

**CITY OF NORTH TONAWANDA,
NEW YORK**

*Basic Financial Statements, Required Supplementary
Information and Federal Awards Information for the
Year Ended December 31, 2020 and Independent
Auditors' Reports*

CITY OF NORTH TONAWANDA, NEW YORK

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of North Tonawanda, New York (the "City"), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 and each major fund of the City, as of December 31, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended December 31, 2020, the City has restated its net position and fund balance. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Expenditures of Federal Awards as required by the audit requirements of Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and 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 Schedule of Expenditures of Federal Awards is 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 September 27, 2021 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Drescher & Malecki LLP

September 27, 2021

CITY OF NORTH TONAWANDA, NEW YORK
Management's Discussion and Analysis
Year Ended December 31, 2020

As management of the City of North Tonawanda, New York (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2020. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative. For comparative purposes, certain items from the prior year have been reclassified to conform with the current year presentation.

Financial Highlights

- The liabilities and deferred inflows of resources of the City exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$51,946,873 (*net position*). This consists of \$52,043,986 net investment in capital assets, \$6,121,174 restricted for specific purposes, and an unrestricted net position of \$(110,112,033).
- The City's governmental activities net position decreased \$8,626,774 during the year ended December 31, 2020.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$10,916,865, a decrease of \$2,053,529 in comparison with the prior year. Excluding the Sewer Fund unassigned fund balance deficit of \$587,846, the City had unrestricted fund balances of \$3,271,790, which consist of assigned and unassigned fund balances; the remainder is subject to external restrictions (restricted) or is not available for spending (nonspendable).
- The General Fund reported a decrease in fund balance of \$1,196,212 during the current year. At December 31, 2020, unassigned fund balance for the General Fund was \$1,536,460, or 4.1 percent of total General Fund expenditures and transfers out.
- During the year ended December 31, 2020, the City's total serial bonds outstanding decreased by \$647,300 as a result of the issuance of \$1,352,700 in public improvement serial bonds, along with scheduled principal payments of \$2,000,000.

Overview of the Financial Statements

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

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

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

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

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

The government-wide financial statements can be found on pages 13-14 of this report.

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

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

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

The City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Water, Sewer, Special Grant, Special Purpose and Capital Projects funds, all of which are considered to be major funds.

The basic governmental fund financial statements can be found on pages 15-18 of this report.

Notes to the financial statements—The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24-45 of this report.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's net pension liability, the City's other postemployment benefits ("OPEB") obligation, and the City's budgetary comparison schedules for each major fund with a legally adopted budget. Required Supplementary Information and related notes can be found on pages 46-55 of this report.

The Federal Awards Information can be found on pages 56-65 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as useful indicator of a government's financial position. In the case of the City, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$51,946,873 at the close of the most recent year, as compared to \$43,320,099 at the close of the fiscal year ended December 31, 2020, as restated.

Table 1, as presented below, shows condensed statements of net position as of December 31, 2020 and December 31, 2019.

Table 1—Condensed Statements of Net Position—Primary Government

	<u>Governmental Activities</u>	
	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u> <u>(as restated)</u>
Current assets	\$ 19,521,316	\$ 17,516,338
Capital assets	<u>62,813,902</u>	<u>60,775,081</u>
Total assets	<u>82,335,218</u>	<u>78,291,419</u>
Deferred outflows of resources	<u>34,945,212</u>	<u>7,294,098</u>
Current liabilities	5,461,511	1,937,360
Noncurrent liabilities	<u>159,407,699</u>	<u>124,339,652</u>
Total liabilities	<u>164,869,210</u>	<u>126,277,012</u>
Deferred inflows of resources	<u>3,956,097</u>	<u>2,628,604</u>
Net position:		
Net investment in capital assets	52,043,986	48,130,081
Restricted	6,121,174	6,855,170
Unrestricted	<u>(110,112,033)</u>	<u>(98,305,350)</u>
Total net position	<u>\$ (51,946,873)</u>	<u>\$ (43,320,099)</u>

The largest portion of the City's net position, \$52,043,986, reflects its investment in capital assets (such as land, buildings and building improvements, machinery, equipment, land improvements and infrastructure), less any related debt used to acquire those assets that is 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 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.

An additional portion of the City's net position, \$6,121,174, represents resources that are subject to external restrictions on how they may be used, while the last portion of net position is considered to be an unrestricted net position of \$(110,112,033). This demonstrates that future funding will be necessary to liquidate long-term obligations.

Table 2, presented below, shows the changes in net position for the years ended December 31, 2020 and December 31, 2019.

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

	Governmental Activities	
	Year Ended December 31,	
	2020	2019
Program revenues:		
Charges for services	\$ 8,197,597	\$ 8,663,853
Operating grants and contributions	3,189,595	4,018,691
Capital grants and contributions	2,693,913	334,453
General revenues	<u>34,517,246</u>	<u>34,413,838</u>
Total revenues	<u>48,598,351</u>	<u>47,430,835</u>
Program expenses	<u>57,225,125</u>	<u>49,650,350</u>
Change in net position	(8,626,774)	(2,219,515)
Net position—beginning	(43,320,099)	(37,544,886)
Restatement	-	(3,555,698)
Net position—ending	<u>\$ (51,946,873)</u>	<u>\$ (43,320,099)</u>

A summary of sources of revenues of the primary government for the years ended December 31, 2020 and December 31, 2019 is presented below in Table 3.

Table 3—Summary of Sources of Revenues—Primary Government

	Year Ended December 31,		Increase/(Decrease)	
	2020	2019	Dollars	Percent (%)
Charges for services	\$ 8,197,597	\$ 8,663,853	\$ (466,256)	(5.4)
Operating grants and contributions	3,189,595	4,018,691	(829,096)	(20.6)
Capital grants and contributions	2,693,913	334,453	2,359,460	705.5
Property taxes and tax items	18,653,167	18,866,933	(213,766)	(1.1)
Nonproperty tax items	9,438,915	9,628,162	(189,247)	(2.0)
Use of money and property	327,917	487,264	(159,347)	(32.7)
Sale of property and compensation for loss	1,052,865	597,258	455,607	76.3
Miscellaneous	278,422	86,171	192,251	223.1
Unrestricted state aid	<u>4,765,960</u>	<u>4,748,050</u>	<u>17,910</u>	0.4
Total revenues	<u>\$ 48,598,351</u>	<u>\$ 47,430,835</u>	<u>\$ 1,167,516</u>	2.5

Overall revenues increased \$1,167,516, or 2.5 percent from the prior year, primarily due to increased capital grants and contributions.

The most significant source of revenues is property taxes and tax items, which accounts for \$18,653,167, or 38.4 percent of total revenues, for the year ended December 31, 2020, and \$18,866,933 or 39.8 percent of total revenues, for the year ended December 31, 2019. The next largest source of revenue is nonproperty tax items of \$9,438,915, or 19.4 percent of total revenues for the year ended December 31, 2020 and \$9,628,162, or 20.3 percent of total revenues for the years ended December 31, 2019, respectively.

A summary of program expenses for the years ended December 31, 2020 and December 31, 2019 is presented below in Table 4.

Table 4—Summary of Program Expenses—Primary Government

	Year Ended December 31,		Increase/(Decrease)	
	2020	2019	Dollars	Percent (%)
General government support	\$ 6,145,177	\$ 4,376,049	\$ 1,769,128	40.4
Public safety	19,688,727	18,023,794	1,664,933	9.2
Transportation	8,670,486	8,105,654	564,832	7.0
Economic assistance and opportunity	5,328,936	4,791,994	536,942	11.2
Culture and recreation	3,535,267	3,270,389	264,878	8.1
Home and community services	13,485,468	10,666,152	2,819,316	26.4
Interest and other fiscal charges	371,064	416,318	(45,254)	(10.9)
	<u>\$ 57,225,125</u>	<u>\$ 49,650,350</u>	<u>\$ 7,574,775</u>	15.3

Overall expenses increased \$7,574,775, or 15.3 percent from the prior year, primarily due to increases in the City’s OPEB obligation and net pension liability.

The City’s most significant program expense items for the year ended December 31, 2020 were public safety of \$19,688,727 (primarily police services), or 34.4 percent of total expenses, home and community services of \$13,485,468 (primarily water and sewer services), or 23.6 percent of total expenses, transportation of \$8,670,486, or 15.2 percent of total expenses, and general government support of \$6,145,177, or 10.7 percent of total expenses. Similarly, for the year ended December 31, 2019, significant program expense items were public safety of \$18,023,794 (primarily police services), or 36.3 percent of total expenses, home and community services of \$10,666,152 (primarily sewer, water, and sanitation services), or 21.5 percent of total expenses, transportation of \$17,620,228, or 16.3 percent of total expenses, and economic assistance and opportunity of \$4,791,994, or 9.7 percent of total expenses.

Financial Analysis of the City’s Funds

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

At December 31, 2020, the City’s governmental funds reported combined ending fund balances of \$10,916,865, a decrease of \$2,053,529 in comparison with the prior year. Excluding the Sewer Fund unassigned fund balance deficit of \$587,846, the City reported total fund balances of \$10,329,019. Approximately 31.7 percent of this amount, \$3,271,790, constitutes *unassigned fund balance* for the General Fund and fund balance *assigned to specific use* for the special revenue funds which is available for

spending at the government’s discretion. The remainder of fund balance is *nonspendable, restricted, committed, or assigned* for other purposes to indicate that it is: (1) not in spendable form, \$787,539, or (2) restricted for particular purposes, \$7,445,382.

A summary of the City’s major funds’ fund balance, excluding the Special Grant Fund, Special Purpose and Capital Projects Fund, is provided below in Table 5.

Table 5—Major Funds’ Fund Balance—General and Special Revenue Funds

	General	Water	Sewer
Net change in fund balances	\$ (1,196,212)	\$ 175,910	\$ (297,607)
Unassigned or assigned to the fund's specific use	1,536,460	1,735,330	(587,846)
Total fund balances	4,662,365	3,257,398	48,024
Percentage unassigned or assigned to specific use	33.0%	53.3%	-1224.1%

The General Fund is the chief operating fund of the City. The City’s General Fund ending fund balance was \$4,662,365. Approximately 33.0 percent, \$1,536,460, of this amount is *unassigned fund balance*. Total fund balance decreased by \$1,196,212 during 2020, as compared to an anticipated decrease of \$45,000 within the final budget. The variance from the final budget was primarily the result of receiving less than anticipated sales tax revenue, building and plumbing permit fees and fines and forfeited bail due to the COVID-19 pandemic.

The City’s Water Fund ending fund balance was \$3,257,398. Approximately 53.3 percent, \$1,735,330, of this amount is *fund balance assigned to specific use*. The fund balance increased by \$175,910 during 2020, as compared to an anticipated decrease of \$206,008 within the final budget. The variance from the final budget was primarily the result of spending under appropriation limits for the function of home and community services and employee benefits.

The City’s Sewer Fund ending fund balance was \$48,024. Due to existing restrictions on fund balance of \$635,870, the Sewer Fund has an ending unassigned fund balance deficit of \$587,846. The fund balance decreased by \$297,607 during 2020, as compared to an anticipated increase of \$5,852 within the final budget. The variance from the final budget was primarily the result of receiving less than anticipated departmental income related to usage, as well as spending over appropriation limits for the function of home and community services.

The City’s Special Grant Fund ending fund balance was \$1,399,212. The fund balance increased by \$73,380 during 2020. The appropriations of this fund are approved based on grants received and vary from year to year.

The City’s Special Purpose Fund ending fund balance was \$158,496. The fund balance increased by \$96,449 during 2020. The fund balance of this fund is restricted as it can only be used for specific purposes.

The City’s Capital Projects Fund reported an ending fund balance of \$1,391,370. Fund balance decreased by \$905,449 during 2020 as a result of capital outlay expenditures outpacing revenues.

General Fund Budgetary Highlights

The City’s General Fund budget generally contains budget amendments during the year. The budget is allowed to be amended upward, increased, for prior year’s encumbrances since the funds were allocated

under the previous year’s budget, and the City has appropriately assigned an equal amount of fund balance at year-end for this purpose. Furthermore, the budget is allowed to be amended upward, increased, for additional current year appropriations supported by an increase in budgeted revenues. A budgetary comparison schedule within the required supplementary information section of this report has been provided to demonstrate compliance with their budget. A summary of the General Fund results of operations for the year ended December 31, 2020 is presented below in Table 6.

