debt service:					
Principal	2,254,677	4.65%	2,205,000	49,677	2.25%
Interest	<u>342,886</u>	<u>0.71%</u>	<u>352,312</u>	<u>(9,426)</u>	-2.68%
 Total Expenditures	 <u>\$ 48,505,018</u>	 <u>100.00%</u>	 <u>\$ 48,745,876</u>	 <u>\$ (240,858)</u>	

The following provides an explanation of expenditures that changed significantly over the prior year:

- Transportation decreased due to the completion of two major transportation projects in 2015.
- Economic assistance and opportunity increased because of two new economic assistance grants received.
- Home and community services decreased due to unusually high expenditures related to two development grants in 2015.

CITY OF NORTH TONAWANDA, NEW YORK

**Management's Discussion and Analysis
December 31, 2016**

Statement of Revenues, Expenditures and Changes in Fund Balance: Governmental Funds- Table 5

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total</u>
Fund Balance at December 31, 2014	\$ 9,169,725	\$ 6,408,189	\$ 2,324,374	\$ 17,902,288
Revenues	34,458,866	10,348,406	1,662,604	46,469,876
Expenditures	<u>(34,950,544)</u>	<u>(9,929,181)</u>	<u>(3,866,151)</u>	<u>(48,745,876)</u>
Excess (Deficiency) of Revenues over Expenditures	(491,678)	419,225	(2,203,547)	(2,276,000)
Other Financing Sources (Uses), Net	<u>134,342</u>	<u>39,342</u>	<u>2,364,418</u>	<u>2,538,102</u>
Excess (Deficiency) of Revenues and other Financing Sources over Expenditures	<u>(357,336)</u>	<u>458,567</u>	<u>160,871</u>	<u>262,102</u>
Fund Balance at December 31, 2015	<u>8,812,389</u>	<u>6,866,756</u>	<u>2,485,245</u>	<u>18,164,390</u>
Revenues	34,320,017	10,694,516	1,185,222	46,199,755
Expenditures	<u>(35,022,371)</u>	<u>(9,589,415)</u>	<u>(3,893,232)</u>	<u>(48,505,018)</u>
Excess (Deficiency) of Revenues over Expenditures	(702,354)	1,105,101	(2,708,010)	(2,305,263)
Other Financing Sources (Uses), Net	<u>362,947</u>	<u>-</u>	<u>2,289,053</u>	<u>2,652,000</u>
Excess (Deficiency) of Revenues and other Financing Sources over Expenditures	<u>(339,407)</u>	<u>1,105,101</u>	<u>(418,957)</u>	<u>346,737</u>
Fund Balance at December 31, 2016	<u>\$ 8,472,982</u>	<u>\$ 7,971,857</u>	<u>\$ 2,066,288</u>	<u>\$ 18,511,127</u>

CITY OF NORTH TONAWANDA, NEW YORK

**Management's Discussion and Analysis
December 31, 2016**

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the total original budget and the final amended budget for the City of North Tonawanda are shown on page 25 and 26.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental activities as of December 31, 2016, amounted to \$60,268,579 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, infrastructure, buildings, and machinery and equipment.

Capital assets net of depreciation are presented below:

Summary of City of North Tonawanda's Capital Assets (Net of Depreciation) - Table 6

	<u>2016</u>	<u>2015</u>	<u>Percent of Change</u>
Land	\$ 4,965,144	\$ 4,965,144	0.00%
Work in Progress	2,075,701	736,899	181.68%
Buildings and improvements	23,850,545	24,265,186	-1.71%
Machinery and equipment	5,814,088	5,529,280	5.15%
Land Improvements and Infrastructure	<u>23,563,101</u>	<u>23,855,489</u>	-1.23%
Total	<u>\$ 60,268,579</u>	<u>\$ 59,351,998</u>	

CITY OF NORTH TONAWANDA, NEW YORK

Management's Discussion and Analysis December 31, 2016

Long-term Obligations

At December 31, 2016, the City had total long-term obligations that consisted of serial bonds combined with a Section 108 Loan, BANs included in long term obligations, workers' compensation, amortized retirement contributions, local retirement incentive, compensated absences, and other postemployment benefits and net pension liability. A summary is as follows:

Summary of Long-Term Obligations- Table 7

	<u>2016</u>
Serial bonds	\$ 13,670,000
NYS retirement system	2,426,613
Local retirement incentive	80,000
Compensated absences	2,567,203
Workers' compensation	4,325,889
Other postemployment benefits	12,930,000
Net Pension Liability	<u>12,707,592</u>
Total long term obligations	<u>\$ 48,707,297</u>

New York State statutes limit the amount of general obligation debt a governmental entity may issue to 7% of its five-year valuation. The current debt-limitation for the City is \$88,578,765, which is significantly greater than the City's outstanding general obligation debt.

Since 2012, the City's general obligation debt has maintained an A1 rating from Moody's Investment Service.

Additional information on the City's long-term obligations can be found on pages 46-48 of the Notes to the Financial Statements.

Request for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Office of the City Accountant, 216 Payne Avenue, North Tonawanda, New York 14120.

BASIC FINANCIAL STATEMENTS

CITY OF NORTH TONAWANDA, NEW YORK

Statement of Net Position
December 31, 2016

<u>ASSETS AND DEFERRED OUTFLOWS</u>	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 15,042,532
Receivables (Net of Allowances for Estimated Uncollectables):	
Taxes	3,616,321
Accounts	3,166,965
State and Federal	209,466
Due from Other Governments	812,423
Prepaid Expenses	960,480
Capital Assets:	
Land	4,965,144
Work in Progress	2,075,701
Other Capital Assets, Net of Depreciation	<u>53,227,734</u>
Total Assets	<u>84,076,766</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Pensions	<u>15,376,241</u>
Total Deferred Outflows of Resources	<u>15,376,241</u>
 Total Assets and Deferred Outflows of Resources	 <u><u>\$ 99,453,007</u></u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORTH TONAWANDA, NEW YORK

**Statement of Net Position
December 31, 2016**

<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>	<u>Governmental Activities</u>
Liabilities:	
Accounts Payable	\$ 1,352,547
Accrued Liabilities	275,279
Accrued Interest	119,308
Due to Other Governments	1,198,366
Long-term Liabilities:	
Due within one year	20,086,578
Due in more than one year	15,913,127
Net Pension Liability- Proportionate Share	<u>12,707,592</u>
Total Liabilities	<u>51,652,797</u>
Deferred Inflows of Resources:	
Pensions	2,117,674
Unavailable Revenue- Property Taxes	<u>2,470,868</u>
Total Deferred Inflows of Resources	<u>4,588,542</u>
Net Position:	
Net Investment in Capital Assets	46,664,579
Restricted	4,864,347
Unrestricted	<u>(8,317,258)</u>
Total Net Position	<u>43,211,668</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 99,453,007</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORTH TONAWANDA, NEW YORK

**Statement of Activities
December 31, 2016**

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants And Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
Functions/Programs:					
Governmental Activities:					
General Government Support	\$ (4,954,381)	\$ 429,626	\$ -	\$ -	\$ (4,524,755)
Public Safety	(17,618,923)	521,329	94,626	20,052	(16,982,916)
Health	-	19,069	-	-	19,069
Transportation	(8,120,268)	22,720	123,171	74,206	(7,900,171)
Economic Assistance and Opportunity	(4,024,811)	59,106	100,000	1,014,264	(2,851,441)
Culture and Recreation	(3,680,794)	1,230,419	(12,223)	-	(2,462,598)
Home and Community Services	(10,926,856)	7,190,795	3,269,969	-	(466,092)
Interest and Fiscal Charges	(317,450)	-	-	-	(317,450)
Total Governmental Activities	<u>\$ (49,643,483)</u>	<u>\$ 9,473,064</u>	<u>\$ 3,575,543</u>	<u>\$ 1,108,522</u>	<u>(35,486,354)</u>
General Revenues:					
Property Taxes Levied for General Purposes					15,998,775
Real Property Tax Items					1,176,188
Non-property Tax Items					8,901,679
Use of Money and Property					375,259
Sales of Property and Compensation for Loss					728,394
Miscellaneous					193,792
Interfund Revenues					-
State and Federal Aid					4,739,963
Total General Revenues					<u>32,114,050</u>
Change in Net Position					(3,372,304)
Total Net Position at Beginning of Year					<u>46,583,972</u>
Total Net Position of End of Year					<u>\$ 43,211,668</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORTH TONAWANDA, NEW YORK

GOVERNMENTAL FUNDS

**Balance Sheet
December 31, 2016**

<u>ASSETS</u>	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Cash	\$ 6,710,178	\$ 5,674,774	2,657,580	\$ 15,042,532
Receivables (Net of Allowances for Estimated Uncollectables):				
Taxes	3,616,321	-	-	3,616,321
Accounts	558,989	2,507,976	-	3,066,965
State and Federal	184,466	-	25,000	209,466
Due from Other Funds	470,696	-	8,204	478,900
Due from Other Governments	762,423	-	50,000	812,423
Prepaid Expenses	897,071	63,409	-	960,480
Total Assets	<u><u>\$ 13,200,144</u></u>	<u><u>\$ 8,246,159</u></u>	<u><u>\$ 2,740,784</u></u>	<u><u>\$ 24,187,087</u></u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORTH TONAWANDA, NEW YORK

