

**CITY OF DUNKIRK,
NEW YORK**

*Basic Financial Statements and
Required Supplementary Information
for the Year Ended December 31, 2016
and Independent Auditors' Reports*

CITY OF DUNKIRK, NEW YORK

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dunkirk, New York (the "City"), as of and for the year ended December 31, 2016, 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 did not audit the financial statements of the City of Dunkirk Industrial Development Agency or the City of Dunkirk Housing Authority, which are shown as discretely presented component units. Those financial statements were audited by other auditors whose reports thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the report of the other auditors. 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, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2016, 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, the City's December 31 2015 financial statements have been restated to correct misstatements. 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Drescher & Malecki LLP

December 21, 2017

CITY OF DUNKIRK, NEW YORK
Management's Discussion and Analysis
Year Ended December 31, 2016

As management of the City of Dunkirk, 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, 2016. This document should be read 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 assets and deferred outflows of resources of the City's primary government exceeded its liabilities and deferred inflows of resources at the close of the fiscal year ended December 31, 2016 by \$16,064,436 (net position). This consists of \$13,940,352 net investment in capital assets, \$1,000,602 restricted for specific purposes, and unrestricted net position of \$1,123,482.
- The City's total primary government net position increased by \$1,791,104 during the year ended December 31, 2016.
- At the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance deficit of \$(1,869,898), a fund balance increase of \$4,624,745 in comparison with the prior year's fund balance deficit of \$(6,494,643), as restated.
- At the end of the fiscal year, *unassigned fund balance* for the General Fund was \$1,739,441. This total amount is *available for spending* at the City's discretion and constitutes approximately 27.3 percent of the General Fund's total fund balance of \$6,366,542.
- The City's primary government total bonded indebtedness increased by \$4,105,000 as a result of the issuance of \$4,515,000 of serial bonds and scheduled principal payments of \$410,000.

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 readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and 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, transportation, economic assistance and opportunity, culture and recreation, home and community services, and interest and fiscal charges. The City does not engage in business-type activities.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the City of Dunkirk Industrial Development Agency and the City of Dunkirk Housing Authority for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

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

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

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

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

The City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Water Fund, Wastewater Treatment Fund, Special Grant Fund and Capital Projects Fund, which are considered major funds.

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

Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City’s own programs. The City maintains two fiduciary funds, the Private Purpose Trust Fund and the Agency Fund. The fiduciary fund financial statements can be found on pages 18-19 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 20-47 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 (asset)/liability, and the City’s budgetary comparison for the General Fund, Water Fund the Wastewater Treatment Fund. Required Supplementary Information and a related note to the required supplementary information can be found on pages 48-55 of this report.

Government-wide Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government’s financial position. In the case of the City’s primary government, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$16,064,436 at the close of the most recent fiscal year, as compared to \$14,273,332, as restated, at the close of the fiscal year ended December 31, 2015.

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

Table 1—Condensed Statements of Net Position—Primary Government

	Governmental Activities	
	December 31,	
	2016	2015 (as restated)
Current and other assets	\$ 12,760,496	\$ 9,221,650
Noncurrent assets	<u>34,969,660</u>	<u>34,402,842</u>
Total assets	<u>47,730,156</u>	<u>43,624,492</u>
Deferred outflows of resources	<u>7,937,459</u>	<u>462,282</u>
Current and other liabilities	14,658,388	15,802,933
Noncurrent liabilities	<u>23,665,605</u>	<u>14,010,509</u>
Total liabilities	<u>38,323,993</u>	<u>29,813,442</u>
Deferred inflows of resources	<u>1,279,186</u>	<u>-</u>
Net position:		
Net investment in capital assets	13,940,352	12,994,366
Restricted	1,000,602	1,000,602
Unrestricted	<u>1,123,482</u>	<u>278,364</u>
Total net position	<u>\$ 16,064,436</u>	<u>\$ 14,273,332</u>

The largest portion of the City’s net position, \$13,940,352, reflects its investment in capital assets (e.g. land, buildings and building improvements, infrastructure and machinery and equipment), less any related debt used to acquire those assets. The City uses these capital assets to provide services to citizens.

Accordingly, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The next largest portion reflects unrestricted net position of \$1,123,482 and represents resources that may be used to meet the City's ongoing obligations.

The final portion of the City's primary government net position, \$1,000,602, represents resources that are subject to 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.

Table 2, as presented below shows the changes in net position for the years ended December 31, 2016 and December 31, 2015.