Table 6—General Fund Budget

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues	\$ 37,830,377	\$ 37,830,377	\$ 36,114,501	\$ (1,715,876)
Expenditures and other financing uses	37,879,643	38,103,427	37,310,713	792,714
Deficiency of revenues over expenditures and other financing uses	<u>\$ (49,266)</u>	<u>\$ (273,050)</u>	<u>\$ (1,196,212)</u>	<u>\$ (923,162)</u>

Original budget compared to final budget—During the year, there was a \$223,784 difference between the original and final amended budgeted appropriations of the General Fund. This increase was due primarily to an increase in transportation equipment and street lighting utilities.

Final budget compared to actual results—A review of actual expenditures and transfers out and revenues and transfers in compared to appropriations and estimated revenues in the final budget yields certain variances within the General Fund. Expenditures and transfers out were \$792,714 less than corresponding final budgeted appropriations, while revenues and transfers in were \$1,313,880 less than corresponding final budgeted estimated revenues. The main components of the variance of expenditures are as follows:

- The City received \$611,085 less than budgeted nonproperty tax items due to receiving less than anticipated sales tax revenue as a result of the COVID-19 pandemic.
- Fines and forfeitures revenue was \$301,678 less than budgeted due to the courts being forced to close for the majority of the year due to the COVID-19 pandemic.
- Public safety expenditures were \$367,479 higher than budgeted due to spending for pedestrian safety that was not included in the budget.
- The City received \$295,825 less than budgeted Departmental Income due a decrease in building and plumbing permits issued as a result of the COVID-19 pandemic.

Capital Assets and Debt Administration

Capital assets—The City’s investment in capital assets for its governmental activities as of December 31, 2020, amounted to \$62,813,902 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, infrastructure, buildings and improvements, machinery and equipment.

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

Capital assets net of depreciation for the governmental activities at December 31, 2020 and 2019 are presented below in Table 7.

Table 7—Summary of Capital Assets (Net of Depreciation)

	Governmental Activities	
	December 31,	
	2020	2019
Land	\$ 4,965,144	\$ 4,965,144
Construction in progress	5,431,202	2,749,227
Building and building improvements	23,108,359	23,658,062
Machinery and equipment	7,317,341	7,091,683
Land improvements and infrastructure	21,991,856	22,310,965
Total	<u>\$ 62,813,902</u>	<u>\$ 60,775,081</u>

Additional information on the City's capital assets can be found in Note 5 of this report.

Long-term debt—At December 31, 2020, the City's governmental activities had serial bonds outstanding of \$11,997,700 as compared to \$12,645,000 in the prior year. New York State statutes limit the amount of general obligation debt a governmental entity may issue up to 7% of its five year valuation and the City's outstanding general obligation debt as of December 31, 2020 continues to be below the current debt limitations for the City.

A summary of the City's long-term liabilities at December 31, 2020 and 2019 is presented below within Table 8.

Table 8—Summary of Long-Term Liabilities

	December 31,	
	2019	
	2020	(as restated)
Serial bonds	\$ 11,997,700	\$ 12,645,000
Premium on serial bonds	92,126	-
EFC notes payable	4,298	-
Compensated absences	3,770,154	2,161,882
Long-term retirement liability	786,352	1,191,454
Workers' compensation	3,043,220	3,821,502
OPEB obligation	117,084,223	97,907,363
Net pension liability	22,629,626	6,612,451
Total	<u>\$ 159,407,699</u>	<u>\$ 124,339,652</u>

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

Economic Factors and Next Year's Budget

On January 31, 2020, the United States Secretary of Health and Human Services ("HHS") declared a public health emergency related to the global spread of coronavirus COVID-19, and a pandemic was declared by the World Health Organization in February 2020. The extent of the impact of COVID-19 on the City's operational and financial performance will continue to depend on further developments, including the duration and spread of the outbreak, impact on patients, employees and vendors all of which cannot be predicted. Largely as a result of the public health emergency, the unemployment rate, not seasonally adjusted, for Niagara County during December 2020 was 7.3 percent, as compared to New York State's unemployment rate of 8.1 percent. These factors are considered in preparing the City's budget.

The City considered current year operational expenses and estimated increases based on economic factors when establishing the 2021 budget. The City's 2021 budget includes a budgeted fund balance surplus of \$119,060 in the General Fund and \$586,644 in other funds. Additional information on the City's budgeted appropriations of fund balance can be found in Note 11 to the financial statements.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Accountant, 216 Payne Avenue, North Tonawanda, New York, 14120.

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BASIC FINANCIAL STATEMENTS

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CITY OF NORTH TONAWANDA, NEW YORK
Statement of Net Position
December 31, 2020

	Primary Government
	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 3,864,629
Restricted cash and cash equivalents	7,870,571
Receivables (net of allowance):	
Taxes	4,002,802
Other	1,443,066
Intergovernmental receivables	1,925,967
Prepaid items	12,285
Capital assets not being depreciated	10,396,346
Capital assets, net of accumulated depreciation	52,417,556
Total assets	81,933,222
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows—relating to OPEB	18,177,314
Deferred outflows—relating to pensions	16,767,898
Total deferred outflows of resources	34,945,212
LIABILITIES	
Accounts payable	939,344
Retainages payable	106,394
Accrued liabilities	556,740
Intergovernmental payables	3,831,054
Unearned revenue	27,979
Noncurrent liabilities:	
Due within one year	2,916,541
Due in more than one year	156,491,158
Total liabilities	164,869,210
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows—relating to OPEB	3,049,698
Deferred inflows—relating to pensions	906,399
Total deferred inflows of resources	3,956,097
NET POSITION	
Net investment in capital assets	52,043,986
Restricted for:	
Workers' compensation	1,619,070
Employee benefits	396,435
Insurance	390,000
Tax stabilizaiton	150,916
Debt	30,473
Repairs	462,197
Special grant	1,557,708
Capital projects	1,454,375
Miscellaneous	60,000
Unrestricted	(110,112,033)
Total net position	\$ (51,946,873)

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

CITY OF NORTH TONAWANDA, NEW YORK
Statement of Activities
Year Ended December 31, 2020

<u>Function/Program</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u> <u>Revenue and Changes</u> <u>in Net Position</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	<u>Primary</u> <u>Governmental</u> <u>Governmental</u> <u>Activities</u>
Primary government:					
Governmental activities:					
General government support	\$ 6,145,177	\$ 732,105	\$ 103,711	\$ -	\$ (5,309,361)
Public safety	19,688,727	108,321	33,417	-	(19,546,989)
Transportation	8,670,486	-	61,585	1,074,049	(7,534,852)
Economic assistance and opportunity	5,328,936	-	-	-	(5,328,936)
Culture and recreation	3,535,267	1,186,114	-	154,600	(2,194,553)
Home and community services	13,485,468	6,171,057	2,990,882	1,465,264	(2,858,265)
Interest and fiscal charges	371,064	-	-	-	(371,064)
Total governmental activities	<u>57,225,125</u>	<u>8,197,597</u>	<u>3,189,595</u>	<u>2,693,913</u>	<u>(43,144,020)</u>
General revenues:					
					18,653,167
					9,438,915
					327,917
					1,052,865
					4,765,960
					278,422
					<u>34,517,246</u>
					(8,626,774)
					<u>(43,320,099)</u>
					<u>\$ (51,946,873)</u>

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

CITY OF NORTH TONAWANDA, NEW YORK
Balance Sheet—Governmental Funds
December 31, 2020

	Special Revenue					Capital Projects	Total Governmental Funds
	General	Water	Sewer	Special Grant	Special Purpose		
ASSETS							
Cash and cash equivalents	\$ 2,347,989	\$ 1,516,640	\$ -	\$ -	\$ -	\$ -	\$ 3,864,629
Restricted cash and cash equivalents	3,141,599	1,522,068	298,944	1,425,256	158,496	1,324,208	7,870,571
Receivables (net of allowance):							
Taxes	4,002,802	-	-	-	-	-	4,002,802
Other	299,728	467,331	676,007	-	-	-	1,443,066
Intergovernmental receivables	1,900,967	-	-	-	-	25,000	1,925,967
Prepaid items	12,285	-	-	-	-	-	12,285
Due from other funds	1,022,028	-	471,024	-	-	1,330,873	2,823,925
Total assets	<u>\$ 12,727,398</u>	<u>\$ 3,506,039</u>	<u>\$ 1,445,975</u>	<u>\$ 1,425,256</u>	<u>\$ 158,496</u>	<u>\$ 2,680,081</u>	<u>\$ 21,943,245</u>
LIABILITIES							
Accounts payable	\$ 658,490	\$ 56,615	\$ 155,836	\$ 46	\$ -	\$ 68,357	\$ 939,344
Accrued liabilities	431,614	22,838	39,721	-	-	-	494,173
Due to other funds	400,000	95,626	1,082,021	25,924	-	1,220,354	2,823,925
Intergovernmental payables	3,637,045	73,562	120,373	74	-	-	3,831,054
Unearned revenue	27,979	-	-	-	-	-	27,979
Total liabilities	<u>5,155,128</u>	<u>248,641</u>	<u>1,397,951</u>	<u>26,044</u>	<u>-</u>	<u>1,288,711</u>	<u>8,116,475</u>
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenues - property taxes	2,909,905	-	-	-	-	-	2,909,905
Total deferred inflows of resources	<u>2,909,905</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,909,905</u>
FUND BALANCES (DEFICIT)							
Nonspendable	787,539	-	-	-	-	-	787,539
Restricted	2,338,366	1,522,068	635,870	1,399,212	158,496	1,391,370	7,445,382
Assigned	-	1,735,330	-	-	-	-	1,735,330
Unassigned	1,536,460	-	(587,846)	-	-	-	948,614
Total fund balances (deficit)	<u>4,662,365</u>	<u>3,257,398</u>	<u>48,024</u>	<u>1,399,212</u>	<u>158,496</u>	<u>1,391,370</u>	<u>10,916,865</u>
Total liabilities and fund balances	<u>\$ 12,727,398</u>	<u>\$ 3,506,039</u>	<u>\$ 1,445,975</u>	<u>\$ 1,425,256</u>	<u>\$ 158,496</u>	<u>\$ 2,680,081</u>	<u>\$ 21,943,245</u>

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

CITY OF NORTH TONAWANDA, NEW YORK
Reconciliation of the Balance Sheet—Governmental Funds
to the Government-wide Statement of Net Position
December, 31, 2020

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

Total fund balances (deficit)—governmental funds (page 15)	\$	10,916,865	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of these assets is \$127,426,411 and the accumulated depreciation is \$64,612,509.			62,813,902
Uncollected property taxes are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the funds.			2,909,905
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.			
Deferred outflows related to employer contributions	\$	2,968,850	
Deferred outflows related to experience and investment earnings		13,799,048	
Deferred inflows of resources related to pensions		<u>(906,399)</u>	15,861,499
Deferred outflows and inflows of resources related to OPEB are applicable to future periods and, therefore, are not reported in the fund statements:			
Deferred outflows related to experience and changes of assumptions	\$	18,177,314	
Deferred inflows related to experience and changes of assumptions		<u>(3,049,698)</u>	15,127,616
Retained percentages are not a current liability and, therefore, are not reported in the funds.			(106,394)
Net accrued interest expense for serial bonds is not reported in the funds.			(62,567)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. The effect of these items are:			
Serial bonds payable	\$	(11,997,700)	
Unamortized premium on serial bonds		(92,126)	
EFC notes payable		(4,298)	
Compensated absences		(3,770,154)	
Long-term retirement liability		(786,352)	
Workers' compensation		(3,043,220)	
OPEB obligation		(117,084,223)	
Net pension liability		<u>(22,629,626)</u>	<u>(159,407,699)</u>
Net position of governmental activities	\$		<u><u>(51,946,873)</u></u>

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

CITY OF NORTH TONAWANDA, NEW YORK
Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds
Year Ended December 31, 2020