GOVERNMENTAL FUNDS

**Balance Sheet
December 31, 2016**

<u>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</u>	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Liabilities:				
Accounts Payable	\$ 843,723	\$ 145,902	\$ 362,922	\$ 1,352,547
Accrued Liabilities	221,938	53,341	-	275,279
Due to Other Funds	8,204	59,122	311,574	378,900
Due to Other Governments	1,183,338	15,028	-	1,198,366
Total Liabilities	<u>2,257,203</u>	<u>273,393</u>	<u>674,496</u>	<u>3,205,092</u>
Deferred Inflows of Resources:				
Unavailable Revenue- Property Taxes	<u>2,469,959</u>	<u>909</u>	<u>-</u>	<u>2,470,868</u>
Total Deferred Inflows of Resources	<u>2,469,959</u>	<u>909</u>	<u>-</u>	<u>2,470,868</u>
Fund Balances:				
Non-Spendable	897,071	63,409	-	960,480
Restricted Fund Balance	2,425,649	372,410	2,066,288	4,864,347
Assigned Fund Balance	1,634,025	7,536,038	-	9,170,063
Unassigned Fund Balance	<u>3,516,237</u>	<u>-</u>	<u>-</u>	<u>3,516,237</u>
Total Fund Balances	<u>8,472,982</u>	<u>7,971,857</u>	<u>2,066,288</u>	<u>18,511,127</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 13,200,144</u>	<u>\$ 8,246,159</u>	<u>\$ 2,740,784</u>	<u>\$ 24,187,087</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORTH TONAWANDA, NEW YORK

**Reconciliation of Statement of Net Position
to Governmental Fund Balances
December 31, 2016**

	<u>Governmental Activities</u>	
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Total Governmental Fund Balances		\$ 18,511,127
Capital assets are not financial resources and therefore not reported in the funds		
Capital Assets	113,238,053	
Depreciation	(52,969,474)	
Deferred Outflows of Employees Retirement System Liability	5,610,027	
Deferred Outflows of Police and Fire Retirement System Liability	<u>9,766,214</u>	75,644,820
Long-term liabilities that are not due and payable in the current period and therefore are not reported within the funds:		
Bonds Payable	(13,604,000)	
Section 108 Loan Payable	(66,000)	
NYS Retirement System	(2,426,613)	
Local Retirement Incentive	(80,000)	
Compensated Absences	(2,567,203)	
Accrued Workers' Compensation Obligation	(4,325,889)	
Other Postemployment Benefits	(12,930,000)	
Deferred Inflows of Employees Retirement System Liability	(552,640)	
Deferred Inflows of Police and Fire Retirement System	(1,565,034)	
Proportionate Share of Employees Retirement System Liability	(4,662,321)	
Proportionate Share of Police and Fire Retirement System Liability	<u>(8,045,271)</u>	(50,824,971)
Interest accrual on long-term debt, which is not recognized in the funds until it is paid		<u>(119,308)</u>
Net Position of Governmental Activities		<u>\$ 43,211,668</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORTH TONAWANDA, NEW YORK

GOVERNMENTAL FUNDS

**Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2016**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues:				
Real Property Taxes	\$ 15,998,775	\$ -	\$ -	\$ 15,998,775
Real Property Tax Items	1,176,188	-	-	1,176,188
Non-property Tax Items	8,901,679	-	-	8,901,679
Departmental Income	1,521,246	7,161,587	-	8,682,833
Intergovernmental Charges	70,296	-	-	70,296
Use of Money and Property	142,882	160,953	-	303,835
Licenses and Permits	289,434	-	-	289,434
Fines and Forfeitures	430,501	-	-	430,501
Sale of Property and Compensation for Loss	726,387	2,007	-	728,394
Miscellaneous	117,093	-	76,699	193,792
Interfund Revenue	-	-	-	-
State Aid	4,870,565	100,000	1,088,471	6,059,036
Federal Aid	74,971	3,269,969	20,052	3,364,992
Total Revenues	<u>34,320,017</u>	<u>10,694,516</u>	<u>1,185,222</u>	<u>46,199,755</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORTH TONAWANDA, NEW YORK

GOVERNMENTAL FUNDS

**Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2016**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Expenditures:				
Current:				
General Government Support	\$ 4,134,261	\$ 24,100	\$ 32,382	\$ 4,190,743
Public Safety	10,261,132	-	689,297	10,950,429
Transportation	4,240,986	-	1,255,735	5,496,721
Economic Assistance and Opportunity	57,539	2,955,029	2,394	3,014,962
Culture and Recreation	1,942,150	-	1,131,333	3,073,483
Home and Community Services	1,477,863	4,480,556	782,091	6,740,510
Employee Benefits	11,093,664	1,346,943	-	12,440,607
Debt Service - Principal	1,593,907	660,770	-	2,254,677
Debt Service - Interest	<u>220,869</u>	<u>122,017</u>	<u>-</u>	<u>342,886</u>
Total Expenditures	<u>35,022,371</u>	<u>9,589,415</u>	<u>3,893,232</u>	<u>48,505,018</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(702,354)</u>	<u>1,105,101</u>	<u>(2,708,010)</u>	<u>(2,305,263)</u>
Other Sources and (Uses):				
Proceeds of Obligations	-	-	2,652,000	2,652,000
Transfers from Other Funds	464,374	-	101,427	565,801
Transfers to Other Funds	<u>(101,427)</u>	<u>-</u>	<u>(464,374)</u>	<u>(565,801)</u>
Total Other Sources and (Uses)	<u>362,947</u>	<u>-</u>	<u>2,289,053</u>	<u>2,652,000</u>
Net Change in Fund Balances	(339,407)	1,105,101	(418,957)	346,737
Fund Balance at Beginning of Year	<u>8,812,389</u>	<u>6,866,756</u>	<u>2,485,245</u>	<u>18,164,390</u>
Fund Balance at End of Year	<u>\$ 8,472,982</u>	<u>\$ 7,971,857</u>	<u>\$ 2,066,288</u>	<u>\$ 18,511,127</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORTH TONAWANDA, NEW YORK

GENERAL FUND

**Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance- Governmental Funds
For the Year Ended December 31, 2016**

	<u>Governmental Activities</u>
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Net change in fund balances - total governmental funds	\$ 346,737
Debt service principal recorded as an expenditure for the governmental funds but it is not recorded in the statement of activities. Debt service principal payments are reductions in liabilities.	(6,034,000)
Capital outlay expenditures for capital assets are recorded in governmental funds as expenditures. Such expenditures are not recorded in the statement of activities because they are recorded as capital assets.	3,132,512
Depreciation recorded on the statement of activities but not in statement for governmental funds.	(2,215,931)
The issuance of long-term debt is recorded as a revenue on the governmental funds but not on the statement of activities.	5,708,102
Net payment of long-term retirement payable expensed in statement for governmental funds but not in statement of activities.	461,782
Debt service principal recorded as an expenditure for the governmental funds but it is not recorded in the statement of activities. Debt service principal payments are reductions in liabilities.	15,000
Net payment of long-term local retirement payable expensed in statement for governmental funds but not in statement of activities.	25,000
Net change in compensated absences not reflected in governmental funds.	(967,690)
Net accrued workers' compensation liability	(388,050)
Net accrued interest for bonds not reported in funds.	25,436
Accrued post-employment benefit obligation liability increases long-term liabilities in the statement of net position and related expenditures in the statement of activities, but not to governmental funds. Net post-employment benefit contribution is an expenditure in governmental funds, but the contribution reduces long-term liabilities in the statement of net position. This is the amount by which accrued post-employment benefit liability adjustment exceeds the contribution.	(2,190,000)
Change in deferred outflows of Employees Retirement System	3,925,781
Change in deferred outflows of Police and Fire Retirement System	7,693,657
Change in deferred inflows of Employees Retirement System	(552,640)
Change in deferred inflows of Police and Fire Retirement System	(1,286,855)
Proportionate share of Employees Retirement System liability	(3,760,199)
Proportionate share of Police and Fire Retirement System liability	<u>(7,310,946)</u>
Change in Net Position of Governmental Activities	\$ <u>(3,372,304)</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORTH TONAWANDA, NEW YORK