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

	Governmental Activities	
	Year Ended December 31,	
	2016	2015 (as restated)
Revenues:		
Program revenues:		
Charges for services	\$ 9,445,441	\$ 8,128,800
Operating grants and contributions	926,737	2,495,722
Capital grants and contributions	470,000	408,598
General revenues	<u>12,188,161</u>	<u>13,137,297</u>
Total revenues	<u>23,030,339</u>	<u>24,170,417</u>
Program expenses	<u>21,240,235</u>	<u>23,482,601</u>
Excess (deficiency) of revenues over expenses	1,790,104	687,816
Transfers	<u>1,000</u>	<u>-</u>
Change in net position	1,791,104	687,816
Net position—beginning	14,273,332	15,868,733
Restatement	<u>-</u>	<u>(2,283,217)</u>
Net position—ending	<u>\$ 16,064,436</u>	<u>\$ 14,273,332</u>

Governmental activities. Governmental activities increased the City's net position by \$1,791,104. Overall revenues decreased 4.7 percent from the prior year largely due to the City receiving less Community Development Block Grants during a voluntary grant reduction period following a review by the U.S. Department of Housing and Urban Development. Total expenses decreased 9.5 percent from the prior year due to an overall reduction in expenditures.

A summary of sources of revenues for the years ended December 31, 2016 and December 31, 2015 is presented below in Table 3.

Table 3—Summary of Sources of Revenues—Governmental Activities

	Year Ended December 31,		Increase/(decrease)	
	2016	2015	Dollars	Percent
Charges for services	\$ 9,445,441	\$ 8,128,800	\$ 1,316,641	16.2
Operating grants and contributions	926,737	2,495,722	(1,568,985)	(62.9)
Capital grants and contributions	470,000	408,598	61,402	15.0
Real property taxes and tax items	7,624,940	7,606,106	18,834	0.2
Nonproperty tax items	2,590,214	2,403,031	187,183	7.8
State aid—unrestricted	1,643,151	1,614,376	28,775	1.8
Other general revenues	329,856	1,513,784	(1,183,928)	(78.2)
Total revenues	<u>\$ 23,030,339</u>	<u>\$ 24,170,417</u>	<u>\$ (1,140,078)</u>	(4.7)

The most significant source of revenues is charges for services of \$9,445,441, or 41.0 percent of total governmental activities revenues for the year ended December 31, 2016 and \$8,128,800, or 33.6 percent of total governmental activities revenues, for the year ended December 31, 2015. The next largest source of revenue is real property taxes and tax items of \$7,624,940, or 33.1 percent of total governmental activities revenues for the year ended December 31, 2016 and \$7,606,106, or 31.5 percent of total governmental activities revenues for the year ended December 31, 2015.

A summary of program expenses for the year ended December 31, 2016 and December 31, 2015 is presented below in Table 4.

Table 4—Summary of Program Expenses—Governmental Activities

	Year Ended December 31,		Increase/(decrease)	
	2016	2015	Dollars	Percent
General government support	\$ 3,337,147	\$ 3,184,000	\$ 153,147	4.8
Public safety	7,574,630	9,181,742	(1,607,112)	(17.5)
Transportation	1,608,198	2,036,636	(428,438)	(21.0)
Economic assistance and opportunity	44,315	49,551	(5,236)	(10.6)
Culture and recreation	711,317	888,619	(177,302)	(20.0)
Home and community services	7,396,120	7,803,110	(406,990)	(5.2)
Interest and fiscal charges	568,508	338,943	229,565	67.7
Total program expenses	<u>\$ 21,240,235</u>	<u>\$ 23,482,601</u>	<u>\$ (2,242,366)</u>	(9.5)

The most significant expense items for the year ended December 31, 2016 were public safety of \$7,574,630, or 35.7 percent of total governmental activities expenses, home and community services of \$7,396,120, or 34.8 percent of total governmental activities expenses and general government support of \$3,337,147, or 15.7 percent of total governmental activities. For the year ended December 31, 2015 the most significant expense items were public safety of \$9,181,742, or 39.1 percent of total governmental activities expenses, home and community services of \$7,803,110, or 33.2 percent of total governmental activities expenses and general government support of \$3,184,000, or 13.6 percent of total governmental activities expenses.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance deficit of \$(1,869,898), an improvement of \$4,624,745 in comparison with the prior year's fund balance, as restated (\$6,494,643). \$(7,078,919), constitutes an *unassigned fund balance deficit*. The remainder of fund balance is (1) not in spendable form, \$2,729,089, (2) restricted for particular purposes, \$1,000,602, or 3) assigned for a particular purpose, \$1,479,330.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, *unassigned fund balance* of the General Fund was \$1,739,441, while total fund balance was \$6,366,542. The General Fund fund balance increased \$596,115 from the prior year as employee benefits were less than anticipated. As a measure of the General Fund's liquidity, it may be useful to compare both *unassigned fund balance* and total fund balance to total expenditures and transfers out. *Unassigned fund balance* represents 12.0 percent of General Fund expenditures and transfers out, while total fund balance represents 43.9 percent of that same amount.