	Special Revenue					Capital Projects	Total Governmental Funds
	General	Water	Sewer	Special Grant	Special Purpose		
REVENUES							
Real property taxes	\$ 16,792,892	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,792,892
Real property tax items	1,623,926	-	-	-	-	-	1,623,926
Nonproperty tax items	9,438,915	-	-	-	-	-	9,438,915
Departmental income	1,329,845	2,598,975	3,558,067	-	-	-	7,486,887
Intergovernmental charges	114,908	-	-	-	-	-	114,908
Use of money and property	151,886	1,393	173,136	-	-	1,502	327,917
Licenses and permits	427,480	-	-	-	-	-	427,480
Fines and forfeitures	168,322	-	-	-	-	-	168,322
Sale of property and compensation for loss	1,034,805	18,060	-	-	-	-	1,052,865
Miscellaneous	66,849	1,251	2,327	95,120	112,875	-	278,422
State aid	4,964,673	-	-	-	-	2,693,913	7,658,586
Federal aid	-	-	-	2,990,882	-	-	2,990,882
Total revenues	<u>36,114,501</u>	<u>2,619,679</u>	<u>3,733,530</u>	<u>3,086,002</u>	<u>112,875</u>	<u>2,695,415</u>	<u>48,362,002</u>
EXPENDITURES							
Current:							
General government support	3,492,852	10,000	6,586	-	-	-	3,509,438
Public safety	11,213,510	-	-	-	8,669	-	11,222,179
Transportation	4,510,765	-	-	-	-	-	4,510,765
Economic assistance and opportunity	54,963	-	-	2,999,702	-	-	3,054,665
Culture and recreation	1,843,012	-	-	-	7,757	-	1,850,769
Home and community services	1,755,281	1,901,916	3,110,028	12,920	-	-	6,780,145
Employee benefits	12,110,079	647,152	753,374	-	-	-	13,510,605
Debt service:							
Principal	1,362,875	179,500	457,625	-	-	-	2,000,000
Interest and fiscal charges	240,329	11,473	124,299	-	-	-	376,101
Capital outlay	-	-	-	-	-	5,052,620	5,052,620
Total expenditures	<u>36,583,666</u>	<u>2,750,041</u>	<u>4,451,912</u>	<u>3,012,622</u>	<u>16,426</u>	<u>5,052,620</u>	<u>51,867,287</u>
Excess (deficiency) of revenues over expenditures	<u>(469,165)</u>	<u>(130,362)</u>	<u>(718,382)</u>	<u>73,380</u>	<u>96,449</u>	<u>(2,357,205)</u>	<u>(3,505,285)</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	-	306,272	420,775	-	-	-	727,047
Transfers out	(727,047)	-	-	-	-	-	(727,047)
EFC notes payable issued	-	-	-	-	-	4,298	4,298
Serial bonds issued	-	-	-	-	-	1,352,700	1,352,700
Premium on serial bonds	-	-	-	-	-	94,758	94,758
Total other financing sources (uses)	<u>(727,047)</u>	<u>306,272</u>	<u>420,775</u>	<u>-</u>	<u>-</u>	<u>1,451,756</u>	<u>1,451,756</u>
Net change in fund balances	(1,196,212)	175,910	(297,607)	73,380	96,449	(905,449)	(2,053,529)
Fund balances—beginning, as restated	<u>5,858,577</u>	<u>3,081,488</u>	<u>345,631</u>	<u>1,325,832</u>	<u>62,047</u>	<u>2,296,819</u>	<u>12,970,394</u>
Fund balances—ending	<u>\$ 4,662,365</u>	<u>\$ 3,257,398</u>	<u>\$ 48,024</u>	<u>\$ 1,399,212</u>	<u>\$ 158,496</u>	<u>\$ 1,391,370</u>	<u>\$ 10,916,865</u>

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

CITY OF NORTH TONAWANDA, NEW YORK
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balances—Governmental Funds to the Government-wide Statement of Activities
Year Ended December 31, 2020

Amounts reported for governmental activities in the statement of activities (page 15) are different because:

Net change in fund balances (deficit)—total governmental funds (page 18) \$ (2,053,529)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.

Capital asset additions	\$ 5,345,110	
Depreciation expense	<u>(3,306,289)</u>	2,038,821

Certain revenues are not recognized in the governmental funds because they are not available soon enough after year end to pay for current period expenditures. On the accrual basis, however, they are recognized regardless of when it is collected. 236,349

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

Direct pension contributions	\$ 3,903,434	
Cost of benefits earned net of employee contributions	<u>(8,241,398)</u>	(4,337,964)

Deferred outflows of resources relating to OPEB result from actuarial changes in the census, changes in medical premiums that are different than expected healthcare cost trend rates, and changes in assumptions and other inputs. These amounts are shown net of current year amortization. 14,644,410

Governmental funds report retained percentages expenditures on construction contracts when such a retained percentage is paid. However, in the statement of activities retained percentages on construction contracts is reported as an expense as it accrues. (106,394)

In the statement of activities, interest expense is recognized as it accrues, regardless of when it is paid. 2,405

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effects of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Additionally, in the statement of activities, certain operating expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The net effect of these differences in the treatment of long-term debt and the related items is as follows:

Issuance of serial bonds	\$ (1,352,700)	
Principal payments on serial bonds	2,000,000	
Premium on serial bonds and refunding bonds	(94,758)	
Amortization of premium on serial bonds	2,632	
Proceeds from EFC notes payable	(4,298)	
Net change in compensated absences	(1,608,272)	
Payments on long-term retirement liability	405,102	
Net change in workers' compensation	778,282	
Net change in OPEB obligation	<u>(19,176,860)</u>	<u>(19,050,872)</u>

Change in net position of governmental activities \$ (8,626,774)

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

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CITY OF NORTH TONAWANDA, NEW YORK
Notes to the Financial Statements
Year Ended December 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic 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 (“U.S. GAAP”) 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.

Description of Government-wide Financial Statements

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

Reporting Entity

The City, 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 City of North Tonawanda Common Council is the legislative body responsible for overall operations, the Mayor serves as chief executive officer, and the City Treasurer serves as chief fiscal officer.

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

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

Basis of Presentation—Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of these changes would distort the direct costs and program revenues reported for the various functions concerned.

Basis of Presentation—Fund Financial Statements

The fund financial statements provide information about the City’s funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major

governmental funds, each displayed in a separate column. Major individual governmental funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

- *General Fund*—This fund is the principal operating fund of the City and is used to account for all financial resources except those required to be accounted for in other funds. The principal source of revenue for this fund is real property taxes.
- *Water Fund*—This fund is used to account for the revenues (primarily user charges) and expenditures related to the operation and maintenance of water filtration plant and water lines for residential and commercial users. The major source of revenue for this fund is user fees through departmental income.
- *Sewer Fund*— The Sewer Fund is used to record all revenues and expenditures related to operation and maintenance of the sewer district. The major source of revenue for this fund is user fees through departmental income.
- *Special Grant Fund*—The Special Grants Fund is used to record all activity related to the Federal Housing and Urban Development Community Development program. The major source of revenue for this fund is federal aid.
- *Special Purpose Fund*—The Special Purpose Fund is used to account for funds which can only be used for specific purposes.
- *Capital Projects Fund*—The capital projects fund is used to account for and report financial resources to be used for the acquisition, construction or renovation of major capital facilities or equipment.

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

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

Measurement Focus and Basis of Accounting

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are

recognized as 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.

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

Property taxes, sales taxes, licenses, and interest 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period of availability (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements are met and the amount is received during the period of availability (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the City.

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

Cash, Cash Equivalents and Investments—The City’s cash and cash equivalents include cash on hand, demand deposits, time deposits, and short-term, highly liquid investments with original maturities of three months or less from the date of acquisition. The City had no investments at December 31, 2020. However, when the City does have investments it is City policy to record them at fair value in accordance with GASB.

Restricted Cash and Cash Equivalents—Restricted cash and cash equivalents represent amounts to support fund balance restrictions, resources received in advance relating to unearned revenue and unspent proceeds of debt.

Receivables—Receivables are stated net of estimated allowances for uncollectible amounts. Amounts due from state and federal governments represent amounts owed to the City to reimburse it for expenditures incurred pursuant to state and federally funded programs. All major revenues of the City are considered “susceptible to accrual” under the modified accrual basis. These include property tax, sales tax, State and Federal aid, and various grant program revenues.

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

Capital Assets—The City’s buildings, building improvements, land improvements, infrastructure, and machinery and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Donated assets are stated at acquisition cost. The City generally capitalizes assets with costs of \$35,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Major outlays for capital assets and improvements are capitalized as projects are incurred.

Property, plant, and equipment of the City are being depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Land Improvements	10-50
Infrastructure	10-50
Buildings and Improvements	5-100
Wastewater Treatment	
Distribution Network	25-100
Machinery and Equipment	5-25
Transportation Network	10-75
Sanitary Sewer Network	25-100

The *capital outlays* character classification is employed only for expenditures reported in the Capital Projects Fund. Routine capital expenditures in the General Fund and other governmental funds are included in the appropriate functional category (for example, the purchase of a new highway vehicle included as part of *expenditures—transportation*). The amount reported as *capital outlays* in the Capital Projects Fund will also include non-capitalized, project-related costs (for example, furnishings).

Unearned revenue—Certain cash received have not been spent or otherwise used to meet the revenue recognition criteria for government-wide or fund financial purposes. At December 31, 2020, the City reported unearned revenues of \$27,979 within the General Fund.

Deferred Outflows/Inflows of Resources—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. At December 31, 2020, the City has two items that qualify for reporting in this category. The first item is related to OPEB reported in the government-wide financial statements and represents the effects of the change in the City’s proportion of the collective net OPEB liability and difference during the measurement period between certain of the employer’s contributions and its proportionate share of the total of certain contributions from employers included in the collective net OPEB liability. The second item represents the effect of the net change in the City’s proportion of the collective net pension asset or liability, the difference during the measurement period between the City’s contributions and its proportionate share of the total contribution to the pension systems not included in the pension expense, and any contributions to the pension systems made subsequent to the measurement date.

In addition to liabilities, the statement of financial position and the balance sheet of governmental funds will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. At March 31, 2020, the City has three items that qualify for reporting in this category. The first item arises only under the modified accrual basis of accounting. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds’ balance sheet. The governmental funds report unavailable revenue from property taxes that remain uncollected 60 days after year-end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item is related to OPEB reported in the government-wide financial statements and represents the effects of the change in the City’s proportion of the collective net OPEB liability and the difference during the measurement period between certain of the employer’s contributions and its proportionate share of the total of certain contributions from employers included

in the collective net OPEB liability. The last item represents the effect of the net change in the City's proportion of the collective net pension liability and the difference during the measurement periods between the City's contribution and its proportionate share of total contributions to the pension systems not included in pension expense and is reported on the government-wide statements.

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

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

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

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

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

Revenues and Expenses/Expenditures

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

Real Property Taxes—The City-wide property tax is levied by the Common Council effective April 1st of the year the taxes are recognizable as revenue. Taxes become a lien on the related property on

December 31st of the year for which they are levied. In the government-wide statements, property tax receivables and related revenue include all amounts due to the City regardless of when cash is received. The City also collects school taxes for the local school district for remittance to them.

Compensated Absences—City employees are granted vacation, personal and sick leave and compensatory time in varying amounts. In the event of termination or upon retirement, an employee is entitled to payment for accumulated vacation, sick leave and unused compensatory absences at various rates subject to certain conditions, maximum limitations and union affiliations.

Compensated absences are reported as accrued in the government-wide financial statements. Governmental funds reports only matured compensated absences payable to terminating employees and are included in wages and benefits.

Payment of compensated absences recorded in the general government long-term debt in the government-wide financial statements is dependent upon many factors; therefore, timing of future payment is not readily determinable. However management believes that sufficient resources will be made available for the future payment of compensated absences when such payments become due. More information regarding compensated absences is included in Note 10.

Pensions—The City is mandated by New York State law to participate in the New York State Local Employees' Retirement System ("ERS") and the New York State Police and Fire Retirement System ("PFRS"). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit pension plans, and changes thereof, have been determined on the same basis as they are reported by the respective defined benefit pension plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. More information regarding pensions is included in Note 7.

Other

Estimates—The preparation of the financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of revenues, expenditures, assets, liabilities, deferred outflows of resources, deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and during the reported period. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncements—During the year ended December 31, 2020, the City implemented GASB Statements No. 84, *Fiduciary Activities* and GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. Additionally, the City early implemented GASB Statements No. 92, *Omnibus 2020*; and No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a suppression of GASB Statement No. 32*. GASB Statement No. 95 provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. GASB Statement No. 92 enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. GASB Statement No. 97 increases consistency and comparability related to the reporting of fiduciary component units, mitigates costs associated with the reporting of certain defined contribution plans and enhances the relevance, consistency and comparability of the accounting and reporting for internal Revenue Code Section 457 deferred

comparability of the accounting and reporting for internal Revenue Code Section 457 deferred compensation plans. GASB Statement No. 84 improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Other than the matter discussed in Note 2, the implementation of GASB Statements No. 84, 92, 95, and 97 did not have a material impact on the City's financial position or results from operations.