GENERAL FUND

**Statement of Revenues, Expenditures and Changes in Fund Balance- Budget and Actual
For the Year Ended December 31, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Actual</u>	<u>Variance Final Budget</u>
Revenues:				
Real Property Taxes	\$ 16,015,955	\$ 16,015,955	\$ 15,998,775	\$ (17,180)
Real Property Tax Items	1,175,000	1,175,000	1,176,188	1,188
Non-property Tax Items	9,490,000	9,490,000	8,901,679	(588,321)
Departmental Income	1,504,557	1,475,057	1,521,246	46,189
Intergovernmental Charges	44,200	44,200	70,296	26,096
Use of Money and Property	97,000	97,000	142,882	45,882
Licenses and Permits	285,600	285,600	289,434	3,834
Fines and Forfeitures	360,000	360,000	430,501	70,501
Sale of Property and Compensation for Loss	1,088,250	1,088,250	726,387	(361,863)
Miscellaneous	10	(1,570)	117,093	118,663
State Aid	4,948,332	4,938,332	4,870,565	(67,767)
Federal Aid	16,000	(74,620)	74,971	149,591
Total Revenues	<u>35,024,904</u>	<u>34,893,204</u>	<u>34,320,017</u>	<u>(573,187)</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORTH TONAWANDA, NEW YORK

GENERAL FUND

**Statement of Revenues, Expenditures and Changes in Fund Balance- Budget and Actual
For the Year Ended December 31, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Actual</u>	<u>Variance Final Budget</u>
Expenditures:				
Current:				
General Government Support	\$ 4,410,076	\$ 4,600,593	\$ 4,134,261	\$ 466,332
Public Safety	10,131,123	10,532,436	10,261,132	271,304
Transportation	4,261,104	4,324,010	4,240,986	83,024
Economic Opportunity and Development	61,300	63,300	57,539	5,761
Culture and Recreation	1,944,976	2,036,976	1,942,150	94,826
Home and Community Services	1,468,006	1,525,006	1,477,863	47,143
Employee Benefits	12,248,387	11,468,087	11,093,664	374,423
Debt Service - Principal	1,606,102	1,603,102	1,593,907	9,195
Debt Service - Interest	321,748	223,248	220,869	2,379
Total Expenditures	<u>36,452,822</u>	<u>36,376,758</u>	<u>35,022,371</u>	<u>1,354,387</u>
 Excess (Deficiency) of Revenues Over Expenditures	 <u>(1,427,918)</u>	 <u>(1,483,554)</u>	 <u>(702,354)</u>	 <u>(781,200)</u>
 Other Sources and (Uses):				
Transfers from Other Funds	250,000	250,000	464,374	(214,374)
Transfers to Other Funds	<u>-</u>	<u>(101,500)</u>	<u>(101,428)</u>	<u>(72)</u>
Total Other Sources and (Uses)	<u>250,000</u>	<u>148,500</u>	<u>362,946</u>	<u>(214,446)</u>
 Net Change in Fund Balances	 (1,177,918)	 (1,335,054)	 (339,408)	 995,646
 Fund Balance at January 1, 2016	 <u>8,812,389</u>	 <u>8,812,389</u>	 <u>8,812,389</u>	 <u>-</u>
 Fund Balance at December 31, 2016	 <u><u>\$ 7,634,471</u></u>	 <u><u>\$ 7,477,335</u></u>	 <u><u>\$ 8,472,981</u></u>	 <u><u>\$ 995,646</u></u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORTH TONAWANDA, NEW YORK

FIDUCIARY FUNDS

**Statement of Fiduciary Net Position
December 31, 2016**

	Private Purpose Trust	Agency Fund
	<u> </u>	<u> </u>
Assets:		
Cash and Cash Equivalents	\$136,264	\$333,353
Total Assets	<u>\$136,264</u>	<u>\$333,353</u>
Liabilities:		
Agency Liabilities	\$ 36,264	\$333,353
Due to Other Funds	<u>100,000</u>	<u> -</u>
Total Liabilities	<u>136,264</u>	<u>333,353</u>
Net Position	<u>\$ -</u>	<u>\$ -</u>
Total Liabilities and Net Position	<u>\$136,264</u>	<u>\$333,353</u>

The accompanying notes are an integral part of the basic financial statements.

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CITY OF NORTH TONAWANDA, NEW YORK

Notes to the Financial Statements

December 31, 2016

Note 1 - Summary of Significant Accounting Policies

The financial statements of the City of North Tonawanda, New York (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental 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 of North Tonawanda, New York, which was incorporated in 1897, is governed by City Law and other general laws of the State of New York and various local laws and ordinances. The Common Council is the legislative body responsible for overall operations of the City. The Mayor serves as Chief Executive Officer and the City Treasurer as the Chief Fiscal Officer of the City.

The City provides the following basic services: general government support, police protection and law enforcement, fire protection, safety inspection, highway maintenance, culture, recreation programs, street lighting, refuse collection, water, and wastewater.

All governmental activities and functions performed for the City of North Tonawanda are its direct responsibility. No other governmental organizations have been included or excluded from the reporting entity.

The financial reporting entity consists of (a) the primary government which is the City of North Tonawanda, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete as set forth in GASB Statement 61.

Government-wide and Financial Statements - The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the government. The effects of interfund activity have been removed from these statements. Government activities are normally supported by taxes and intergovernmental revenues.

CITY OF NORTH TONAWANDA, NEW YORK

Notes to the Financial Statements December 31, 2016

Note 1 - Summary of Significant Accounting Policies (Cont.)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead of general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation - Measurement focus is the determination of what is expressed in reporting an entity's financial performance and position, (i.e., expenditures or expenses). A particular measurement focus is accomplished both by considering what resources will be measured and the basis of accounting.

Basis of accounting refers to when revenues, expenditures/expenses, and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to timing of the measurements made, regardless of the measurement focus.

Accrual Basis - Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Modified Accrual Basis - Under this basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues from federal, state, or other grants designated for specific City expenditure are recognized when the related expenditures are incurred.

CITY OF NORTH TONAWANDA, NEW YORK

Notes to the Financial Statements December 31, 2016

Note 1 - Summary of Significant Accounting Policies (Cont.)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont.) - Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due and expenditures for inventory-type items and for prepayments (except retirement) are recognized at the time of the disbursements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Property taxes associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

General Fund - The principal operating fund that includes all operations not required to be recorded in other funds.

Special Revenue Funds - used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The following Special Revenue Funds are utilized:

Water Fund - This fund accounts for the revenues and expenditures derived from providing water services to City residents.

Sewer Fund - This fund accounts for the revenues and expenditures derived from providing wastewater services to City residents.

Special Grant Fund - This fund is used to account for the grant proceeds that are made available to the City by the United States Department of Housing and Urban Development.

Capital Projects Fund - Used to account for financial resources to be used for the acquisition or construction of major capital facilities.

CITY OF NORTH TONAWANDA, NEW YORK

Notes to the Financial Statements December 31, 2016

Note 1 - Summary of Significant Accounting Policies (Cont.)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont.)

Agency Fund - Used to account for money and property received and held in the capacity of custodian or agent. The Agency Fund is custodial in nature and does not involve measurement of results of operations. Agency funds, such as payroll withholdings, are reported as liabilities.

Private Purpose Trust - Used to account for donated funds used for the purposes designated by the donors.

Government-wide financial statements apply all applicable Governmental Accounting Standards Board (“GASB”) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board (“FASB”), Accounting Principles Board (“APB”) Opinions, and Accounting Research Bulletins (“ARB's”) of the Committee on Accounting Procedure.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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. General revenues are those that cannot be associated directly with program activities.

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

Property Tax Revenue Recognition - Property taxes attach an enforceable lien on property as of December 31. Taxes are levied on April 1. The City bills and collects its own taxes and also serves as collector of Niagara County and North Tonawanda City School District property taxes. City property tax revenues are recognized when levied to the extent that they result in current receivables.

The City is responsible for School District taxes reaching fourteen months delinquency. An allowance for uncollectible taxes has been recorded for those property taxes, which have been deemed to be uncollectible.

The City may not annually levy taxes, other than the debt service on City indebtedness in excess of 2% of the average full valuation of taxable real estate in the City for the previous years. This maximum taxing power for the year ended December 31, 2016 amounted to \$20,308,219. The 2016 tax levy of \$16,015,955, less \$2,251,407 in exclusions, represents approximately 54.39% of the maximum taxing power.

CITY OF NORTH TONAWANDA, NEW YORK

Notes to the Financial Statements December 31, 2016

Note 1 - Summary of Significant Accounting Policies (Cont.)

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

1. In mid-July, budget documentation is submitted to department heads by the Budget Officer, requesting estimates of revenue and appropriations.
2. In mid-August, each department head submits to the Budget Officer his or her departmental estimates of revenue and appropriations for the ensuing fiscal year.
3. During the month of September, the Mayor, City Accountant and Department Heads meet and formulate the Mayor's budget. On or before October 1st, the Mayor shall submit to the Common Council a budget for the ensuing year and an accompanying message.
4. The Common Council and Budget Officer review the Mayor's budget at various workshop sessions during the month of October.
5. A public hearing is conducted to obtain taxpayer comments.
6. The Common Council has the power to delete, reduce, increase or add items to the Mayor's budget. All changes to the proposed Mayor's budget require approval from a majority of Council Members.
7. On or before November 15th, the budget is legally enacted through passage of a resolution. If the Common Council fails to adopt the budget by November 15th, the budget submitted by the Mayor shall be deemed adopted for the ensuing fiscal year.
8. The Mayor reviews the adopted budget and has the opportunity to veto the resolution adopting the budget within 10 days from the date of adoption. The Mayor may disapprove the entire budget or one or more specific appropriations or budget items. If the Mayor vetoes the budget, the Council needs four votes to override.