During the year ended December 31, 2016, the City's Water Fund fund balance increased by \$429,216 from the prior year, resulting in an ending fund balance deficit of \$(445,403). The increase in fund balance is attributable to an increase in rates in addition to monitoring of expenditures.

At December 31, 2016, the City's Wastewater Treatment Fund reported fund balance of \$581,920 an increase of \$283,533 in comparison with the prior year. The increase in fund balance is attributable to an increase in rates in addition to monitoring of expenditures.

The fund balance in the Capital Projects Fund increased \$3,315,881 from December 31, 2015 primarily as a result of the issuance of serial bonds.

General Fund Budgetary Highlights

The City's General Fund budget generally contains budget transfers during the year. Furthermore, the budget is allowed to be amended upward (increased) for additional current year appropriations supported by an increase in budgeted revenues or appropriation of fund balance. A budgetary comparison schedule for the General Fund has been provided in the Required Supplementary Information section of this report to demonstrate compliance with the budget.

A summary of the General Fund results of operations for the year ended December 31, 2016 is presented in Table 5 below:

Table 5—Summary of General Fund Results of Operations

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
Revenues and other financing sources	\$ 14,903,572	\$ 15,083,041	\$ 15,084,957	\$ 1,916
Expenditures and other financing uses	14,989,675	15,138,414	14,488,842	649,572
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ (86,103)	\$ (55,373)	\$ 596,115	\$ 651,488

Original budget compared to final budget. During the year, the budget is modified, primarily to reflect the acceptance of state grants and related expenditures in addition to other unanticipated income.

Final budget compared to actual results. The General Fund had a favorable variance from final budgetary appropriations of \$651,488. The positive variances were realized primarily in employee benefits and transportation.

Capital Assets and Debt Administration

Capital assets. The City’s investment in capital assets for its governmental activities as of December 31, 2016 amounted to \$34,969,660 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, infrastructure, buildings and building improvements, and 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 the years ended December 31, 2016 and December 31, 2015 are presented in Table 6 on the following page.

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

	Governmental activities	
	December 31,	
	2016	2015 (as restated)
Land	\$ 151,155	\$ 151,155
Construction in progress	4,429,792	11,631,127
Infrastructure	25,903,305	17,680,528
Buildings and building improvements	2,261,500	2,369,556
Machinery and equipment	2,223,908	2,570,476
Total	<u>\$ 34,969,660</u>	<u>\$ 34,402,842</u>

Additional information on the City's capital assets can be found in Note 5 to the financial statements.

Long-term liabilities. At December 31, 2016, the City's serial bonds totaled \$11,840,000 for governmental activities as compared to the prior year's total of \$7,735,000. The increase of \$4,105,000 is a result of the issuance of \$4,515,000 of serial bonds and scheduled principal payments of \$410,000.

Table 7—Summary of Long-Term Liabilities

	Governmental activities	
	December 31,	
	2016	2015 (as restated)
Serial bonds	\$ 11,840,000	\$ 7,735,000
Energy performance contract	622,309	668,761
Capital leases	449,425	581,461
Compensated absences	4,058,791	4,102,018
Net pension liability	6,695,080	93,269
Total	<u>\$ 23,665,605</u>	<u>\$ 13,180,509</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

The unemployment rate, not seasonally adjusted, for the Chautauqua County region at December 31, 2016 was 6.2 percent. This is unfavorable to New York State's average unemployment rate of 4.5 percent and the national average unemployment rate of 4.7 percent.

The City takes these factors into consideration in preparing the budget for 2017. In developing the 2017 General Fund budget, the City did not appropriate any fund balance. Budgeted appropriations for the year ending December 31, 2017 are \$14,562,641, \$3,634,506 and \$3,720,804 for the General Fund, Water Fund and Wastewater Treatment Fund, respectively, as compared to \$14,903,575, \$3,247,679 and \$3,882,000 for the year ended December 31, 2016.

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. If you have any questions about this report or need additional financial information, contact Mark A. Woods, City Treasurer, City of Dunkirk, 342 Central Avenue, Dunkirk, New York 14048.