Future Impacts of Accounting Pronouncements—The City has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*; and No. 93, *Replacement of Interbank Offered Rates*, effective for the year ending December 31, 2021, No. 87, *Leases*; and No. 91, *Conduit Debt Obligations* effective for the year ending December 31, 2022, No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*; and No. 96, *Subscription-Based Information Technology Arrangements*, effective for the year ending December 31, 2023. The City is, therefore, unable to disclose the impact that adopting GASB Statements No. 87, 89, 91, 93, 94, and 96 will have on its financial position and results of operations when such statements are adopted.

Stewardship, Compliance and Accountability

Legal Compliance—Budgets

The City's annual procedures in establishing the budgetary data reflected in the basic financial statements are described as follows:

- On or before the first day of October each year, the Mayor shall submit to the Common Council a proposed budget and capital budget together with a message concerning same for the ensuing year.
- The budget message shall describe the important features, outline the proposed capital programs, indicate major changes from the current fiscal year in financial policies, expenditures, and revenues together with the reasons for such changes, summarize the City's debt condition, and include such other material items as the Mayor may deem advisable.
- The proposed budget shall provide a complete financial plan of all City functions and activities for the ensuing year. The budget shall be in such form as the Mayor may deem advisable and shall include: actual revenues and expenditures of the preceding fiscal year, actual and estimated revenues and estimates revenues and expenditures of the current fiscal year, all estimated revenues and proposed expenditures for the ensuing fiscal year (including detailed estimates of revenue from all sources and the amount proposed to be raised by the tax levy upon real estate). The proposed expenditures shall be itemized as follows: each office, department, board and commission shall be listed separately showing the proposed amount for salaries and wages, supplies and other expenditures and the total thereof; reserve for uncollected taxes; debt service; judgments and settlements outstanding not covered by insurance; capital program stating the amount to be financed, if any, and the method thereof, special funds and purposes not otherwise contained in the budget; anticipated deficit, if any, of the current year and contingency fund.
- Immediately after the presentation of the proposed budget to the Common Council, the Mayor shall file the proposed budget in the City Clerk's Office and be made available for distribution to the public. The proposed budget shall be a public record and shall be open to inspection by the public during regular business hours in the City Clerk's office. Not less than five days prior to the date of the public hearing, the City Clerk shall publish in the official newspaper of the City a notice of public hearing which shall specify the date, time and place of the public hearing; the total amount of the proposed budget, the amount thereof to be

raised by taxes, the anticipated tax rate per thousand of assessed valuation and that copies of the proposed budget are available to the public in the City Clerk's office.

- The Common Council shall meet and conduct a public hearing at which the Mayor shall be present. Such public hearing shall be held no later than November 15th.
- After conclusion of the public hearing, the Common Council shall consider the adoption of the proposed budget and may adjourn from time to time until it has fully considered and reviewed the proposed budget. The Common Council may add new programs or amounts, and may increase, decrease or delete programs and amounts. Expenditures required by law, for debt service, estimated deficits or estimated revenues may not be changed except to correct omissions or mathematical errors. The Common Council may, however, decrease the amount of tax levy of the ensuing fiscal year as proposed by the Mayor in proportion to such decreases in total expenditures as it may have determined. If the Common Council shall increase the total expenditures, such increase shall be included in the amount to be raised by taxes.
- Upon completion of the consideration and review of the proposed budget, the Common Council, shall on or before the 15th day of December of each year, adopt a resolution approving the budget in the final form approved by it and shall forthwith adopt an appropriation resolution and a resolution making a levy upon all the real property situated in the City liable to taxation in the ensuing year. The appropriation resolution shall be passed on the budget as adopted but need not be itemized further than by each office, board, department, commission, fund and program. Upon adoption of the budget, the appropriation and tax levy resolutions, the City Clerk shall file a certified copy of each with the City Treasurer and Fiscal Affairs Officer. The adoption of the budget shall constitute an appropriation of the amounts, a levy of the amount to be raised by taxation therein stated, and a warrant to the City Treasurer to spread and extend such levy upon current assessment tax rolls and to collect the same.
- If a budget has not been adopted, as provided by the Charter, on or before the 15th day of December, the tentative City budget, with amendments, if any, shall become the budget for the ensuing year.
- If the amount of all taxes levied upon any parcel of real property shall, except as otherwise expressly provided by law, be and become a lien thereon as of the first day of January of the fiscal year for which levied and shall remain a lien until paid.
- Formal annual budgetary accounts are adopted and employed for control of all governmental funds except the special grant fund, special purpose fund and the capital projects fund. These budgets are adopted on a basis consistent with accounting principles generally accepted in the United States except that encumbrances are treated as budgetary expenditures in the year of occurrence of the commitment to purchase. All unencumbered appropriations lapse and the end of the fiscal year. Budgetary comparisons presented in this report are on the budgetary basis and represent the budget as modified.

Deficit Fund Balance

The City's Sewer Fund reported an unassigned deficit at December 31, 2020. This deficit is due to the City receiving less departmental income than expected along with incurring greater than anticipated home and community services expenditures. Management anticipates this deficit will be remedied through an increase in sewer rates along with a budgeted surplus.

2. RESTATEMENT OF NET POSITION AND FUND BALANCE

Under the provisions of GASB Statement No. 75, a full valuation is only required to be performed bi-annually. During the year ended December 31, 2019 the City did not obtain an interim report and presented the prior year information for its Other Post-Employment Benefits (“OPEB”) obligation. Upon obtaining the full valuation report for the year ended December 31, 2020, the beginning balance of the City’s OPEB obligation had been increased by \$4,816,658. Further information regarding the City’s OPEB obligation can be found in Note 8.

Further, as of December 31, 2019 the City reported \$2,673,556 in unavailable revenue for property taxes as a deferred inflow of resources on its Statement of Net Position. Consistent with the accrual basis of accounting, the City determined it appropriate to recognize this amount as an adjustment to beginning fund balance.

Additionally, during the year ended December 31, 2020, the City implemented GASB Statement No. 84, *Fiduciary Activities*. The implementation of GASB Statement No. 84 establishes criteria for identifying fiduciary activities of state and local governments. During the evaluation of accounts previously reported as fiduciary, the City has identified items that would more appropriately be reported in a special purpose special revenue fund.

Lastly, the City reports a receivable in both the Water and Sewer Fund based on consumption in the current year which is billed and collected in the subsequent year. The City has evaluated its receivable balances during the year ended December 31, 2020 and, determined it appropriate to adjust receivable balances as of December 31, 2019 in the Water and Sewer Funds by \$614,686 and \$859,957, respectively.

The effect to net position of governmental activities is summarized as follows:

Net position–December 31, 2019	\$ (39,764,401)
GASB Statement No. 75 actuarial estimates	(4,816,658)
Recognition of deferred inflows relating to property taxes	2,673,556
GASB Statement No. 84 implementation	62,047
Adjustment to receivables	<u>(1,474,643)</u>
Net position–December 31, 2019, as restated	<u>\$ (43,320,099)</u>

The effect of this change to beginning fund balance is summarized below:

	Water Fund	Sewer Fund	Special Purpose Fund
Fund balance–December 31, 2019	\$ 3,696,174	\$ 1,205,588	\$ -
GASB Statement No. 84 implementation	-	-	62,047
Adjustment to receivables	<u>(614,686)</u>	<u>(859,957)</u>	<u>-</u>
Fund balance–December 31, 2019, as restated	<u>\$ 3,081,488</u>	<u>\$ 345,631</u>	<u>\$ 62,047</u>

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The City’s investment policies are governed by New York State statutes. The City also has its own written investment guidelines which have been established by the Common Council. City monies must be deposited in Federal Deposit Insurance Corporation (“FDIC”) insured commercial banks or trust companies located within the State. The City Treasurer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. agencies, contractual repurchase agreements, and obligations of New York State or its localities. Investments with maturities of less than three months are considered to be cash equivalents.

Collateral is required for demand deposit accounts, time deposit accounts and certificates of deposit at 100% of all deposits not covered by Federal deposit insurance. The City has entered into custodial agreements with the various banks which hold their deposits. These agreements authorize the obligation that may be pledged as collateral. Obligations that may be pledged as collateral are outlined in Chapter 623 of the laws of the State of New York.

Cash and cash equivalents and restricted cash and cash equivalents at December 31, 2020 are as follows:

	Governmental Funds
Petty cash (uncollateralized)	\$ 25,900
Deposits	<u>11,709,300</u>
Total	<u>\$ 11,735,200</u>

Deposits—All deposits are carried at fair value and are classified by custodial credit risk at December 31, 2020 as follows:

	Bank Balance	Carrying Amount
FDIC insured	\$ 500,000	\$ 500,000
Uninsured:		
Collateral held by pledging bank's agent in the City's name	<u>10,860,432</u>	<u>11,209,300</u>
Total deposits	<u>\$11,360,432</u>	<u>\$11,709,300</u>

Custodial Credit Risk—Deposits—Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. As noted above, by New York State statute all deposits in excess of FDIC insurance coverage must be collateralized. As of December 31, 2020, the City’s deposits were either FDIC insured or collateralized with securities held by the pledging bank’s agent in the City’s name.

Restricted Cash and Cash Equivalents—The City reports fund balance restrictions, unearned revenue related to cash received in advance and unspent debt proceeds as restricted cash and cash equivalents. At December 31, 2020, the City reports restricted cash totaling \$3,141,599 within the General Fund, \$1,522,068 within the Water Fund, \$298,944 within the Sewer Fund, \$1,425,256 within the Special Grant Fund, \$158,496 within the Special Purpose Fund, and \$1,324,208 within the Capital Projects Fund.

Investments—The City’s governmental activities had no investments at December 31, 2020.

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of deposits. In accordance with its investment policy, the City manages this exposure by limiting investments to low risk type investments governed by New York State statute.

4. RECEIVABLES

Taxes Receivable—Represents City and school taxes that remain unpaid. At December 31, 2020, the City recorded \$4,404,798 related to taxes receivable. These amounts are offset by a deferred inflow of resources related to property taxes in the amount of \$2,909,905.

Accounts Receivable—Represents amounts due from various sources. Receivables at December 31, 2020 are:

General Fund:		
Franchise fees	\$ 230,353	
Various fees and charges	<u>69,375</u>	\$ 299,728
Water Fund:		
Water rents receivable		467,331
Sewer Fund:		
Sewer rents receivable		<u>676,007</u>
Total		<u>\$ 1,443,066</u>

Intergovernmental Receivables—Represents amounts due from other units of government, such as Federal, New York State, County of Niagara or other local governments. Intergovernmental receivables at December 31, 2020 are:

General Fund:		
Erie County - sales tax distribution	\$ 1,003,577	
New York State - AIM funding	867,022	
Other	<u>30,368</u>	\$ 1,900,967
Capital Projects Fund		<u>25,000</u>
Total		<u>\$ 1,925,967</u>

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2020 is shown on the following page.