CITY OF NORTH TONAWANDA, NEW YORK

**Notes to the Financial Statements
December 31, 2016**

Note 1 - Summary of Significant Accounting Policies (Cont.)

Budgets and Budgetary Data (Cont.)

9. If the Mayor vetoes the budget, the Council needs a 2/3 vote or 4 votes to override. The Common Council shall meet no later than December 31st to consider overriding the Mayor's veto of budget items.
10. Formal budgetary integration is employed as a management control device during the year for all governmental fund types except for the Special Grant Fund and Capital Projects Fund. Budgetary control for the Special Grant Fund is provided by annual grant entitlements that are approved by the United States Department of Housing and Urban Development. Budgetary control over the Capital Projects Fund is provided by Common Council approval of bond authorizations and provisions of bond indebtedness.
11. Common Council authorization is required for amounts exceeding \$250 for transfers of budgeted amounts within departments within any fund, transfers between departments within any fund, or any revisions that alter the total appropriations of any fund.

Encumbrances - Encumbrances represent commitments related to unperformed contracts for goods or services. 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 in all City funds. Outstanding encumbrances at year end, exclusive of grant-related commitments, are presented for GAAP reporting purposes as reservations of fund balances, and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Investments - The City had no marketable securities as of December 31, 2016. Investments such as certificates of deposits are shown under the caption "cash."

CITY OF NORTH TONAWANDA, NEW YORK

Notes to the Financial Statements
December 31, 2016

Note 1 - Summary of Significant Accounting Policies (Cont.)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost equal to or greater than \$35,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives.

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements & Infrastructure	10-50 years
Buildings and Improvements	5-100 years
Wastewater Treatment Distribution Network	25-100 years
Machinery and Equipment	5-25 years
Transportation Network	10-75 years
Sanitary Sewer Network	25-100 years

When capital assets are retired, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period in the government-wide statements. Amortization is reflected in income for the period in the government-wide statements. Amortization of capital leases is computed using the straight-line method over the lease term or the estimated useful lives of the assets, whichever is shorter. Maintenance and repairs are charged to expense as incurred; significant renewals and betterments are capitalized.

Insurance - Effective September 1993, the City obtained general liability insurance coverage which includes a self-insurance retention of \$100,000 for each claim with a \$200,000 self-insurance retention annual aggregate (stop loss aggregate) which gives the City coverage in the case of a claim over that self-insured limit. The City also obtained commercial auto bodily injury liability insurance in the amount of \$100,000.

Based on our standard operating procedure, judgments and claims up to \$25,000 are paid out of current budgetary appropriations. Judgments and claims over \$25,000 but less than \$200,000 are paid out of the General Fund Reserve for Insurance. Any judgments and claims greater than \$200,000 are bonded.

CITY OF NORTH TONAWANDA, NEW YORK

**Notes to the Financial Statements
December 31, 2016**

Note 1 - Summary of Significant Accounting Policies (Cont.)

Insurance (Cont.) - The City is also currently covered under property insurance, emergency medical technician (EMT) professional liability/malpractice, police professional liability, and public officials bond and theft, disappearance and destruction policies.

Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred, the amount of loss can be reasonably estimated, and the estimated amount of loss exceeds insurance coverage.

Effective June 9, 1999, the City became self-insured for Workers' Compensation. Prior to June 9, 1999, Workers' Compensation coverage was provided through the Niagara County Self-Insurance Fund.

Pensions - Nearly all City employees are members of various New York State retirement systems. The City is invoiced annually by the Systems for its share of the costs.

Vacation, Sick Leave and Compensatory Absences - City employees are granted vacation and sick leave, and earn compensatory absences in varying amounts. In the event of termination or upon retirement, an employee is entitled to payment for accumulated vacation and sick leave and unused compensatory absences at various rates subject to certain maximum limitations.

Depending upon the years of service and/or union membership, most employees are entitled to between one and six weeks of annual vacation. Generally, employees may not accrue unused vacation days beyond the expiration of the City's fiscal year end. Sick leave is administered to employees of the City as follows:

	<u>Fire</u>	<u>Police</u>	<u>CSEA</u>	<u>DPW</u>	<u>OPEIU</u>
Monthly Accrual Employed Prior to 1987	1 ½ days	1 ½ days	1 ½ days	1 ½ days	1 ½ days
Monthly Accrual Employed After 1987	1 day	1 ¼ days	1 day	1 day	1 day
Maximum Accrual	180 days	200 days	180 days	180 days	272 days
Payment at Termination	35% Unused	50% Unused	5 day max	5 day max	20% Unused

City employees are paid in December for unused vacation time applicable to the current year. Vacation days are earned on the first day of the year. Sick days are earned on the first day of each month, for the prior month of service, defined as being on the active payroll for one full pay period.

CITY OF NORTH TONAWANDA, NEW YORK

Notes to the Financial Statements December 31, 2016

Note 1 - Summary of Significant Accounting Policies (Cont.)

Vacation, Sick Leave and Compensatory Absences (Cont.) - Payment of sick leave and compensatory absences is dependent upon many factors, therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payments of vacation, sick leave and compensatory damages when such payment becomes due.

Federal Grants - Federal grants are recorded as grant receivable and deferred revenue when the entitlement period occurs. Revenue is recognized as the City incurs expenditures and meets the performance requirements of the grants.

Post-employment Benefits - In addition to providing pension benefits, the City provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the City's employees may become eligible for these benefits if they reach normal retirement age while working for the City. Health care benefits and survivors benefits are provided through insurance companies whose premiums are based on the benefits paid during the year. These benefits terminate upon death of the retired employee. The City recognizes the cost of providing benefits by recording its share of insurance premiums as an expenditure in the year paid. During the 2016 fiscal year, approximately \$1,924,732 was paid on behalf of 195 retirees and recorded as an expenditure in the General Fund.

Fund Balance Classifications - The fund balance financial statements have five classifications of fund balances:

- ***Nonspendable*** – Includes amounts that cannot be spent because they are either not spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance includes prepaid expenditures.
- ***Restricted*** – Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or law or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. All encumbrances of funds other than the General Fund are classified as restricted fund balance.
- ***Committed*** – Includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision making authority, i.e., the Common Council.

CITY OF NORTH TONAWANDA, NEW YORK

Notes to the Financial Statements December 31, 2016

Note 1 - Summary of Significant Accounting Policies (Cont.)

Fund Balance Classifications (Cont.)

- ***Assigned*** – Included amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. All encumbrances of the General Fund are classified as Assigned Fund Balance in the General Fund.
- ***Unassigned*** – Includes all other General Fund net assets that do not meet the definition of the above four classifications and are deemed to be available for general use by the City.

Note 2 - Reporting on Budgetary Basis

The City reports its budgetary status with the actual data including encumbrances as charges against budget appropriations. In addition, budgetary comparison information is not presented for certain Special Revenue Funds because they are not considered part of the City’s annual budgetary plan.

Note 3 - Cash and Investments

The City's investment policies are governed by state statutes. City monies must be deposited in FDIC-insured commercial banks or trust companies located within the state. The City Comptroller is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. agencies, repurchase agreements and obligations of New York State or its localities.

CITY OF NORTH TONAWANDA, NEW YORK

**Notes to the Financial Statements
December 31, 2016**

Note 3 - Cash and Investments (Cont.)

Collateral is required for demand deposits and certificates of deposit in an amount equal to at least 105% of the amount of all deposits 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 its municipalities and school districts. The detail of cash and investments at December 31, 2016 consists of:

Petty Cash	\$	25,900
Deposits:		
Checking and Savings Account		<u>15,486,249</u>
Total		<u>\$ 15,512,149</u>

Deposits - Deposits at December 31, 2016 were entirely covered by federal depository insurance or by collateral held by the City's custodial bank in the City's name. All deposits are carried at cost and consist of:

<u>Fund</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>	
Primary Government:			
General Fund	\$ 6,596,578	\$ 6,684,278	Insured (FDIC), collateral held by City's Custodial Bank
Special Revenue Fund	5,688,044	5,674,774	Insured (FDIC), collateral held by City's Custodial Bank
Capital Projects Fund	<u>2,657,664</u>	<u>2,657,580</u>	Insured (FDIC), collateral held by City's Custodial Bank
Total Primary Government	<u>14,942,286</u>	<u>15,016,632</u>	
Fiduciary Fund:			
Trust and Agency Fund	<u>365,866</u>	<u>469,617</u>	Insured (FDIC), collateral held by City's Custodial Bank
Total Fiduciary Fund	<u>365,866</u>	<u>469,617</u>	
Total	<u>\$ 15,308,152</u>	<u>\$ 15,486,249</u>	