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BASIC FINANCIAL STATEMENTS

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CITY OF DUNKIRK, NEW YORK
Statement of Net Position
December 31, 2016

	<u>Primary Government</u>	<u>Component Units</u>	
		<u>City of Dunkirk Industrial Development Agency</u>	<u>City of Dunkirk Housing Authority</u>
ASSETS			
Cash and cash equivalents	\$ 3,462,919	\$ 16,248	\$ 445,059
Restricted cash and cash equivalents	4,611,178	-	52,838
Investments	-	-	444,351
Receivables (net of allowance):			
Taxes	521,447	-	-
Other	2,512,800	-	5,424
Intergovernmental receivables	1,118,061	-	4,886
Internal balances	534,091	-	-
Prepaid items	-	-	37,161
Inventories	-	-	22,419
Capital assets not being depreciated	4,580,947	-	1,257,808
Capital assets, net of accumulated depreciation	30,388,713	-	3,066,699
Total assets	<u>47,730,156</u>	<u>16,248</u>	<u>5,336,645</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows—relating to pensions	7,937,459	-	188,105
Total deferred outflows of resources	<u>7,937,459</u>	<u>-</u>	<u>188,105</u>
LIABILITIES			
Accounts payable	1,873,091	-	69,092
Accrued liabilities	446,283	-	-
Intergovernmental payables	807,236	-	64,337
Deposits	-	-	53,908
Unearned revenue	31,778	-	-
Bond anticipation notes payable	11,500,000	-	-
Noncurrent liabilities:			
Due within one year	1,040,210	-	19,727
Due in more than one year	22,625,395	-	335,375
Total liabilities	<u>38,323,993</u>	<u>-</u>	<u>542,439</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows—PILOT payments	196,372	-	-
Deferred inflows—relating to pensions	1,082,814	-	19,970
Total deferred inflows of resources	<u>1,279,186</u>	<u>-</u>	<u>19,970</u>
NET POSITION			
Net investment in capital assets	13,940,352	-	4,324,507
Restricted for:			
Tax stabilization	484,268	-	-
Employee benefits	516,334	-	-
Unrestricted	1,123,482	16,248	637,834
Total net position	<u>\$ 16,064,436</u>	<u>\$ 16,248</u>	<u>\$ 4,962,341</u>

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

CITY OF DUNKIRK, NEW YORK
Statement of Activities
Year Ended December 31, 2016

Function/Program	Expenses	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Component Units	
						City of Dunkirk Industrial Development Agency	City of Dunkirk Housing Authority
Primary government:							
Governmental activities:							
General government support	\$ 3,337,147	\$ 348,023	\$ -	\$ -	\$ (2,989,124)	\$ -	\$ -
Public safety	7,574,630	465,416	38,875	-	(7,070,339)	-	-
Transportation	1,608,198	9,417	507,727	-	(1,091,054)	-	-
Economic assistance and opportunity	44,315	3,500	-	-	(40,815)	-	-
Culture and recreation	711,317	43,359	-	-	(667,958)	-	-
Home and community services	7,396,120	8,575,726	380,135	470,000	2,029,741	-	-
Interest and fiscal charges	568,508	-	-	-	(568,508)	-	-
Total primary government	<u>21,240,235</u>	<u>9,445,441</u>	<u>926,737</u>	<u>470,000</u>	<u>(10,398,057)</u>	<u>-</u>	<u>-</u>
Component units:							
City of Dunkirk Industrial Development Agency	\$ 815	\$ -	\$ -	\$ -		(815)	-
City of Dunkirk Housing Authority	<u>1,662,535</u>	<u>730,546</u>	<u>622,022</u>	<u>265,235</u>		<u>-</u>	<u>(44,732)</u>
Total component units	<u>\$ 1,663,350</u>	<u>\$ 730,546</u>	<u>\$ 622,022</u>	<u>\$ 265,235</u>		<u>(815)</u>	<u>(44,732)</u>
General revenues:							
Real property taxes and tax items					7,624,940	-	-
Nonproperty tax items					2,590,214	-	-
Use of money and property					120,992	-	4,304
Sale of property and compensation for loss					72,235	-	4,650
State aid—unrestricted					1,643,151	-	-
Miscellaneous					136,629	-	-
Transfers					<u>1,000</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers					<u>12,189,161</u>	<u>-</u>	<u>8,954</u>
Change in net position					1,791,104	(815)	(35,778)
Net position—beginning, as restated					<u>14,273,332</u>	<u>17,063</u>	<u>4,998,119</u>
Net position—ending					<u>\$ 16,064,436</u>	<u>\$ 16,248</u>	<u>\$ 4,962,341</u>