	Balance 1/1/2020	Additions	Deletions	Balance 12/31/2020
Capital assets, not being depreciated:				
Land	\$ 4,965,144	\$ -	\$ -	\$ 4,965,144
Construction in progress	<u>2,749,227</u>	<u>5,052,620</u>	<u>2,370,645</u>	<u>5,431,202</u>
Total capital assets not being depreciated	<u>7,714,371</u>	<u>5,052,620</u>	<u>2,370,645</u>	<u>10,396,346</u>
Capital assets, being depreciated:				
Buildings and building improvements	37,284,851	-	-	37,284,851
Machinery and equipment	35,046,124	1,200,494	-	36,246,618
Land improvements and infrastructure	<u>42,035,955</u>	<u>1,462,641</u>	<u>-</u>	<u>43,498,596</u>
Total capital assets being depreciated	<u>114,366,930</u>	<u>2,663,135</u>	<u>-</u>	<u>117,030,065</u>
Less accumulated depreciation for:				
Buildings and building improvements	13,626,789	549,703	-	14,176,492
Machinery and equipment	27,954,441	974,836	-	28,929,277
Land improvements and infrastructure	<u>19,724,990</u>	<u>1,781,750</u>	<u>-</u>	<u>21,506,740</u>
Total accumulated depreciation	<u>61,306,220</u>	<u>3,306,289</u>	<u>-</u>	<u>64,612,509</u>
Total capital assets, being depreciated, net	<u>53,060,710</u>	<u>(643,154)</u>	<u>-</u>	<u>52,417,556</u>
Governmental activities capital assets, net	<u>\$ 60,775,081</u>	<u>\$ 4,409,466</u>	<u>\$ 2,370,645</u>	<u>\$ 62,813,902</u>

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

Governmental activities:	
General government support	\$ 47,922
Public safety	280,223
Transportation	1,705,011
Economic assistance and opportunity	21,798
Culture and recreation	406,383
Home and community services	<u>844,952</u>
Total depreciation expense—governmental activities	<u>\$ 3,306,289</u>

6. ACCRUED LIABILITIES

Accrued liabilities include salary and other related liabilities. Accrued liabilities of the City's governmental funds at December 31, 2020 are:

General Fund	\$ 431,614
Water Fund	22,838
Sewer Fund	<u>39,721</u>
Total accrued liabilities	<u>\$ 494,173</u>

7. PENSION PLANS

Plan Description and Benefits Provided

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

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—At December 31, 2020, the City reported the liabilities shown on below for its proportionate share of the net pension liabilities for PFRS and ERS. The net pension liabilities were measured as of March 31, 2020. The total pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of April 1, 2019, with update procedures used to roll forward the total net pension liabilities to the measurement date. The City’s proportion of the net pension liabilities were based on projections of the City’s long-term share of contributions to the System relative to the projected contributions of all participating members, actuarially determined. This information was provided by the System in reports provided to the City.

	PFRS	ERS
Measurement date	March 31, 2020	March 31, 2020
Net pension liability	\$ 13,882,889	\$ 8,746,737
City's portion of the Plan's total net pension liability	0.2597390%	0.0330308%

For the year ended December 31, 2020, the City recognized pension expenses of \$4,727,453 and \$3,123,026 respectively, for PFRS and ERS. At December 31, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources shown on the following page.

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	PFRS	ERS	PFRS	ERS
Differences between expected and actual experiences	\$ 924,454	\$ 514,781	\$ 232,537	\$ -
Changes of assumptions	1,186,651	176,118	-	152,075
Net difference between projected and actual earnings on pension plan investments	6,251,902	4,484,002	-	-
Changes in proportion and differences between the City's contributions and proportionate share of contributions	22,397	238,743	506,235	15,552
City contributions subsequent to the measurement date	1,845,631	1,123,219	-	-
Total	<u>\$ 10,231,035</u>	<u>\$ 6,536,863</u>	<u>\$ 738,772</u>	<u>\$ 167,627</u>

The City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	PFRS	ERS
2021	\$ 1,573,201	\$ 952,397
2022	1,770,011	1,335,037
2023	2,293,515	1,648,788
2024	1,938,680	1,309,795
2025	71,225	-

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

	PFRS	ERS
Measurement date	March 31, 2020	March 31, 2020
Actuarial valuation date	April 1, 2019	April 1, 2019
Interest rate	6.80%	6.80%
Salary scale	5.00%	4.20%
Decrement tables	April 1, 2010- March 31, 2015	April 1, 2010- March 31, 2015
Inflation rate	2.5%	2.5%
Cost-of-living adjustments	1.3%	1.3%

Annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System's experience with adjustments for mortality improvements based on Society of Actuaries' Scale MP-2018. The actuarial assumptions used in the April 1, 2019 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

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

Measurement date Asset class:	PFRS and ERS	
	Target Allocation	Long-Term Expected Real Rate of Return
	March 31, 2020	
Domestic equities	36.0 %	4.1 %
International equities	14.0	6.2
Private equity	10.0	6.8
Real estate	10.0	5.0
Absolute return strategies	2.0	3.3
Opportunistic portfolio	3.0	4.7
Real assets	3.0	6.0
Bonds and mortgages	17.0	0.8
Cash	1.0	0.0
Inflation-indexed bonds	4.0	0.5
Total	<u>100.0</u> %	

Discount Rate—The discount rate used to calculate the total pension liabilities was 6.8%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the Systems’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption—The chart below presents the City’s proportionate share of the net pension liability calculated using the discount rate of 6.8%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (5.8%) or one percentage-point higher (7.8%) than the current assumption.

	1% Decrease (5.8%)	Current Assumption (6.8%)	1% Increase (7.8%)
Employer's proportionate share of the net pension liability—PFRS	\$ 24,822,888	\$ 13,882,889	\$ 4,085,872
Employer's proportionate share of the net pension liability—ERS	\$ 16,052,731	\$ 8,746,737	\$ 2,017,885

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

	(Dollars in Thousands)		
	PFRS	ERS	Total
Valuation date	April 1, 2019	April 1, 2019	
Employers' total pension liability	\$ 35,309,017	\$ 194,596,261	\$ 229,905,278
Plan fiduciary net position	<u>29,964,080</u>	<u>168,115,682</u>	<u>198,079,762</u>
Employers' net pension liability	<u>\$ 5,344,937</u>	<u>\$ 26,480,579</u>	<u>\$ 31,825,516</u>
System fiduciary net position as a percentage of total pension liability	84.9%	86.4%	86.2%

8. OTHER POSTEMPLOYMENT BENEFITS (“OPEB”) OBLIGATION

Plan Description and Benefits Provided—In addition to pension benefits, the City administers a single-employer defined benefit medical plan (the “Plan”). The Plan provides for continuation of medical insurance benefits for certain retirees and their spouses and can be amended by action of the City subject to applicable collective bargaining and employment agreements. The Plan does not issue standalone publicly available financial reports since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Employees Covered by Benefit Terms—At December 31, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	172
Active employees	<u>257</u>
Total	<u>429</u>

Under GASB Statement No. 75, the total OPEB liability represents the sum of expected future benefit payments, which may be attributed to past service (or “earned”), discounted to the end of the fiscal year using the current discount rate. The total OPEB liability is analogous to the Unfunded Actuarial Accrued Liability (“AAL”) under GASB Statement No. 45.

Total OPEB Liability

The City’s total OPEB liability of \$117,084,223 was measured as of December 31, 2020, and was determined by an actuarial valuation as of January 1, 2020.

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

In the January 1, 2020 actuarial valuation, the Entry Age Normal actuarial cost method, over a level percent of pay was used. The single discount rate changed from 3.26% effective January 1, 2020 to 1.93% effective December 31, 2020. The salary scale assumed to increase at 3.00% per year. As of the December 31, 2020 measurement date the mortality improvement table used was MP-2020 on a

generational basis. In order to estimate the change in the cost of healthcare, the actuaries initial healthcare cost trend rate used is 8.00% while the ultimate healthcare cost trend rate is 5.00%. An inflation rate of 3.00% was assumed for developing the rate of increase in healthcare costs.

Changes in the Total OPEB Liability—The following table presents the changes to the total OPEB liability during the fiscal year, by source:

	Total OPEB Liability
Balance at December 31, 2019, as restated	\$ 97,907,363
Changes for the year:	
Service cost	2,267,429
Interest	3,142,097
Expected and actual experience	(3,485,369)
Changes of assumptions	20,300,729
Benefit payments	(3,048,026)
Net changes	19,176,860
Balance at December 31, 2020	\$ 117,084,223

Sensitivity of the Total OPEB Liability to the Change in the Discount Rate and Healthcare Cost Trend Rate—The discount rate assumption can have a profound impact on total liabilities. The table below presents the effect of a 1% change in the discount rate assumption would have on the total OPEB liability.

	1% Decrease (0.93%)	Current Discount Rate (1.93%)	1% Increase (2.93%)
Total OPEB liability	\$ 132,350,735	\$ 117,084,223	\$ 101,817,710

Additionally, healthcare costs can be subject to considerable volatility over time. The table below presents the effect on the OPEB liability of a 1% change in the initial (8.00%)/ultimate (5.00%) healthcare cost trend rates.

	1% Decrease (7.00%/4.00%)	Health Healthcare Cost Trend Rates (8.00%/5.00%)	1% Increase (9.00%/6.00%)
Total OPEB liability	\$ 97,701,708	\$ 117,084,223	\$ 140,043,341

Funding Policy—Authorization for the City to pay a portion of retiree health insurance premiums was enacted through various union contracts as specified above, which were ratified by the City Board. The City recognizes the cost of providing these benefits by expensing the annual insurance premiums when invoiced by the health insurance provider. The City's contributions to the OPEB plan are based on negotiated contracts with three bargaining units, as discussed in Note 13. Any amendments to the employer's contributions are subject to the collective bargaining agreements.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB—The City reports deferred outflows and inflows of resources due to differences during the measurement period between certain of the employer’s contributions and its proportionate share of the total of certain contributions from employers included in the collective net OPEB liability. The following table presents the City’s deferred inflows of resources at December 31, 2020:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 414,176	\$ 3,049,698
Changes in assumptions	17,763,138	-
Total	<u>\$ 18,177,314</u>	<u>\$ 3,049,698</u>

The amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending December 31,</u>	
2021	\$ 2,170,950
2022	2,170,950
2023	2,170,950
2024	2,170,950
2025	2,170,950
Thereafter	4,272,866

9. RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; vehicle liability; injuries to employees; and natural disasters. 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 the self-insured limit. The City also obtained commercial auto bodily injury liability insurance in the amount of \$100,000.

The City self-insures for risk relating to workers’ compensation insurance. The City currently reports all of its risk management activities in its General Fund, Water Fund and Sewer Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The City’s workers’ compensation liability at December 31, 2020 is \$3,043,221 which reflects the actuarial analysis of the projected liability.

10. LONG-TERM LIABILITIES

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

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

The City's outstanding long-term liabilities include serial bonds, environmental facilities corporation notes payable, compensated absences, long-term retirement liability, workers' compensation, the OPEB obligation and the net pension liability. The bonds payable of the City are secured by its general credit and revenue raising powers, as per New York State statute.

A summary of the City's long-term liabilities at December 31, 2020 is presented below:

	Balance 1/1/2020 (as restated)	Additions	Reductions	Balance 12/31/2020	Due Within One Year
Serial bonds payable	\$ 12,645,000	\$ 1,352,700	\$ 2,000,000	\$ 11,997,700	\$ 2,052,700
Premium on serial bonds	-	94,758	2,632	92,126	6,317
Net serial bonds payable	12,645,000	1,447,458	2,002,632	12,089,826	2,059,017
EFC notes payable	-	4,298	-	4,298	-
Compensated absences*	2,161,882	1,608,272	-	3,770,154	188,508
Long-term retirement liability	1,191,454	-	405,102	786,352	364,694
Workers' compensation	3,821,502	-	778,282	3,043,220	304,322
OPEB obligation	97,907,363	19,176,860	-	117,084,223	-
Net pension liability*	6,612,451	16,017,175	-	22,629,626	-
Total	<u>\$ 124,339,652</u>	<u>\$ 38,254,063</u>	<u>\$ 3,186,016</u>	<u>\$ 159,407,699</u>	<u>\$ 2,916,541</u>

*additions to compensated absences and net pension liability are shown net of deductions.

Serial Bonds—The City borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These long-term liabilities, which are full faith and credit debt of the local government, are recorded in the governmental funds in the government-wide financial statements.

During the year ended December 31, 2020, the City issued \$1,352,700 of serial bonds various purposes. The interest rates ranging from 5.0% to 2.0%. Principal payments begin on June 1, 2021 and mature on June 1, 2035.

The summary on the following page presents bond transactions of the City for the fiscal year ended December 31, 2020.