CITY OF NORTH TONAWANDA, NEW YORK

**Notes to the Financial Statements
December 31, 2016**

Note 4 - Receivables - State and Federal

State and federal receivables accrued by the City at December 31, 2016 include the following:

General Fund:	
NYS Department of State	\$ 71,348
NYSDOT: Highway Aid	61,586
NYS Unified Court System	40,877
NYSDOJ: Senate Initiative	10,655
Total General Fund	<u>184,466</u>
Capital Projects Fund:	
NYS Department of State	<u>25,000</u>
Total Capital Projects Fund	<u>25,000</u>
Total	<u><u>\$ 209,466</u></u>

Note 5 - Due from Other Governments

Other government receivables accrued by the City at December 31, 2016 include the following:

General Fund:	
Niagara County Sales Tax	\$ 749,191
Niagara County Public Safety Grants	8,232
North Tonawanda City School District	<u>5,000</u>
Total General Fund	<u>762,423</u>
Capital Projects Fund:	
NCRDD- Northwest Storm Sewer	<u>50,000</u>
Total Capital Projects Fund	<u>50,000</u>
Total	<u><u>\$ 812,423</u></u>

CITY OF NORTH TONAWANDA, NEW YORK

**Notes to the Financial Statements
December 31, 2016**

Note 6 - Capital Assets

Capital asset activity for the year ended December 31, 2016 was as follows:

<u>Type</u>	<u>Balance at January 1, 2016</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at December 31, 2016</u>
Capital Assets Not Being Depreciated:				
Land	\$ 4,965,144	\$ -	\$ -	\$ 4,965,144
Work in Progress	<u>736,899</u>	<u>4,607,606</u>	<u>(3,268,804)</u>	<u>2,075,701</u>
Total Capital Assets not being Depreciated	<u>\$ 5,702,043</u>	<u>\$ 4,607,606</u>	<u>\$ (3,268,804)</u>	<u>\$ 7,040,845</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	35,992,706	38,850	-	36,031,556
Machinery and Equipment	31,700,064	879,682	(503,197)	32,076,549
Land Improvements & Infrastructure	<u>36,710,728</u>	<u>1,378,374</u>	<u>-</u>	<u>38,089,102</u>
Total Capital Assets Being Depreciated	<u>104,403,498</u>	<u>2,296,906</u>	<u>(503,197)</u>	<u>106,197,207</u>
Less: Accumulated Depreciation for:				
Buildings and Improvements	11,727,520	453,491	-	12,181,011
Machinery and Equipment	26,170,784	588,974	(497,297)	26,262,461
Land Improvements & Infrastructure	<u>12,855,239</u>	<u>1,670,763</u>	<u>-</u>	<u>14,526,002</u>
Total Accumulated Depreciation	<u>50,753,543</u>	<u>2,713,228</u>	<u>(497,297)</u>	<u>52,969,474</u>
Total Assets Being Depreciated, Net	<u>\$ 53,649,955</u>	<u>\$ (416,322)</u>	<u>\$ (5,900)</u>	<u>\$ 53,227,733</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 59,351,998</u>	<u>\$ 4,191,284</u>	<u>\$ (3,274,704)</u>	<u>\$ 60,268,578</u>

CITY OF NORTH TONAWANDA, NEW YORK

**Notes to the Financial Statements
December 31, 2016**

Note 7 - Retirement Plans

Plan Description - The City of North Tonawanda 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 (Systems). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefit 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 transactions 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 Employees' Retirement Systems, 110 State Street, Albany, New York 12236.

Funding Policy - The plan is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary for the first ten years of membership and employees who joined on or after January 10, 2010 who generally contribute 3% of their salary for their entire length of service. Those joining after April 1, 2012 (Tier 6) are required to contribute 3.5% of their annual salary until March 31, 2013, after which the contribution percentage will be based on salary. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employer's contributions based on the salaries paid during the system's fiscal year.

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

	<u>ERS</u>	<u>PFRS</u>
2016	\$ 1,324,694	\$ 2,020,913
2015	1,496,763	1,984,008
2014	1,674,538	2,142,872

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

At December 31, 2016, the City of North Tonawanda reported a liability of \$12,707,592 for its proportionate share of the pension liability. The net pension liability was measured as of March 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of North Tonawanda's proportion of the net pension liability was based on a projection of the City of North Tonawanda's long-term share of contributions to the pension plan relative to the projected contribution of all participating members, actuarially determined.

CITY OF NORTH TONAWANDA, NEW YORK

**Notes to the Financial Statements
December 31, 2016**

Note 7 - Retirement Plans (Con't)

At December 31, 2016, the City of North Tonawanda's proportion was .290 percent. For the year ended December 31, 2016, the City of North Tonawanda recognized pension expense of \$4,658,850. At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following resources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 95,719	\$ 1,768,988
Changes assumptions	4,711,590	-
Net difference between projected and actual earnings on pension plan investments	7,274,669	-
Changes in proportion and differences between City and contributions and proportionate share of contributions	389,886	348,686
City contributions subsequent to the measurement date	<u>2,904,377</u>	<u>-</u>
Total	<u><u>\$ 15,376,241</u></u>	<u><u>\$ 2,117,674</u></u>

CITY OF NORTH TONAWANDA, NEW YORK

**Notes to the Financial Statements
December 31, 2016**

Note 7 - Retirement Plans (Con't)

\$15,376,244 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources are deferred inflows of resources relates to pensions will be recognized in pension expense as follows:

Year ended	
December 31	
2017	\$ 2,527,735
2018	2,527,735
2019	2,527,735
2020	2,344,580
2021	426,395
Thereafter	-

Actuarial Assumptions

The total pension liability at March 31, 2016 was determined by using an actuarial valuation as of April 1, 2015, with update procedures used to roll forward the total pension liability to March 31, 2016. The actuarial valuation used the following actuarial assumptions:

Interest Rate	7.0%
ERS	4.9%
PFRS	6.0%
Decrement Tables	April 1, 2010- March 31, 2015 system's experience
Inflation Rate	2.5%

CITY OF NORTH TONAWANDA, NEW YORK

**Notes to the Financial Statements
December 31, 2016**

Note 7 - Retirement Plans (Con't)

Annuitant mortality rates are based on April 1, 2010- March 31, 2015 System's experience with adjustments for mortality improvement based on MP-2014.

The actuarial assumptions used in the April 1, 2015 valuation are based on the results of an actuarial experience study for the period April 1, 2010-March 31, 2015.

The long term expected rate of return on pension plan investments was determined using a building block method which is best estimates ranges of best estimate future real rates of return (expected returns nets of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2016 are summarized below:

<u>Asset Type</u>	<u>Long Term Expected Real Rate</u>
Domestic Equity	7.3%
International Equity	8.5%
Real Estate	5.0%
Bonds, Cash & Mortgages	3.4%

Discount Rate

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

CITY OF NORTH TONAWANDA, NEW YORK

**Notes to the Financial Statements
December 31, 2016**

Note 7 - Retirement Plans (Con't)

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

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

	1% Decrease 6.00%	Current Discount 7.00%	1% Increase 8.00%
City's proportionate share of the net pension liability	<u>\$ 28,483,155</u>	<u>\$ 12,707,592</u>	<u>\$ (555,187)</u>

Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the employers as of March 31, 2016, were as follows:

	(Dollars in thousands)		
	Employees' retirement system	Police and Fire Retirement System	Total
Employers' total pension liability	\$ 4,662	\$ 8,045	\$ 12,707
Plan net position	<u>16,049,187</u>	<u>2,960,688</u>	<u>19,009,875</u>
Employers net pension liability	<u>\$ 1,146,498</u>	<u>\$ 1,580,544</u>	<u>\$ 1,580,544</u>
 Ratio of plan net position to the employers' total pension liability	 0.0290%	 0.2717%	 0.067%

CITY OF NORTH TONAWANDA, NEW YORK

**Notes to the Financial Statements
December 31, 2016**

Note 8 - Long-term Obligations

Serial bonds at December 31, 2016 represent the total outstanding long-term obligation indebtedness of the City aggregated \$13,670,000, including a Section 108 loan that is an obligation to U.S. Housing and Urban Development to be repaid by the Tonawanda Island Marina Development Corporation. Of this amount, \$11,352,593 was subject to the constitutional debt limit and represented approximately 12.59% of its debt limit.

New York State Retirement System represents the long term liability resulting from the amortized portion of NYS Retirement System contributions. Local retirement incentive represents the obligation for pension costs resulting from a City funded retirement incentive program.

Compensated Absences represents the value of earned and unused portion of the liability for compensated absences.

Workers' compensation represents the liability for workers' compensation claims filed with the City.

Other postemployment benefits represent the present value of future benefits relating to retiree health care costs.

Net pension liability represents the City's share of the pension liability recognized by the New York State Retirement System.