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

CITY OF DUNKIRK, NEW YORK
Balance Sheet—Governmental Funds
December 31, 2016

	General	Special Revenue			Capital Projects	Total Governmental Funds
		Water	Wastewater Treatment	Special Grant		
ASSETS						
Cash and cash equivalents	\$ 2,866,455	\$ 142,224	\$ 454,240	\$ -	\$ -	\$ 3,462,919
Restricted cash and cash equivalents	1,227,012	-	-	1,740	3,382,426	4,611,178
Receivables (net of allowance):						
Taxes	521,447	-	-	-	-	521,447
Other	508,307	1,109,989	894,504	-	-	2,512,800
Intergovernmental receivables	763,786	-	-	21,351	332,924	1,118,061
Due from other funds	3,257,808	109,070	496,700	-	735,088	4,598,666
Total assets	<u>9,144,815</u>	<u>1,361,283</u>	<u>1,845,444</u>	<u>23,091</u>	<u>4,450,438</u>	<u>16,825,071</u>
LIABILITIES						
Accounts payable	\$ 1,281,017	\$ 121,414	\$ 138,863	\$ 21,351	\$ 310,446	\$ 1,873,091
Accrued liabilities	162,743	37,840	21,334	-	-	221,917
Due to other funds	300,867	1,647,432	1,103,327	-	1,012,949	4,064,575
Intergovernmental payables	807,236	-	-	-	-	807,236
Unearned revenue	30,038	-	-	1,740	-	31,778
Bond anticipation notes payable	-	-	-	-	11,500,000	11,500,000
Total liabilities	<u>2,581,901</u>	<u>1,806,686</u>	<u>1,263,524</u>	<u>23,091</u>	<u>12,823,395</u>	<u>18,498,597</u>
DEFERRED INFLOWS OF RESOURCES						
PILOT payments	196,372	-	-	-	-	196,372
Total deferred inflows of resources	<u>196,372</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>196,372</u>
FUND BALANCES (DEFICITS)						
Nonspendable	2,729,089	-	-	-	-	2,729,089
Restricted	1,000,602	-	-	-	-	1,000,602
Assigned	897,410	-	581,920	-	-	1,479,330
Unassigned	1,739,441	(445,403)	-	-	(8,372,957)	(7,078,919)
Total fund balances (deficits)	<u>6,366,542</u>	<u>(445,403)</u>	<u>581,920</u>	<u>-</u>	<u>(8,372,957)</u>	<u>(1,869,898)</u>
Total liabilities, deferred inflows of resources and fund balances (deficits)	<u>\$ 9,144,815</u>	<u>\$ 1,361,283</u>	<u>\$ 1,845,444</u>	<u>\$ 23,091</u>	<u>\$ 4,450,438</u>	<u>\$ 16,825,071</u>

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

CITY OF DUNKIRK, NEW YORK
Reconciliation of the Balance Sheet—Governmental Funds
to the Government-wide Statement of Net Position
December, 31, 2016

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

Total fund balances (deficits)—governmental funds (page 14)	\$	(1,869,898)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of these assets is \$97,394,729 and the accumulated depreciation is \$62,425,069.		34,969,660
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	\$ 1,356,822	
Deferred outflows related to experience and investment earnings	6,580,637	
Deferred inflows of resources related to pensions	<u>(1,082,814)</u>	6,854,645
Net accrued interest expense for debt is not reported in the funds.		(224,366)
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	\$ (11,840,000)	
Energy performance contract	(622,309)	
Capital leases	(449,425)	
Compensated absences	(4,058,791)	
Net pension liability	<u>(6,695,080)</u>	<u>(23,665,605)</u>
Net position of governmental activities	\$	<u><u>16,064,436</u></u>

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

CITY OF DUNKIRK, NEW YORK
Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficits)—Governmental Funds
Year Ended December 31, 2016