Purpose	Fiscal Year of					Balance 12/31/2020
	Issue/ Maturity	Interest Rate	Balance 1/1/2020	Issues	Redemptions	
General Fund:						
2009 Various Purpose	2010/2023	2.00%-4.00%	\$ 270,000	\$ -	\$ 90,000	\$ 180,000
2011 Various Purpose	2012/2022	2.00%-4.00%	490,000	-	190,000	300,000
2012 Various Purpose	2013/2022	2.00%-2.25%	265,000	-	90,000	175,000
2016 Various Purpose	2017/2036	2.00%-2.875%	2,010,000	-	375,000	1,635,000
2016 Taxable Marina	2017/2028	3.125%-4.50%	895,000	-	95,000	800,000
2016 Refunding Bonds	2016/2026	2.00%-4.00%	165,750	-	82,875	82,875
2017 Various Purpose	2018/2032	2.00%-4.00%	1,355,000	-	190,000	1,165,000
2018 Various Purpose	2019/2033	3.00%-5.00%	1,992,000	-	155,000	1,837,000
2018B Various Purpose	2019/2033	2.00%-3.375%	560,000	-	70,000	490,000
2019 Various Purpose	2020/2034	1.70%-5.00%	400,000	-	25,000	375,000
2020 Various Purpose	2021/2035	2.00%-5.00%	-	1,352,700	-	1,352,700
Total General Fund			<u>8,402,750</u>	<u>1,352,700</u>	<u>1,362,875</u>	<u>8,392,575</u>
Water Fund:						
2009 Various Purpose	2010/2023	2.00%-4.00%	240,000	-	70,000	170,000
2011 Various Purpose	2012/2022	2.00%-4.00%	120,000	-	40,000	80,000
2012 Various Purpose	2013/2022	2.00%-2.25%	60,000	-	20,000	40,000
2016 Various Purpose	2017/2036	2.00%-2.875%	30,000	-	30,000	-
2016 Refunding Bonds	2016/2026	2.00%-4.00%	39,000	-	19,500	19,500
Total Water Fund			<u>489,000</u>	<u>-</u>	<u>179,500</u>	<u>309,500</u>
Sewer Fund:						
2009 Various Purpose	2010/2023	2.00%-4.00%	210,000	-	60,000	150,000
2011 Various Purpose	2012/2022	2.00%-4.00%	10,000	-	10,000	-
2012 Various Purpose	2013/2022	2.00%-2.25%	60,000	-	20,000	40,000
2016 Various Purpose	2017/2036	2.00%-2.875%	1,740,000	-	205,000	1,535,000
2016 Refunding Bonds	2016/2026	2.00%-4.00%	650,250	-	92,625	557,625
2018 Various Purpose	2019/2033	3.00%-5.00%	678,000	-	45,000	633,000
2019 Various Purpose	2020/2034	1.70%-5.00%	405,000	-	25,000	380,000
Total Sewer Fund			<u>3,753,250</u>	<u>-</u>	<u>457,625</u>	<u>3,295,625</u>
Total governmental activities			<u>\$ 12,645,000</u>	<u>\$ 1,352,700</u>	<u>\$ 2,000,000</u>	<u>\$ 11,997,700</u>

Premiums on Serial Bonds—The City’s premiums are being amortized on a straight-line basis over the life of the related bonds. The total unamortized premiums as of December 31, 2020 was \$92,126.

Environmental Facilities Corporation Notes Payable—During the year ended December 31, 2020, the City drew down \$4,289 of New York State Environmental Facilities Corporation (“EFC”) notes payable. The notes carry variable interest rates from 0.0 to 2.0 percent. At December 31, 2020, the City had \$4,528,848 in additional EFC notes available to drawdown for its water treatment project.

A summary of EFC notes payable transactions of the City for the fiscal year ended December 31, 2020 is presented below.

Purpose	Fiscal Year of		Balance	Issues	Redemptions	Balance
	Issue/	Maturity	Interest Rate			1/1/2020
EFC Notes—water treatment	2020/2025	0.000-2.000%	\$ -	\$ 4,289	\$ -	\$ 4,289

Compensated Absences—As explained in Note 1, the City provides vacation, personal, sick leave and compensatory time to its employees. The annual budgets of the operating funds provide funding for these benefits as they become payable. In the event of termination or upon retirement, an employee is entitled to payment for accumulated vacation, sick leave and unused compensatory absences at various rates subject to certain conditions, maximum limitations and union affiliations. The value recorded as a liability within governmental activities at December 31, 2020, for such benefits is \$3,770,154. Management estimates that \$188,508 is due within one year. Since payments of compensated absences are dependent upon many factors, the timing of future payments is not readily determinable.

Long-Term Retirement Liability—As explained in Note 6, the City participates in the New York State and Local Police and Fire Retirement System (“PFRS”) and Employees’ Retirement System (“ERS”). The City elected to amortize certain payments relating to ERS during 2012, 2013 and 2014 over ten years in accordance with Chapter 260 of the Laws of 2004 of the State of New York. Accordingly, at December 31, 2020, the City has recorded a liability in the amount of \$786,352, of which \$364,694 is considered due within one year.

Workers’ Compensation—Accrued workers’ compensation, which totals \$3,043,220 represents the City’s estimate of both asserted and unasserted workers’ compensation losses. The payments related to these liabilities are dependent upon many factors and, therefore, timing of future payments are not readily determinable. Refer to Note 9 for additional information related to workers’ compensation.

Other Postemployment Benefits (“OPEB”) Obligation—As explained in Note 8, the City provides medical and prescription drug insurance benefits for retirees, spouses, and their covered dependents while contributing a portion of the expenses. Such postemployment benefits are an included value in the exchange of salaries and benefits for services rendered. An employee’s total compensation package includes not only the salaries and benefits received during service, but all compensation and benefits received for their services during postemployment. The City’s annual postemployment benefit (“OPEB”) cost is measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees’ past periods of service (total OPEB liability). The long-term OPEB liability is estimated to be \$117,084,223 at December 31, 2020.

Net Pension Liability—The City reports a liability for its proportionate share of the net pension liability for the Police and Fire Retirement System and Employee’s Retirement System. The net pension liability is estimated to be \$22,629,626 in the governmental activities. Refer to Note 6 for additional information related to the City’s net pension liability.

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

Year ending December 31,	Serial Bonds	Premium on Serial Bonds	EFC Notes Payable	Compensated Absences
2021	\$ 2,052,700	\$ 6,317	\$ -	\$ 188,508
2022	1,715,000	6,317	-	-
2023	1,370,000	6,317	-	-
2024	975,000	6,317	-	-
2025	850,000	6,317	-	-
2026-2030	3,500,000	31,585	-	-
2031-2035	1,505,000	28,956	-	-
2036-2040	30,000	-	-	-
Thereafter	-	-	4,298	3,581,646
	<u>\$ 11,997,700</u>	<u>\$ 92,126</u>	<u>\$ 4,298</u>	<u>\$ 3,770,154</u>

Long-term Retirement Liability	Workers' Compensation	OPEB Obligation	Net Pension Liability	Total
\$ 364,694	\$ 304,322	\$ -	\$ -	\$ 2,916,541
282,523	-	-	-	2,003,840
139,135	-	-	-	1,515,452
-	-	-	-	981,317
-	-	-	-	856,317
-	-	-	-	3,531,585
-	-	-	-	1,533,956
-	-	-	-	30,000
-	2,738,898	117,084,223	22,629,626	146,038,691
<u>\$ 786,352</u>	<u>\$ 3,043,220</u>	<u>\$ 117,084,223</u>	<u>\$ 22,629,626</u>	<u>\$ 159,407,699</u>

The interest requirement for the City's outstanding serial bonds is as follows:

Year ending December 31,	Amount
2021	\$ 369,434
2022	285,664
2023	231,264
2024	190,208
2025	162,120
2026-2030	400,982
2031-2035	59,778
2036	431
	<u>\$ 1,699,881</u>

11. NET POSITION AND FUND BALANCE

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

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

Governmental activities:

Capital assets, net of accumulated depreciation		\$ 62,813,902
Related debt:		
Serial bonds	\$ (11,997,700)	
Unamortized serial bond premium	(92,126)	
EFC notes payable	(4,298)	
Unspent debt proceeds	<u>1,324,208</u>	<u>(10,769,916)</u>
Net investment in capital assets—governmental activities		<u>\$ 52,043,986</u>

- **Restricted Net Position**—This category presents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position**—This category represents net position of the City not restricted for any project or other purpose.

In the fund financial statements, nonspendable amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance maintained by the City at December 31, 2020 includes:

	General Fund
Long-term interfund loan	\$ 775,254
Prepaid items	<u>12,285</u>
	<u>\$ 787,539</u>

- **Long-term interfund loan**—Represents the portion of fund balance composed of receivables from the Sewer Fund that are not expected to be realized within the subsequent year.
- **Prepaid items**—Represents the portion of fund balance composed of prepaid expenses that are applicable to future accounting periods.

In the fund financial statements, restricted fund balances are amounts constrained to specific purposes (such as grants, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation. Restricted fund balance maintained by the City at December 31, 2020 is as follows:

	General Fund	Water Fund	Sewer Fund	Special Grant Fund	Special Purpose Fund	Capital Projects Fund	Total
Workers' compensation	\$ 1,232,726	\$ 171,435	\$ 214,909	\$ -	\$ -	\$ -	\$ 1,619,070
Employee benefits	396,435	-	-	-	-	-	396,435
Insurance	390,000	-	-	-	-	-	390,000
Tax stabilization	150,916	-	-	-	-	-	150,916
Debt	29,777	-	696	-	-	-	30,473
Repairs	78,512	250,000	133,685	-	-	-	462,197
Special grant	-	-	-	1,399,212	-	-	1,399,212
Special purpose	-	-	-	-	158,496	-	158,496
Capital projects	-	1,100,633	286,580	-	-	1,391,370	2,778,583
Miscellaneous	60,000	-	-	-	-	-	60,000
Total restricted fund balance	<u>\$ 2,338,366</u>	<u>\$ 1,522,068</u>	<u>\$ 635,870</u>	<u>\$ 1,399,212</u>	<u>\$ 158,496</u>	<u>\$ 1,391,370</u>	<u>\$ 7,445,382</u>

- **Restricted for Workers' Compensation**—According to General Municipal Law Section 6-j, this restriction must be used to pay compensation and benefits, medical, hospital, or other expenses authorized by Article 2 of the Workers' Compensation Law and by the Volunteer Firefighters Benefit Law and to pay the expenses of administering a self-insurance program.
- **Restricted for Employee Benefits**—According to General Municipal Law Section 6-p, this restriction must be used for the payment of accrued employee benefit due an employee upon termination of the employee's service.
- **Restricted for Insurance**—Represents reserve established to be used to pay claims, actions or judgments against the Town that results from personal injuries or property damage; to pay self-insured workers' compensation claims and expenses in excess of claims and expenses paid from current appropriations; and to pay non-insured unemployment losses.
- **Restricted for Tax Stabilization**—According to General Municipal Law Section 6-e, this restriction must be used to finance certain unanticipated revenue losses or unanticipated expenditures chargeable to the "eligible portion of the annual budget," and to lessen or prevent projected increases in excess of 2.5 percent of the amount of the real property tax levy needed to finance the eligible portion of the annual budget.
- **Restricted for Debt**—Represents amounts which have been restricted for the reduction of future debt service requirements.
- **Restricted for Repairs**—Represents funds accumulated to pay the cost of certain repairs of capital improvements or equipment. The repairs must be of a type not recurring annually or at shorter intervals.

- **Restricted for Special Grant**—Represent community development loans within the Special Grant Fund, which are required to be maintained intact.
- **Restricted for Special Purpose**—Represents fund balance within the special purpose special revenue fund that is restricted for a specific purpose.
- **Restricted for Capital Projects**—Represents amounts set aside to be used for capital projects or on related debt.
- **Restricted for Miscellaneous**—Represents fund balance in the general fund which has been restricted for miscellaneous purposes.

In the fund financial statements, commitments are amounts that are subject to a purpose constraint imposed by a formal action of the City’s highest level of decision-making authority. As of December 31, 2020, the City has no committed fund balance.

In the fund financial statements, assignments are amounts that are subject to a purpose constraint that represents an intended use established by the City’s Common Council, or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the General Fund, and in funds other than the General Fund, assigned fund balance represents the residual amount of fund balance. As of December 31, 2020, the balances presented below were considered to be assigned.

	Water Fund
Specific use	\$ 1,735,330
Total assigned fund balance	\$ 1,735,330

- **Assigned for specific use**—Represents remaining fund balance of special revenue funds to be used for each fund’s specific use.

Unassigned fund balance represents the residual classification of the City’s General Fund surplus.

It is the City’s policy to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year. For all funds, nonspendable fund balances are determined first and then restricted fund balances for specific purposes are determined. Any remaining fund balance amounts for funds other than the General Fund are classified as restricted fund balance. In the General Fund, committed fund balance is determined next then assigned. The remaining amounts are reported as unassigned. Assignments of fund balance cannot cause a negative unassigned fund balance.

12. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables of the City at December 31, 2020 consisted of the following:

Fund	Interfund Receivables	Interfund Payables
Governmental Funds:		
General Fund	\$ 1,022,028	\$ 400,000
Water Fund	-	95,626
Sewer Fund	471,024	1,082,021
Special Grant Fund	-	25,924
Capital Projects Fund	<u>1,330,873</u>	<u>1,220,354</u>
Total	<u>\$ 2,823,925</u>	<u>\$ 2,823,925</u>

Balances outstanding between funds are the result of transfers made to cover operating costs. Other balances result from payments made on behalf of other funds or temporary advances.

The City made the following transfers during the year ended December 31, 2020:

Fund	Transfers In	Transfers Out
Governmental Funds:		
General Fund	\$ -	\$ 727,047
Water Fund	306,272	-
Sewer Fund	<u>420,775</u>	<u>-</u>
Total	<u>\$ 727,047</u>	<u>\$ 727,047</u>

Transfers are used primarily to move unpaid water and sewer rents relieved as real property taxes.

13. LABOR RELATIONS

City employees are represented by five bargaining units. The City of North Tonawanda Professional Firefighter's IAFF Local 1333, the City of North Tonawanda Department of Public Works and the City of North Tonawanda Police Benevolent Association have contracts settled through December 31, 2020, 2021 and 2022, respectively. The City of North Tonawanda CSEA and the City of North Tonawanda OPEIU have contracts settled through December 31, 2023.

14. CONTINGENCIES

Litigation—The City is party to various legal proceedings which normally occur in governmental operations. The City believes that it is the ultimate liability, if any, in connection with these matters, will not have a material effect on the City's financial condition or results of operations.

Grants—The City receives significant financial assistance from numerous federal and state agencies. The receipt of such funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies.

15. TAX ABATEMENTS

The City is subject to tax abatements granted by the Niagara County Industrial Development Agency (the "IDA"). These programs have the stated purpose of increasing business activity and employment in the region. Economic development agreements are entered into by the IDA and include the abatement of state, county, local and school district taxes, in addition to other assistance. In the case of the City, the abatements have resulted in reductions of property taxes, which the City administers as a temporary reduction in the assessed value of the property involved. The abatement agreements stipulate a percentage reduction of property taxes, which can be as much as 100 percent. Under the agreements entered into by IDAs, the City collected \$179,757 during the 2020 fiscal year in payments in lieu of taxes ("PILOT"), these collections were made in lieu of \$315,144 in property taxes.

16. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 27, 2021, which is the date the financial statements are available for issuance, and have determined there are no subsequent events, except what is discussed below, that require disclosure under generally accepted accounting principles.

- On February 11, 2021, the City issued tax anticipation notes in the amount of \$4,200,000 with an interest rate of 1.00% which matured on May 11, 2021.

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REQUIRED SUPPLEMENTARY INFORMATION

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

	Year Ended December 31,					
	2020	2019	2018	2017	2016	2015
Measurement date	March 31, 2020	March 31, 2019	March 31, 2018	March 31, 2017	March 31, 2016	March 31, 2015
City's proportion of the net pension liability	0.2597390%	0.2576507%	0.2575360%	0.2585161%	0.2717274%	0.2667754%
City's proportionate share of the net pension liability	<u>\$ 13,882,889</u>	<u>\$ 4,320,965</u>	<u>\$ 2,603,063</u>	<u>\$ 5,358,138</u>	<u>\$ 8,045,271</u>	<u>\$ 734,325</u>
City's covered payroll	\$ 8,613,667	\$ 8,273,906	\$ 7,975,929	\$ 7,869,416	\$ 7,754,585	\$ 7,607,933
City's proportionate share of the net pension liability as a percentage of its covered payroll	161.2%	52.2%	32.6%	68.1%	103.7%	9.7%
Plan fiduciary net position as a percentage of the total pension liability	84.9%	95.1%	96.9%	93.5%	90.2%	99.0%

*Information prior to the year ended December 31, 2015 is not available.

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

	Year Ended December 31,					
	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 2,414,040	\$ 2,252,791	\$ 2,201,631	\$ 2,242,559	\$ 2,276,348	\$ 2,356,474
Contributions in relation to the contractually required contribution	<u>(2,414,040)</u>	<u>(2,252,791)</u>	<u>(2,201,631)</u>	<u>(2,242,559)</u>	<u>(2,276,348)</u>	<u>(2,356,474)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	8,763,749	8,575,825	8,216,208	7,962,473	7,827,225	7,960,806
Contributions as a percentage of covered payroll	27.5%	26.3%	26.8%	28.2%	29.1%	29.6%

*Information prior to the year ended December 31, 2015 is not available.

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

	Year Ended December 31,					
	2020	2019	2018	2017	2016	2015
Measurement date	March 31, 2020	March 31, 2019	March 31, 2018	March 31, 2017	March 31, 2016	March 31, 2015
City's proportion of the net pension liability	0.0330308%	0.0323414%	0.0304561%	0.0284895%	0.0290482%	0.0267039%
City's proportionate share of the net pension liability	<u>\$ 8,746,737</u>	<u>\$ 2,291,486</u>	<u>\$ 982,953</u>	<u>\$ 2,676,937</u>	<u>\$ 4,662,321</u>	<u>\$ 902,122</u>
City's covered payroll	\$ 10,028,230	\$ 9,751,028	\$ 9,577,544	\$ 9,136,309	\$ 8,946,718	\$ 8,771,337
City's proportionate share of the net pension liability as a percentage of its covered payroll	87.2%	23.5%	10.3%	29.3%	52.1%	10.3%
Plan fiduciary net position as a percentage of the total pension liability	86.4%	96.3%	98.2%	94.7%	90.7%	98.0%

*Information prior to the year ended December 31, 2015 is not available.

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

	Year Ended December 31,					
	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 1,489,394	\$ 1,465,034	\$ 1,475,559	\$ 1,522,859	\$ 1,590,597	\$ 1,699,001
Contributions in relation to the contractually required contribution	<u>(1,489,394)</u>	<u>(1,465,034)</u>	<u>(1,475,559)</u>	<u>(1,522,859)</u>	<u>(1,590,597)</u>	<u>(1,699,001)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	10,172,830	9,959,269	9,753,888	9,456,573	9,087,447	9,206,820
Contributions as a percentage of covered payroll	14.6%	14.7%	15.1%	16.1%	17.5%	18.5%

*Information prior to the year ended December 31, 2015 is not available.

CITY OF NORTH TONAWANDA, NEW YORK
Schedule of Changes in the City's Total OPEB Liability and Related Ratios
Last Three Fiscal Years*

	Year Ended December 31,		
	2020	2019	2018
Total OPEB Liability			
Service cost	\$ 2,267,429	\$ -	\$ 1,810,271
Interest	3,142,097	-	3,228,209
Change of benefit terms	-	4,816,658	-
Differences between expected and actual experience	(3,485,369)	-	552,236
Changes of assumptions	20,300,729	-	-
Benefit payments	(3,048,026)	-	(2,374,123)
Net changes in total OPEB liability	<u>19,176,860</u>	<u>4,816,658</u>	<u>3,216,593</u>
Total OPEB liability—beginning, as restated	<u>97,907,363</u>	<u>93,090,705</u>	<u>89,874,112</u>
Total OPEB liability—ending	<u>\$ 117,084,223</u>	<u>\$ 97,907,363</u>	<u>\$ 93,090,705</u>
Plan Fiduciary Net Position			
Contributions—employer	\$ 3,048,026	N/A	\$ 2,374,123
Benefit payments	(3,048,026)	N/A	(2,374,123)
Net change in plan fiduciary net position	-	-	-
Plan fiduciary net position—beginning	-	-	-
Plan fiduciary net position—ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's net OPEB liability—ending	<u>\$ 117,084,223</u>	<u>\$ 97,907,363</u>	<u>\$ 93,090,705</u>
Plan's fiduciary net position as a percentage of the total OPEB liability	0.0%	0.0%	0.0%
Covered-employee payroll	\$ 20,029,562	\$ 20,229,968	\$ 19,251,790
City's net OPEB liability as a percentage of covered-employee payroll	584.6%	484.0%	483.5%

* Information prior to the year ended December 31, 2018 is not available.

The notes to the Required Supplementary Information are an integral part of this schedule

CITY OF NORTH TONAWANDA, NEW YORK
Schedule of Revenues, Expenditures, and Changes in Fund Balances—
Budget and Actual—General Fund
Year Ended December 31, 2020

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Real property taxes	\$ 17,194,888	\$ 17,194,888	\$ 16,792,892	\$ (401,996)
Real property tax items	1,644,551	1,644,551	1,623,926	(20,625)
Nonproperty tax items	10,050,000	10,050,000	9,438,915	(611,085)
Departmental income	1,625,670	1,625,670	1,329,845	(295,825)
Intergovernmental charges	43,000	43,000	114,908	71,908
Use of money and property	253,000	253,000	151,886	(101,114)
Licenses and permits	593,820	593,820	427,480	(166,340)
Fines and forfeitures	470,000	470,000	168,322	(301,678)
Sale of property and compensation for loss	1,021,100	1,021,100	1,034,805	13,705
Miscellaneous	5,000	5,000	66,849	61,849
State aid	4,929,348	4,929,348	4,964,673	35,325
Total revenues	<u>37,830,377</u>	<u>37,830,377</u>	<u>36,114,501</u>	<u>(1,715,876)</u>
EXPENDITURES				
Current:				
General government support	4,391,394	4,316,938	3,492,852	824,086
Public safety	10,846,031	10,846,031	11,213,510	(367,479)
Transportation	4,677,380	4,894,380	4,510,765	383,615
Economic assistance and opportunity	73,012	73,012	54,963	18,049
Culture and recreation	2,051,555	2,052,605	1,843,012	209,593
Home and community services	1,589,132	1,669,322	1,755,281	(85,959)
Employee benefits	12,632,184	12,632,184	12,110,079	522,105
Debt service:				
Principal	1,362,875	1,362,875	1,362,875	-
Interest and fiscal charges	256,080	256,080	240,329	15,751
Total expenditures	<u>37,879,643</u>	<u>38,103,427</u>	<u>36,583,666</u>	<u>1,519,761</u>
Deficiency of revenues over expenditures	<u>(49,266)</u>	<u>(273,050)</u>	<u>(469,165)</u>	<u>(196,115)</u>
OTHER FINANCING (USES)				
Transfers out	-	-	(727,047)	(727,047)
Total other financing (uses)	<u>-</u>	<u>-</u>	<u>(727,047)</u>	<u>(727,047)</u>
Net change in fund balances *	(49,266)	(273,050)	(1,196,212)	(923,162)
Fund balances—beginning	<u>5,858,577</u>	<u>5,858,577</u>	<u>5,858,577</u>	<u>-</u>
Fund balances—ending	<u>\$ 5,809,311</u>	<u>\$ 5,585,527</u>	<u>\$ 4,662,365</u>	<u>\$ (923,162)</u>

* The net change in fund balances was included in the budget as an appropriation (i.e. spend down) of fund balance and re-appropriation of prior year encumbrances.

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

CITY OF NORTH TONAWANDA, NEW YORK
Schedule of Revenues, Expenditures, and Changes in Fund Balances—
Budget and Actual—Water Fund
Year Ended December 31, 2020

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Departmental income	\$ 2,736,000	\$ 2,736,000	\$ 2,598,975	\$ (137,025)
Use of money and property	3,000	3,000	1,393	(1,607)
Sale of property and compensation for loss	1,200	1,200	18,060	16,860
Miscellaneous	3,500	3,500	1,251	(2,249)
Total revenues	<u>2,743,700</u>	<u>2,743,700</u>	<u>2,619,679</u>	<u>(124,021)</u>
EXPENDITURES				
Current:				
General government support	-	(12,570)	10,000	(22,570)
Home and community services	1,834,824	1,834,824	1,901,916	(67,092)
Employee benefits	507,358	507,358	647,152	(139,794)
Debt service:				
Principal	179,500	189,832	179,500	10,332
Interest and fiscal charges	16,010	18,248	11,473	6,775
Total expenditures	<u>2,537,692</u>	<u>2,537,692</u>	<u>2,750,041</u>	<u>(212,349)</u>
Excess (deficiency) of revenues over expenditures	<u>206,008</u>	<u>206,008</u>	<u>(130,362)</u>	<u>(336,370)</u>
OTHER FINANCING SOURCES				
Transfers in	-	-	306,272	306,272
Total other financing sources	<u>-</u>	<u>-</u>	<u>306,272</u>	<u>306,272</u>
Net change in fund balances	206,008	206,008	175,910	(30,098)
Fund balances—beginning, as restated	3,081,488	3,081,488	3,081,488	-
Fund balances—ending	<u>\$ 3,287,496</u>	<u>\$ 3,287,496</u>	<u>\$ 3,257,398</u>	<u>\$ (30,098)</u>

* The net change in fund balances was included in the budget as an appropriation (i.e. spend down) of fund balance and re-appropriation of prior year encumbrances.