Summary long-term obligations – The following is a summary of long-term liabilities outstanding at December 31, 2016:

Serial bonds	\$ 13,670,000
NYS Retirement System	2,426,613
Local retirement incentive	80,000
Compensated absences	2,567,203
Workers' compensation	4,325,889
Other postemployment benefits	12,930,000
Net pension liability	<u>12,707,592</u>
Total	<u>\$ 48,707,297</u>

CITY OF NORTH TONAWANDA, NEW YORK

**Notes to the Financial Statements
December 31, 2016**

Note 8 - Long-term Obligations (Cont.)

The following is a summary of changes in long-term liabilities for the year ended December 31, 2016:

	<u>Serial Bonds</u>	<u>NYS Retirement System</u>	<u>Local Retirement Incentive</u>	<u>Compensated Absences</u>	<u>Workers' Compensation</u>	<u>OPEB</u>	<u>Net Pension Liability</u>
Balance at January 1, 2016	\$ 13,359,102	\$ 2,888,395	\$ 105,000	\$ 1,599,513	\$ 3,937,839	\$ 10,740,000	\$ 1,636,447
Additions	2,009,102	-	80,000	967,690	388,050	4,160,000	15,376,241
Deletions	<u>(1,698,204)</u>	<u>(461,782)</u>	<u>(105,000)</u>	-	-	<u>(1,970,000)</u>	<u>(4,305,096)</u>
Balance at December 31, 2016	<u>\$ 13,670,000</u>	<u>\$ 2,426,613</u>	<u>\$ 80,000</u>	<u>\$ 2,567,203</u>	<u>\$ 4,325,889</u>	<u>\$ 12,930,000</u>	<u>\$ 12,707,592</u>

Additions and deletions to compensated absences and workers' compensation are shown net since it is impracticable to determine these amounts separately.

Maturity Schedule-The following schedule sets forth the remaining annual maturities of long-term debt by debt type at December 31, 2016:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	2,384,000	442,091	\$ 2,826,091
2018	2,075,000	295,733	2,370,733
2019	1,935,000	236,983	2,171,983
2020	1,505,000	180,345	1,685,345
2021	1,421,000	139,345	1,560,345
2022-2026	3,195,000	300,768	3,495,768
2027-2031	1,005,000	68,672	1,073,672
2032-2036	<u>150,000</u>	<u>10,613</u>	<u>160,613</u>
Total	<u>\$ 13,670,000</u>	<u>\$ 1,674,550</u>	<u>\$ 15,344,550</u>

CITY OF NORTH TONAWANDA, NEW YORK

**Notes to the Financial Statements
December 31, 2016**

Note 8 - Long-term Obligations (Cont.)

<u>Year</u>	<u>Local Retirement Incentive</u>
2017	40,000
2018	<u>40,000</u>
Total	<u>\$ 80,000</u>

Note 9 - Interfund Receivables and Payables

Interfund receivables and payables at December 31, 2016 were as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
General Fund	\$ 470,696	\$ 8,204
Water Fund	-	4,437
Sewer Fund	-	6,485
Capital Projects Fund	8,204	311,574
Special Grant	-	48,200
Trust & Agency	-	<u>100,000</u>
Total	<u>\$ 478,900</u>	<u>\$ 478,900</u>

CITY OF NORTH TONAWANDA, NEW YORK

**Notes to the Financial Statements
December 31, 2016**

Note 10 - Fund Balance

Assigned Fund Balances which are constrained by the City's intent to be used for specific purposes are as follows:

<u>Fund</u>	<u>Balance</u>
General Fund - Appropriated	\$ 1,634,025
Sewer Fund	3,197,076
Water Fund	4,276,412
Special Grant Fund	<u>62,550</u>
Total	<u>\$ 9,170,063</u>

Restricted Fund Balances which have external constraints are as follows:

<u>Fund</u>	<u>Balance</u>
General Fund - Insurance	\$ 400,000
General Fund - Workers' Compensation	1,634,504
General Fund - Debt	355,092
General Fund - VTL/Tribal Monies	36,053
Water Fund - Encumbrances	8,361
Water Fund - Worker's Compensation	178,310
Sewer Fund - Worker's Compensation	185,739
Capital Fund	<u>2,066,288</u>
Total	<u>\$ 4,864,347</u>

CITY OF NORTH TONAWANDA, NEW YORK

**Notes to the Financial Statements
December 31, 2016**

Note 10 - Fund Balance (Con't)

Non-Spendable Fund Balance represents amounts that cannot be spent because they are either not spendable or legally or contractually required to be maintained intact. Non-spendable fund balance includes prepaid expenditures.

<u>Fund</u>	<u>Balance</u>
General Fund- Prepaid Retirement	\$ 897,071
Sewer Fund- Prepaid Retirement	37,416
Water Fund- Prepaid Retirement	<u>25,993</u>
Total	<u>\$ 960,480</u>

Note 11 - Contingencies

The City is a recipient of several grants which are subject to audit by agencies of the federal and state governments. Such audits may result in disallowances and a request for a return of funds to the federal and state governments. Based on past audits, the local government administration believes disallowances, if any, will be immaterial.

Note 12 - Other Postemployment Benefits/Implementation of GASB Statement 45

City - In addition to providing pension benefits, the City also provides health care benefits for retired employees, their dependents and certain survivors. Substantially all of the City's employees may become eligible for those benefits if they reach normal retirement age while working for the City. Prior to 2008, the City recognized the cost of providing postemployment health insurance benefits by expensing those costs when paid.

Plan Description - The City administers its Retiree Medical Plan (the Plan) as a single-employer defined benefit other postemployment benefit (OPEB) plan. The Plan provides for the continuation of medical benefits to certain qualifying retirees of the City, and their spouses and can be amended by action of the City. The Plan does not carry issue a standalone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

CITY OF NORTH TONAWANDA, NEW YORK

**Notes to the Financial Statements
December 31, 2016**

Note 12 - Other Postemployment Benefits/Implementation of GASB Statement 45

Funding Policy - The obligations of the Plan members, employers and other entities are established by employment agreements. The required contribution rates of the employer and the members varies depending on the applicable agreement covering the retiree, the retiree's hiring date and number of years of service to the City. The City currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. For 2016, the City contributed approximately \$1,970,000 for current premiums. The costs of administering this plan are paid by the City.

Funded Status and Funding Progress - The schedule of funding progress presents multiyear (when available) trend information that is useful in determining whether the actuary's value of Plan assets, if any, is increasing or decreasing over time relative to the actuarial accrued liability. The following table sets forth the actuarial accrued liability and funded status of the Plan as of January 1, 2016 the latest valuation date.

<u>Actuarial Accrued Liability (AAL)</u>	
Actuarial accrued liability	\$ 53,740,000
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>53,740,000</u>
Funded ratio	<u>0%</u>
Annual covered payroll	<u>18,750,000</u>
Ratio of unfunded actuarial accrued liability to covered payroll	<u>286.61%</u>
2016 normal cost	<u>1,170,000</u>

CITY OF NORTH TONAWANDA, NEW YORK

**Notes to the Financial Statements
December 31, 2016**

Note 12 - Other Postemployment Benefits/Implementation of GASB Statement 45

Funded Status and Funding Progress

The following table summarizes the amortization calculation of the UAAL as of the latest valuation date:

Net OPEB obligation at beginning of year	\$ 10,740,000
UAAL	53,740,000
Amortization period (years)	30
Amortization discount rate	4.75000%
Present value factor	24.5172
2016 UAAL amortization amount	\$ 2,870,000

Annual OPEB Cost and Net OPEB Obligation - The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for 2016:

Normal cost	\$ 1,170,000
Amortization of UAAL	2,870,000
Interest	180,000
ARC	4,220,000
Interest on OPEB obligation	510,000
Adjustment to ARC	(570,000)
 OPEB expense	 \$ 4,160,000

CITY OF NORTH TONAWANDA, NEW YORK

**Notes to the Financial Statements
December 31, 2016**

Note 12 - Other Postemployment Benefits/Implementation of GASB Statement 45

Funded Status and Funding Progress - The following table reconciles the City's OPEB obligation at December 2016:

Net OPEB obligation at beginning of year	\$ 10,740,000
2016 OPEB expense	4,160,000
2016 OPEB contributions	<u>(1,970,000)</u>
Net OPEB obligation at end of year	12,930,000
Less: estimated current portion of OPEB obligation	<u>-</u>
Estimated long-term portion of OPEB obligation	<u>\$ 12,930,000</u>
Percentage of expense contributed	<u>47.36%</u>

Actuarial Methods and Assumptions - Actuarial valuation of 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 revisions as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs (if any) between the employer and plan members to that point. The actuarial 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 actuarial cost method used to calculate the costs of the Plan for age, disability, vested, and surviving spouse's benefits is the Projected Unit Credit Actuarial Cost Method. Under this method, each participant's projected benefit is calculated at all possible ages based on the Plan provisions as well as the initial data and actuarial assumptions. For active participants, that AAL is determined by pro-rating the projected benefit based upon service accrued to the valuation date divided by service projected to be accrued at the first age of benefit eligibility. The normal cost is determined by dividing the projected benefit by service projected to be accrued at the first age of benefit eligibility.