	<u>Special Revenue</u>				<u>Capital Projects</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Water</u>	<u>Wastewater Treatment</u>	<u>Special Grant</u>		
REVENUES						
Real property taxes	\$ 4,837,476	\$ -	\$ -	\$ -	\$ -	\$ 4,837,476
Real property tax items	2,787,464	-	-	-	-	2,787,464
Nonproperty tax items	2,590,214	-	-	-	-	2,590,214
Departmental income	1,504,515	3,460,828	3,546,554	-	-	8,511,897
Intergovernmental charges	619,469	-	-	-	-	619,469
Use of money and property	24,933	-	-	-	96,059	120,992
Licenses and permits	44,832	-	-	-	-	44,832
Fines and forfeitures	139,880	-	129,363	-	-	269,243
Sale of property and compensation for loss	68,865	3,370	-	-	-	72,235
Miscellaneous	103,716	13,986	18,551	-	376	136,629
State aid	2,272,157	-	-	-	470,000	2,742,157
Federal aid	-	-	-	297,731	-	297,731
Total revenues	<u>14,993,521</u>	<u>3,478,184</u>	<u>3,694,468</u>	<u>297,731</u>	<u>566,435</u>	<u>23,030,339</u>
EXPENDITURES						
Current:						
General government support	1,688,820	382,122	382,122	-	-	2,453,064
Public safety	5,773,325	-	-	-	-	5,773,325
Transportation	1,127,852	-	-	-	-	1,127,852
Economic assistance and opportunity	44,315	-	-	-	-	44,315
Culture and recreation	548,079	-	-	-	-	548,079
Home and community services	855,610	1,547,127	2,156,326	270,533	-	4,829,596
Employee benefits	4,065,167	464,805	521,519	-	-	5,051,491
Debt service:						
Principal	286,688	187,432	177,606	-	-	651,726
Interest and fiscal charges	53,986	242,482	158,362	-	-	454,830
Capital outlay	-	-	-	-	2,050,554	2,050,554
Total expenditures	<u>14,443,842</u>	<u>2,823,968</u>	<u>3,395,935</u>	<u>270,533</u>	<u>2,050,554</u>	<u>22,984,832</u>
Excess (deficiency) of revenues over expenditures	<u>549,679</u>	<u>654,216</u>	<u>298,533</u>	<u>27,198</u>	<u>(1,484,119)</u>	<u>45,507</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	28,198	-	-	-	285,000	313,198
Transfers out	(45,000)	(225,000)	(15,000)	(27,198)	-	(312,198)
Serial bonds issued	-	-	-	-	4,515,000	4,515,000
Capital leases	63,238	-	-	-	-	63,238
Total other financing sources (uses)	<u>46,436</u>	<u>(225,000)</u>	<u>(15,000)</u>	<u>(27,198)</u>	<u>4,800,000</u>	<u>4,579,238</u>
Net change in fund balances	596,115	429,216	283,533	-	3,315,881	4,624,745
Fund balances (deficits)—beginning, as restated	5,770,427	(874,619)	298,387	-	(11,688,838)	(6,494,643)
Fund balances (deficits)—ending	<u>\$ 6,366,542</u>	<u>\$ (445,403)</u>	<u>\$ 581,920</u>	<u>\$ -</u>	<u>\$ (8,372,957)</u>	<u>\$ (1,869,898)</u>

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

CITY OF DUNKIRK, NEW YORK
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balances (Deficits)—Governmental Funds to the Government-wide Statement of Activities
Year Ended December 31, 2016

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

Net change in fund balances (deficits)—total governmental funds (page 16)	\$	4,624,745
<p>City 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 depreciation expense exceeded capital outlays in the current period.</p>		
Capital asset additions	\$	2,145,218
Depreciation expense		(1,530,625)
Loss on disposition of assets		(47,775)
		566,818
<p>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.</p>		
		(24,048)
<p>Net differences between pension contributions recognized on the fund financial statements and the government-wide financial statements are as follows:</p>		
Direct pension contributions	\$	1,785,701
Cost of benefits earned net of employee contributions		(1,165,149)
		620,552
<p>In the statement of activities, interest expense is recognized as it accrues, regardless of when it is paid.</p>		
		(113,678)
<p>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:</p>		
Proceeds from serial bonds	\$	(4,515,000)
Principal payments on serial bonds		410,000
Proceeds from capital leases		(63,238)
Principal payments on capital leases		241,726
Change in compensated absences		43,227
		(3,883,285)
Change in net position of governmental activities	\$	1,791,104

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

CITY OF DUNKIRK, NEW YORK
Statement of Net Position—
Fiduciary Funds
December 31, 2016

	<u>Private Purpose Trust</u>	<u>Agency</u>
ASSETS		
Cash and cash equivalents	\$ 88,103	\$ 490,920
Other assets	-	360,233
Total assets	<u>88,103</u>	<u>\$ 851,153</u>
LIABILITIES		
Other agency liabilities	-	323,062
Due to other funds	<u>6,000</u>	<u>528,091</u>
Total liabilities	<u>6,000</u>	<u>\$ 851,153</u>
NET POSITION		
Restricted for investments	<u>\$ 82,103</u>	

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

CITY OF DUNKIRK, NEW YORK
Statement of Changes in Net Position—
Fiduciary Funds
Year Ended December 31, 2016

	<u>Private Purpose Trust</u>
DEDUCTIONS	
Transfers out	\$ 1,000
Total deductions	<u>1,000</u>
Change in net position	(1,000)
Net position—beginning	<u>83,103</u>
Net position—ending	<u>\$ 82,103</u>

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

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CITY OF DUNKIRK, NEW YORK
Notes to the Financial Statements
Year Ended December 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Dunkirk, 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 principles 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. All fiduciary activities are reported only in the fund financial statements. *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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

Reporting Entity

The City, incorporated in 1880, operates pursuant to its Charter and the City Code, as well as various local laws. Additionally, certain New York State laws govern the City to the extent that such laws are applicable to cities operating under a charter form of government. The City of Dunkirk Common Council is the legislative body responsible for overall operations, the Mayor serves as chief executive office, and the City Treasurer serves as chief fiscal officer.