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

CITY OF NORTH TONAWANDA, NEW YORK
Schedule of Revenues, Expenditures, and Changes in Fund Balances—
Budget and Actual—Sewer Fund
Year Ended December 31, 2020

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Departmental income	\$ 4,160,072	\$ 4,160,072	\$ 3,558,067	\$ (602,005)
Use of money and property	186,500	186,500	173,136	(13,364)
Miscellaneous	-	-	2,327	2,327
Total revenues	<u>4,346,572</u>	<u>4,346,572</u>	<u>3,733,530</u>	<u>(613,042)</u>
EXPENDITURES				
Current:				
General government support	-	-	6,586	(6,586)
Home and community services	2,882,752	2,862,801	3,110,028	(247,227)
Employee benefits	906,228	906,228	753,374	152,854
Debt service:				
Principal	457,625	457,625	457,625	-
Interest and fiscal charges	114,066	114,066	124,299	(10,233)
Total expenditures	<u>4,360,671</u>	<u>4,340,720</u>	<u>4,451,912</u>	<u>(111,192)</u>
Excess (deficiency) of revenues over expenditures	<u>(14,099)</u>	<u>5,852</u>	<u>(718,382)</u>	<u>(724,234)</u>
OTHER FINANCING SOURCES				
Transfers in	-	-	420,775	420,775
Total other financing sources	<u>-</u>	<u>-</u>	<u>420,775</u>	<u>420,775</u>
Net change in fund balances*	(14,099)	5,852	(297,607)	(303,459)
Fund balances—beginning, as restated	345,631	345,631	345,631	-
Fund balances—ending	<u>\$ 331,532</u>	<u>\$ 351,483</u>	<u>\$ 48,024</u>	<u>\$ (303,459)</u>

* The net change in fund balances was included in the budget as an appropriation (i.e. spend down) of fund balance and re-appropriation of prior year encumbrances.

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

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CITY OF NORTH TONAWANDA, NEW YORK
Notes to the Required Supplementary Information
Year Ended December 31, 2020

1. OPEB LIABILITY

Changes of Assumptions—Changes of assumptions reflect the effects of changes in the discount rate and the medical healthcare cost trend rate. The discount rate changed from 3.26% effective December 31, 2019 to 1.93% effective December 31, 2020. The salary scale assumed to increase at 3.00% per year. As of the December 31, 2020 measurement date, the mortality improvement table was updated from Scale MP-2019 to Scale MP-2020 on a generational basis. In order to estimate the change in the cost of healthcare, the actuaries initial healthcare cost trend rate used is 8.00% while the ultimate healthcare cost trend rate is 5.00%. An inflation rate of 3.00 % was assumed for developing the rate of increase in healthcare costs.

1. BUDGETARY INFORMATION

Budgetary Basis of Accounting—Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, Water Fund and Sewer Fund. The Special Grant Fund and Special Purpose Fund do not have an appropriated budget since other means control the use of these resources (e.g., grant awards) and sometimes span a period of more than one fiscal year. The Capital Projects Fund is appropriated on a project-length basis.

The appropriated budget is prepared by fund, function, and department. Budget transfers and amendments must be approved by the Common Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

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

Excess of Expenditures over Appropriations

During the year ended December 31, 2020, certain items exceed the adjusted budget, these items are shown below:

- General Fund public safety expenditures exceed the final budget by \$367,479. This difference was a result of expenditures for pedestrian safety improvements that were not included in the budget.
- General Fund home and community services expenditures were higher than the final budget by \$85,959 the Town incurring higher than anticipated costs for garbage and refuse operations.

- General Fund transfers out were \$727,047 higher than the final budget due to transfers to the Water Fund and Sewer Fund for uncollected water and sewer rents which are re-levied in the subsequent year and recognized as revenue in the General Fund.
- Water Fund general government support expenditures exceed the final budget by \$10,000 due to insurance costs which not included in the budget.
- Water Fund home and community services expenditures exceed the final budget by \$67,092 as a result of higher than expected building and grounds maintenance costs.
- Water Fund employee benefits expenditures exceed the final budget by \$139,794. This difference was a result of higher than anticipated workers' compensation costs.
- Sewer Fund general government support expenditures exceed the final budget by \$6,586 due to insurance costs which not included in the budget.
- Sewer Fund home and community services expenditures exceed the final budget by \$247,227 as a result of unexpected personal service costs related to the COVID-19 pandemic.
- Sewer Fund interest charges were higher than the final budget by \$10,233 as a result of payments of interest on debt not included in the budget.

FEDERAL AWARDS
INFORMATION

CITY OF NORTH TONAWANDA, NEW YORK
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2020

Federal Grantor/Pass-through Grantor/Program or Cluster Title (1a)	Federal CFDA Number (1b)	Pass-through Entity's Identifying Number (1c)	Passed- Through to Subrecipients	Federal Expenditures (1d)
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
<i>Direct Programs:</i>				
Section 8 Project-Based Cluster:				
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	N/A	\$ -	\$ 105,111
Total Section 8 Project-Based Cluster			-	105,111
Housing Voucher Cluster:				
Section 8 Housing Choice Vouchers	14.871	N/A	-	2,986,907
Section 8 Housing Choice Vouchers - CARES Act	14.871	N/A	-	3,416
Total Housing Voucher Cluster			-	2,990,323
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			-	3,095,434
TOTAL EXPENDITURES OF FEDERAL AWARDS (1e)			\$ -	\$ 3,095,434

The notes to the schedule of federal awards are an integral part of this schedule.

CITY OF NORTH TONAWANDA, NEW YORK
Notes to the Schedule of Expenditures of Federal Awards
Year Ended December 31, 2020

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the City of North Tonawanda, New York (the “City”) under programs of the federal government for the year ended December 31, 2020. The information in this Schedule is presented in accordance with the Title 2 U.S. Code of Federal Regulations (“CFR”) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the Schedule presents only a select portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City. The following notes were identified on the Schedule:

- a) Includes all federal award programs of the City of North Tonawanda, New York.
- b) Source: Catalog of Federal Domestic Assistance.
- c) Pass-through identifying numbers are presented where available.
- d) Prepared under accounting principles generally accepted in the United States of America and includes all federal award programs.
- e) A reconciliation to the financial statements is available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis or accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

3. MATCHING COSTS

Matching costs, i.e., the City’s share of certain program costs, are not included in the reported expenditures.

Certified Public Accountants

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

Honorable Mayor and Members of the Common Council
City of 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, New York (the "City") as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 27, 2021 (which report includes an emphasis of matter paragraph regarding the restatement of net position and fund balance).

Internal Control Over Financial Reporting

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

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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompany schedule of findings as items 2020-001 and 2020-002 that we consider to be material weaknesses.

Compliance and Other Matters

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

The City's Response to Findings

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

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Drescher & Malecki LLP

September 27, 2021

Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited the City of North Tonawanda, New York's (the "City") compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget ("OMB") Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2020. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

The City's management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). 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 the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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

Drescher & Malecki LLP

September 27, 2021

CITY OF NORTH TONAWANDA, NEW YORK
Schedule of Findings and Questioned Costs
Year Ended December 31, 2020

Section I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of report the auditor issued: Unmodified*
 *(which reports includes an emphasis of matter paragraph regarding the restatement of net position and fund balance.)

Internal control over financial reporting:

Material weakness(es) identified?	<u> ✓ </u>	Yes	<u> </u>	No
Significant deficiency(ies) identified?	<u> </u>	Yes	<u> ✓ </u>	None reported
Noncompliance material to financial statements noted?	<u> </u>	Yes	<u> ✓ </u>	No

Federal Awards:

Internal control over major federal programs:

Material weakness(es) identified?	<u> </u>	Yes	<u> ✓ </u>	No
Significant deficiency(ies) identified?	<u> </u>	Yes	<u> ✓ </u>	None reported

Type of report the auditor issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<u> </u>	Yes	<u> ✓ </u>	No
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Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.871	Housing Voucher Cluster

Dollar threshold used to distinguish between Type A and Type B programs?	<u> \$ 750,000 </u>
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Auditee qualified as low-risk auditee?	<u> ✓ </u>	Yes	<u> </u>	No
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CITY OF NORTH TONAWANDA, NEW YORK
Schedule of Findings and Questioned Costs
Year Ended December 31, 2020

Section II. FINANCIAL STATEMENT FINDINGS

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

Finding 2020-001—Audit Readiness and Year-end Closing Process

Criteria: Prior to providing financial records to auditors, the City should prepare for the audit of its financial statements by appropriately closing the books for the year. Standard closing procedures should be established to include sufficient documentation that is readily available, ensure that reconciliations of account balances are performed and an analysis of accounts is available. In addition, the general ledger should be reviewed to ensure that all activity is appropriately recorded.

Condition and Context: Certain account balances in the trial balance that was provided had not been appropriately adjusted and reconciled. As a result several adjusting journal entries, including adjustments to prior periods were proposed.

Cause: The City lacks standardized accounting policies and procedures for to the financial reporting closing process.

Effect or Potential Effect: Without a standard process to close the books, accurate financial information may not be readily available to management or those charged with governance.

Recommendation: We recommend that the City establish procedures to facilitate the year-end financial closing in preparation of the audit. These procedures should include certain checklists and analysis procedures to be performed and can be applied on a monthly routine basis as well as to ensure that the financial records are available on a timely basis.

Management's Response: During the 2021 fiscal year, management intends to continue to improve accounting education and training.

Finding 2020-002—Journal Entry and Bank Reconciliation Controls

Criteria: The City should establish standard accounting policies and procedures regarding journal entries and bank reconciliations to reduce the risk of asset misappropriation and fraudulent financial reporting, and to ensure that proper procedures are consistently followed.

Condition and Context: The City currently lacks formal policies and procedures for journal entries and bank reconciliations. This lack of standard policies and procedures could lead to an inappropriate treatment of accounting policies, poor execution of internal controls and does not support a succession plan for daily responsibilities of the critical accounting cycles.

While certain journal entries were entered and approved during the year, we noted that a formal policy for the preparation, posting, and review and approval for non-recurring journal entries does not currently exist. We acknowledge that an independent review may have occurred on certain journal entries; however, there was no documentation that the review occurred. A formal journal entry policy allows for consistent accounting treatment accountability and ensures appropriate controls surround the posting of entries to the general ledger.

For bank reconciliations the City lacks a standard monthly process to reconcile all bank accounts to the general ledger and the Treasurer's report. Further it was noted that the person who prepares the reconciliation does not initial and date the reconciliation as prepared. There is no formal review process of the reconciliations in which a person independent of the process performs a review of the reconciliation and initials and dates as such.

Cause: Turnover in accounting staff and lack of formalized policies and procedures.

Effect or Potential Effect: Potential material misstatements due to error and fraud may not be detected or corrected in a timely basis.

Recommendation: We recommend that the City develop and implement standard monthly policies and procedures related to journal entries and bank reconciliations. These policies and procedures should include a formal policy regarding the access to, preparation, posting, and review and approval of journal entries. This policy should outline what review, and by whom, should occur before entries are entered into the system. A threshold may be implemented to ensure the review process isn't in excess by having recurring or entries of small amounts taking too much time and review before posting. Appropriate entries should be prepared, then reviewed, and finally approved by the City. The reviewer of all journal entries as well as bank reconciliations should initial and date the documentation as being reviewed and approved.

Additionally, we recommend that the City perform a review of cash reconciliations of all bank accounts to reconcile to the general ledger in a timely manner and that any differences are identified and resolved. Further we recommend the City begin initialing and dating the reconciliations as completed and properly reconciles all bank accounts each month.

Management's Response: During the 2021 fiscal year, management will work to develop formalized policies and procedures.

Section III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings noted.

CITY OF NORTH TONAWANDA, NEW YORK
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2020
(Follow-up on December 31, 2019 Findings)

No findings were reported.