CITY OF NORTH TONAWANDA, NEW YORK

**Notes to the Financial Statements
December 31, 2016**

Note 12 - Other Postemployment Benefits/Implementation of GASB Statement 45

Actuarial Methods and Assumptions - The measurement date for the calculation was December 31st and the discount rate utilized was 4.75%. No salary increases were assumed since benefits are not based on compensation. Health care costs for both governmental and business-type activities were assumed to increase as follows:

<u>Year</u>	<u>Medical Trend Rate</u>
2017	8.5%
2018	8.0%
2019	7.5%
2020	7.0%
2021	6.5%
2022	6.0%
2023	5.5%
2024 and Thereafter	5.0%

Note 13 – Tax Abatement Disclosures

In August 2015 the Government Accounting Standards Board issued Statement No. 77, *Tax Abatement Disclosures* (GASB 77) which provides disclosure requirements for certain types of tax abatements. GASB 77 defines tax abatements as follows: A reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the government or citizens of those governments.

As of December 31, 2016, the City of North Tonawanda, as an individual government, is not engaged in any agreements that meet the definition of tax abatement under GASB Statement No. 77. However, the City is bound to the terms of certain Payment In Lieu of Tax (PILOT) Agreements that have been entered into by the Niagara County Industrial Development Agency (“NCIDA”). The NCIDA enters into contractual agreements with certain businesses and organizations to provide PILOT agreements for projects that invest in job growth and/or the community’s economic interest.

CITY OF NORTH TONAWANDA, NEW YORK

**Notes to the Financial Statements
December 31, 2016**

Note 13 – Tax Abatement Disclosures (Con't)

As a standard part of performing an audit, the City's Independent Audit Firm has established a quantitative materiality threshold to evaluate the fair statement of the City's Financial Statements. Since abatements affect real property tax generating funds only, the City will use the same materiality threshold the auditors applied to the General Fund when determining whether or not Tax Abatements granted by the NCIDA are material or immaterial.

The following PILOT agreements have been determined to meet the criteria for disclosure under GASB Statement No. 77:

Tax Abatements Classified as Immaterial

A ten year property tax abatement, applied to 55% of the assessed value of improvements, to a credit union for building renovations, which result in improved customer service. The abatement amounts to \$2,853, for the fiscal year ended December 31, 2016.

A fifteen year property tax abatement, applied to 20% of the assessed value of improvements, to renovate an industrial building. The purpose of the project is to accommodate and attract new tenants. The abatement amounts to \$2,277, for the fiscal year ended December 31, 2016.

A fifteen year property tax abatement, applied to 15% of the assessed value of improvements, to renovate an industrial building. The purpose of the project is to accommodate and attract new tenants. As of fiscal year end December 31, 2016, there were no improvements made on this property.

A fifteen year property tax abatement, applied to 45% of the assessed value of improvements, to construct a new manufacturing facility. The abatement amounts to \$8,155, for the fiscal year ended December 31, 2016.

A fifteen year property tax abatement, applied to 40% of the assessed value of improvements, to a manufacturing company. The abatement amounts to \$7,904, for the fiscal year ended December 31, 2016.

A fifteen year property tax abatement, applied to 20% of the assessed value of improvements, to renovate an industrial building. The purpose of the project is to accommodate and attract new tenants. The abatement amounts to \$2,277, for the fiscal year ended December 31, 2016.

CITY OF NORTH TONAWANDA, NEW YORK

**Notes to the Financial Statements
December 31, 2016**

Note 13 – Tax Abatement Disclosures (Con't)

A fifteen year property tax abatement, applied to 30% of the assessed value of improvements, to a manufacturing company for renovations to an industrial building. The abatement amounts to \$5,367, for the fiscal year ended December 31, 2016.

A ten year property tax abatement, applied to 50% of the assessed value of improvements, to a printing company for construction of a new facility. The abatement amounts to \$2,008, for the fiscal year ended December 31, 2016.

A fifteen year property tax abatement, applied to 50% of the assessed value of improvements, to a manufacturing company for construction of a new building. The abatement amounts to \$2,369, for the fiscal year ended December 31, 2016.

A ten year property tax abatement, applied to 40% of the assessed value of improvements, for construction of a commercial facility. The abatement amounts to \$3,803, for the fiscal year ended December 31, 2016.

A ten year property tax abatement, applied to 30% of the assessed value of improvements, for renovations to a commercial facility. The abatement amounts to \$4,356, for the fiscal year ended December 31, 2016.

Tax Abatements Classified as Material

Under the provisions of Article 18-A of the General Municipal Law, the NCIDA has entered into a PILOT and PILOT Mortgage Agreement with a limited liability company for a project which consists of a leasehold interest in an approximately 1.80-acre parcel of land and the existing improvements thereon; for the purpose of rehabilitating and renovating the existing improvements to transform them into a high-tech business incubator, including: 80 individual work/live lofts, a business conference room, 80-car parking area, a boat museum and workshop, a health facility, and a first-rate restaurant.

The project was eligible for abatement under the New York State IDA guidelines since it promised a major capital investment in the community and had a favorable outlook for significant job creation. As part of the agreement, the NCIDA can consider recapturing abated taxes, if job creation numbers falls below the agreed upon estimates.

CITY OF NORTH TONAWANDA, NEW YORK

**Notes to the Financial Statements
December 31, 2016**

Note 13 – Tax Abatement Disclosures (Con't)

Under the PILOT/Leaseback Agreement and PILOT Mortgage Agreement, the company was granted abatements on mortgage recording tax, sales tax incurred during construction and real property taxes. At the time of the agreement, the land and existing improvements were assessed at a value of \$353,000. The NCIDA entered into a sixteen year agreement where any new improvements are exempt from real property tax payment. The City of North Tonawanda has evaluated the assessed value of the property at \$10,500,000. Accordingly, the abatement amounts to \$134,340 for the fiscal year ended December 31, 2016.

Note 14 – Subsequent Events

The City has evaluated events and transactions for potential recognition or disclosure in the financial statements through May 19, 2017 (the date the financial statements were available to be issued).

Note 15 - Related Organization

The City of North Tonawanda Public Housing Authority (PHA) provides low income housing assistance to qualifying citizens of the City of North Tonawanda.

The City of North Tonawanda Public Housing Authority's financial information is not included in these financial since they are not a component unit. Based on the guidelines of GASB 61, they are a related organization and are recognized as such.

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COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

CITY OF NORTH TONAWANDA, NEW YORK

SPECIAL REVENUE FUND

**Balance Sheets
December 31, 2016**

With Comparative Actual Amounts for the Year Ended December 31, 2015

	Special Grant Fund	Sewer Fund	Water Fund	<u>Totals Memorandum Only</u>	
				December 31, 2016	December 31, 2015
<u>ASSETS</u>					
Unrestricted Cash	\$ 175,034	\$ 2,024,183	\$ 3,475,557	\$ 5,674,774	\$ 5,015,295
Receivables:					
Water Rents	-	-	-	-	1,058,593
Sewer Rents	-	1,436,195	-	1,436,195	1,441,429
Accounts	-	15,917	1,055,864	1,071,781	23,732
Loans	-	-	-	-	-
State and Federal Aid	-	-	-	-	-
Due from Other Funds	-	-	-	-	5,983
Due from Other Governments	-	-	-	-	63,409
Prepaid Expenses	-	37,416	25,993	63,409	-
	<u>-</u>	<u>37,416</u>	<u>25,993</u>	<u>63,409</u>	<u>-</u>
Total Assets	<u>\$ 175,034</u>	<u>\$ 3,513,711</u>	<u>\$ 4,557,414</u>	<u>\$ 8,246,159</u>	<u>\$ 7,608,441</u>
<u>LIABILITIES, DEFERRED INFLOWS AND FUND EQUITY</u>					
Liabilities:					
Accounts Payable	\$ 48,347	\$ 58,490	\$ 39,065	\$ 145,902	\$ 295,300
Accrued Liabilities	-	28,503	24,836	53,339	53,616
FSS Escrow - PHA	-	-	-	-	-
Due to Other Funds	48,200	6,487	4,437	59,124	392,769
Due to Other Governments	15,028	-	-	15,028	-
Total Liabilities	<u>111,575</u>	<u>93,480</u>	<u>68,338</u>	<u>273,393</u>	<u>741,685</u>
Deferred Inflows of Resources					
Unavailable Revenue- Property Taxes	-	-	-	-	-
Unavailable Revenue- Loans	909	-	-	909	-
Total Deferred Inflows of Resources	<u>909</u>	<u>-</u>	<u>-</u>	<u>909</u>	<u>-</u>
Fund Equity:					
Fund Balance:					
Non Spendable	-	37,416	25,993	63,409	63,409
Restricted	-	185,739	186,671	372,410	82,260
Assigned	62,550	3,197,076	4,276,412	7,536,038	6,985,819
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(264,732)</u>
Total Fund Equity	<u>62,550</u>	<u>3,420,231</u>	<u>4,489,076</u>	<u>7,971,857</u>	<u>6,866,756</u>
Total Liabilities, Deferred Inflows and Fund Equity	<u>\$ 175,034</u>	<u>\$ 3,513,711</u>	<u>\$ 4,557,414</u>	<u>\$ 8,246,159</u>	<u>\$ 7,608,441</u>

See Independent Auditor's Report.