The City provides the following basic services: garbage collection, police and fire protection, recreation programming for youths and adults, maintenance of parks, beaches and boat launches, maintenance of streets, water and sewer lines, regional water filtration plant and sewage treatment facilities.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Discretely Presented Component Units—The component unit columns in the basic financial statements include the financial data of the City’s two discretely presented component units. These units are reported in a separate column to emphasize that they are legally separate from the City.

City of Dunkirk Industrial Development Agency—The City of Dunkirk Industrial Development Agency (the “Agency”) was established by the enactment of Section 890-a of the General Municipal Law, effective June 17, 1971, as a special act of the New York State Legislature. The Agency is authorized under the Act to issue bonds to promote the economic and industrial development of the State. The bonds are secured by pledges of any rents, revenues and receipts

as well as a lien on and a security interest in the projects being promoted. Neither the Agency nor the City shall be held liable for repayment of these bonds out of any funds other than those pledged by the Agency. Members of the Board of Directors of the Agency are appointed by and designated to serve at the pleasure of the City's Common Council. Separate financial statements for the Agency may be obtained by contacting City of Dunkirk Industrial Development Agency, City Hall, Dunkirk, New York 14048.

City of Dunkirk Housing Authority—The City of Dunkirk Housing Authority (the “Authority”) was created in 1963 by the New York State Legislature. The governing board of the Authority is appointed by the Mayor except for two tenant representatives. The local government provides no subsidy to the Authority nor is it responsible for debt or operating deficits of the Authority. The Authority is essentially supported by operating subsidies from the U.S Department of Housing and Urban Development. The local government does not appoint management of the Authority nor does it approve the Authority's budget or hiring staff. The local government has no oversight responsibility for funds of the Authority. However, per New York directive, the Dunkirk Housing Authority is considered a component unit of the City and is discretely presented. Separate financial statements for the Authority may be obtained by contacting City of Dunkirk Housing Authority, 15 North Main Street, Dunkirk, New York 14048.

The Dunkirk Urban Renewal Agency (the “Agency”) was established for the purpose of renovating and rehabilitating an economically depressed area with the City. While the Agency is holds title to certain parcels of land that are unappraised, it is presently inactive, as such no activity has been presented.

The Dunkirk Public Library (the “Library”) is no longer considered a component unit of the City. Previously, the City provided a substantial portion of the operating costs for the Library, however; effective January 1, 2016, the Library was established as a school district public library in which operating costs are now supported by taxes levied by the Dunkirk City School District.

Basis of Presentation—Government-wide Financial Statements

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

As discussed earlier, the government has two discretely presented component units. City of Dunkirk Housing Authority and City of Dunkirk Industrial Development Agency are shown in separate columns in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and various other functions of the government. 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—governmental and fiduciary—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.
- *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.
- *Wastewater Treatment Fund*—This fund is used to account for the revenues (user charges) and expenditures of the wastewater treatment plant for residential and commercial users.
- *Special Grant Fund*—This fund is used to account for Community Development Block Grants and Small Cities Entitlement Grants from the U.S. Department of Housing and Urban Development.
- *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.

Additionally, the City reports the following fund types:

- *Private Purpose Trust Fund*—The Trust Fund represents an expendable trust received and held by the City which can only be utilized for the benefit of Recreation/Youth programs of the City.
- *Agency Fund*—The agency fund is custodial in nature and does not present results of operation. This fund is used to account for assets that the government holds for others in an agency capacity.

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 government 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 services expenditures, as well as expenditures related to compensated absences, pensions, other post-employment benefits, 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 90 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.

The private purpose trust fund is reported using the *economic resources measurement focus* and the *accrual basis* of accounting. The Agency Fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

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

Cash, Cash Equivalents and Investments—The City's cash 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, 2016. 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 deferred inflows of resources and unspent proceeds of debt.

Capital Assets—The City’s property, plant, equipment, and infrastructure 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 fair value on the date donated. The City generally capitalizes assets with costs of \$1,000 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:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	40
Land improvements	20
Infrastructure:	
Sanitary sewers	50
Water mains	50
Storm drains	50
Traffic control systems	20
Roads	20
Sidewalks	20
Machinery and equipment:	
Office equipment	10-15
Heavy equipment	10
Vehicles	10
Other	8
Computers	5

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 amounts received have not been spent or otherwise used to meet the revenue recognition criteria for government-wide or fund financial purposes. At December 31, 2016, the City reported unearned revenues of \$30,038 and \$1,740 within the General Fund and Special Grant Fund, respectively.