CITY OF NORTH TONAWANDA, NEW YORK

SPECIAL REVENUE FUND

**Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2016
With Comparative Actual Amounts for the Year Ended December 31, 2015**

	<u>Special Grant Fund</u>	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals Memorandum Only December 31, 2016</u>	<u>December 31, 2015</u>
Revenues:					
Departmental Income	\$ 16,946	\$ 4,090,475	\$ 3,054,166	\$ 7,161,587	\$ 6,935,178
Use of Money and Property	-	156,375	4,578	160,953	226,771
Sale of Property and Compensation for Loss	-	1,579	428	2,007	9,868
State Aid	100,000	-	-	100,000	314,837
Federal Aid	3,269,969	-	-	3,269,969	2,861,752
Total Revenues	<u>3,386,915</u>	<u>4,248,429</u>	<u>3,059,172</u>	<u>10,694,516</u>	<u>10,348,406</u>
Expenditures:					
Current:					
General Governmental Support	-	13,767	10,333	24,100	42,985
Economic Assistance and Opportunity	2,955,029	-	-	2,955,029	2,755,734
Home and Community Services	104,604	2,678,941	1,697,011	4,480,556	4,991,390
Employee Benefits	-	839,895	507,048	1,346,943	1,372,194
Debt Service - Principal	-	424,327	236,443	660,770	645,000
Debt Service - Interest	-	77,298	44,719	122,017	121,878
Total Expenditures	<u>3,059,633</u>	<u>4,034,228</u>	<u>2,495,554</u>	<u>9,589,415</u>	<u>9,929,181</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>327,282</u>	<u>214,201</u>	<u>563,618</u>	<u>1,105,101</u>	<u>419,225</u>
Other Sources and (Uses):					
Transfer from Other Funds	-	-	-	-	50,000
Transfer to Other Funds	-	-	-	-	(10,658)
Total Other Sources and (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,342</u>
Net Change in Fund Balances	327,282	214,201	563,618	1,105,101	458,567
Fund Balances at Beginning of Year	<u>(264,732)</u>	<u>3,206,030</u>	<u>3,925,458</u>	<u>6,866,756</u>	<u>6,408,189</u>
Fund Balances at End of Year	<u>\$ 62,550</u>	<u>\$ 3,420,231</u>	<u>\$ 4,489,076</u>	<u>\$ 7,971,857</u>	<u>\$ 6,866,756</u>

See Independent Auditor's Report.

CITY OF NORTH TONAWANDA, NEW YORK

**Schedule of the Local Government's Proportionate Share
Of the Net Pension Liability**

**NYSLRS Pension Plan
December 31, 2016**

	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	0.029%	0.293%
City's proportionate share of the net pension liability (asset)	12,707,592	1,636,447
City's covered-employee payroll	18,750,000	12,696,852
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	67.77%	12.89%

See Independent Auditor's Report.

CITY OF NORTH TONAWANDA, NEW YORK

Schedule of the Local Government Contributions

**NYSLRS Pension Plan
December 31, 2016**

	<u>2016</u>	<u>2015</u>
Contractually required contribution	4,658,850	3,942,021
Contributions in relation to the contractually required contribution	3,419,784	3,201,176
Contribution deficiency (excess)	1,239,066	740,845
City's covered-employee payroll	18,750,000	12,696,852
Contributions as a percentage of covered-employee payroll	18.24%	25.21%

See Independent Auditor's Report.

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

Honorable Mayor and
Members of Common Council
City of North Tonawanda
North Tonawanda, New York

We have audited, 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, the financial statements of the governmental activities and each major fund of the City of North Tonawanda, as of and for the year ended December 31, 2016, and the relates notes to the financial statements, which collectively comprise the City of North Tonawanda's basic financial statements, and have issued our report thereon dated May 11, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of North Tonawanda's internal control over financial reporting 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 of North Tonawanda's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of North Tonawanda's internal control.

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. 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.

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of North Tonawanda'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*.

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.

Amato, Fox & Company, P.C.

Tonawanda, New York
May 17, 2017

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

Honorable Mayor and
Members of Common Council
City of North Tonawanda
North Tonawanda, New York

Report on Compliance for Each Major Federal Program

We have audited City of North Tonawanda's compliance with the types of compliance requirements described in the Uniform Guidance that could have a direct and material effect on each of City of North Tonawanda's major federal programs for the year ended December 31, 2016. City of North Tonawanda's major federal programs are 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 each of City of North Tonawanda'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 the audit requirements of title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance).

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Those standards and the Uniform Guidance 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 City of North Tonawanda'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 test basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of North Tonawanda's compliance.

Opinion on Each Major Federal Program

In our opinion, City of North Tonawanda complied, in all material respects, with the types of noncompliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of City of North Tonawanda 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 City of North Tonawanda's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of City of North Tonawanda'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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a 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 and 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of City of North Tonawanda as of and for the year ended December 31, 2016, and have issued our report thereon date May 17, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Amato, Fox & Company, P.C.

Tonawanda, New York
May 17, 2017

CITY OF NORTH TONAWANDA, NEW YORK

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016**

<u>Federal Grantor/Pass-through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Housing and Urban Development:</u>			
Pass-through Programs:			
Community Development Block Grant:			
CDBG Microenterprise Program	14.228	822-CRF-ME23-13	\$ 325,376
CDBG Microenterprise Program	14.228	822SB855-16	<u>100,000</u>
Pass-through Programs:			
Lower Income-Housing Assistance Program-Cluster:			
Section 8 Rental Voucher Program	14.871	N/A	2,736,521
Moderate Rehab Program	14.856	N/A	<u>108,072</u>
Total U.S. Department of Housing and Urban Development			<u>3,269,969</u>
<u>Department of Homeland Security:</u>			
Grant Program	97.067	N/A	74,971
Assistance to Firefighters Grant	97.044	N/A	<u>20,052</u>
Total Expenditures of Federal Awards			<u>\$ 3,364,992</u>

The accompanying notes are an integral part of this schedule. See Note 1 to the City of North Tonawanda, New York's Basic Financial Statements with Independent Auditor's Report for the Year Ended December 31, 2016 for the Summary of Significant Accounting Policies.

See Report on Compliance with Requirements Applicable to each Major Program and Internal Control Over Compliance in Accordance with the Uniform Guidance.

CITY OF NORTH TONAWANDA, NEW YORK

**Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016**

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of North Tonawanda, New York and is presented on the Modified Accrual Basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Note 2 - Subrecipients

Of the federal expenditures presented in the Schedule of Expenditures of Federal Awards, the City of North Tonawanda, New York provided no federal awards to subrecipients.

Note 3 - Program Income

Federal expenditures presented on the Schedule of Expenditures of Federal Awards do not include the expenditure of program income. None of the program income was expended under the Community Development Block Grants for the year ended December 31, 2016.

CITY OF NORTH TONAWANDA, NEW YORK

**Schedule of Findings and Questioned Costs
December 31, 2016**

Section 1 - Summary of Auditor's Results:

Financial Statements:

Type of Auditor's Report Issued:

Unqualified

Internal Control Over Financial Reporting

Material weaknesses identified?

____yes __x__ no

Significant deficiencies identified that are not considered to be material weaknesses

____yes __x__ none reported

Noncompliance material to financial statements noted?

____yes __x__ no

Federal Awards:

Internal Control Over Major Programs:

Material weaknesses identified?

____yes __x__ no

Significant deficiencies identified that are not considered to be material weaknesses?

____yes __x__ none reported

Type of Auditor's Report issued on Compliance for Major Programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with
the Uniform Guidance?

____yes __x__ no

Identification of Major Programs:

CFDA Numbers

Name of Federal Program or Cluster

14.871

Low Income Housing Assistance Program

CITY OF NORTH TONAWANDA, NEW YORK

**Schedule of Findings and Questioned Costs
December 31, 2016**

Section 1 - Summary of Auditor's Results (Cont.):

Identification of Major Programs (Cont.):

Dollar threshold used to distinguish between Type A and Type B Programs: \$ 750,000

Auditee qualified as a low-risk auditee? yes no

Section II - Financial Statement Findings:

As of and for the year ended December 31, 2016 the City of North Tonawanda, New York had no findings that were required to be reported in accordance with GAGAS.

Section III - Federal Award Findings and Questioned Costs:

As of and for the year ended December 31, 2016 the City of North Tonawanda, New York had no findings that were required to be reported in accordance with the Uniform Guidance.

CITY OF NORTH TONAWANDA, NEW YORK

**Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2016**

There were no audit findings included in the prior audit's schedule of findings and questioned costs relative to federal awards.

CITY OF NORTH TONAWANDA, NEW YORK

**Corrective Action Plan
For the Year Ended December 31, 2016**

There is no Corrective Action Plan for the City of North Tonawanda, New York.