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, 2016, the City has one item that qualifies for reporting in this category. This item is related to pensions reported in the government-wide financial statements. This represents the effect of the net change in the City’s proportion of the collective net pension liability, and the difference during the measurement period between the City’s contributions and its proportionate share of the total contribution to the pension systems not included in the pension expense and any contributions to the pension systems made subsequent to the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. At December 31, 2016, the City has two items that qualify for reporting in this category. The first item represents cash received in advance for payments in lieu of taxes prior to the period in which property taxes were levied. The second item represents the effect of the net change in the City’s proportion of the collective net pension liability and the difference during the measurement periods between the City’s contributions and its proportionate share of total contributions to the pension systems not included in pension expense and it 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 January 1st of the year the taxes are recognizable as revenue. Taxes become a lien on the related property on January 1st 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 remission to them. During 1994, the City entered an agreement with the County of Chautauqua whereby unpaid City and school taxes are to be turned over for enforcement. The agreement with the County of Chautauqua was renewed on March 10, 2014 for the 2014, 2015 and 2016 tax years. The County reimburses the City for unpaid taxes and relieves unpaid taxes as County taxes in the subsequent year.

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, and liabilities 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, 2016, the City implemented GASB Statements No. 72, *Fair Value Measurement and Application*, No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, No. 77, *Tax Abatement Disclosures*, No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, and No. 79, *Certain External Investment Pools and Pool Participants*. GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes, as well as guidance on applying fair value to certain investments and disclosures related to all fair value measurements. GASB Statement No. 73 establishes a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and nonemployer contributing entities. GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. GASB Statement No. 77 requires the disclosure of information about the nature and magnitude of tax abatements and will make these transactions more transparent to financial statement users. GASB Statement No. 78 addresses a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. GASB Statements No. 72, 73, 76, 77, 78, and 79 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. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*; No. 80, *Blending Requirements for Certain Component Units - an Amendment of GASB Statement No. 14*; No. 81, *Irrevocable Split-Interest Agreements*; No. 82, *Pension Issues; an Amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for the fiscal year ending December 31, 2017; No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; No. 85, *Omnibus 2017*, No. 86, *Certain Debt Extinguishment Issues* effective for the fiscal year ending December 31, 2018; No. 83, *Certain Asset Retirement Obligations*; No. 84, *Fiduciary Activities*, effective for the fiscal year ending December 31, 2019 and No. 87, *Leases*, effective for the fiscal year ended December 31, 2020. The City is, therefore, unable to disclose the impact that adopting GASB Statements No. 74, 75, 80, 81, 82, 83, 84, 85, 86 and 87 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 same in the City Clerk's Office and cause sufficient copies of same and the budget message to be made 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 cause to be published 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 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 at 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 Balances—At December 31, 2016, the Water Fund reported a deficit fund balance. The City anticipates the deficit will be remedied through future fees and reduced expenditures.

Additionally, the Capital Projects Fund has a deficit fund balance. The primary reason for this deficit is that the City issued bond anticipation notes (“BANs”), which do not qualify for treatment as a long-term liability. Accordingly, the BANs are reported as a fund liability in the Capital Projects Fund balance sheet (rather than an inflow on the statement of revenues, expenditures, and changes in fund balances). When the cash from the BANs is spent, expenditures are reported and fund balance is reduced. Since the BANs are the main source of resources for the fund, the result is an overall fund deficit. This deficit will be eliminated as resources are obtained (e.g., from revenues, long-term debt issuances, and transfers in) to make the scheduled debt service principal and interest payments on the BANs or retire the BANs.

2. RESTATEMENT OF NET POSITION AND FUND BALANCE

During the year ended December 31, 2016, the City determined that revenue recorded during the year ended December 31, 2015 was recorded in the incorrect fund, cash was understated, the allowance for doubtful accounts was overstated, bond anticipation notes payable were understated, capital assets were overstated and that long-term liabilities related to energy performance contracts and capital leases were understated.

The effect of the aforementioned restatements to the City's governmental activities is summarized as follows:

	Governmental Activities <u>Net Position</u>
Net position—December 31, 2015, as previously stated	\$16,556,549
Cash	132,782
Allowance for doubtful accounts	324,000
Capital assets	(1,153,777)
Bond anticipation notes payable	(336,000)
Long-term liabilities	<u>(1,250,222)</u>
Net position—December 31, 2015, as restated	<u>\$14,273,332</u>

The effect of the restatements to the governmental funds is summarized as follows:

	<u>General Fund</u>	<u>Water Fund</u>	<u>Wastewater Treatment Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Fund balance, December 31, 2015, as previously stated	\$ 5,713,582	\$ (979,619)	\$ 79,387	\$ (11,428,775)	\$ (6,615,425)
Revenue recorded in incorrect fund	(75,937)	-	-	75,937	-
Cash not previously recorded	132,782	-	-	-	132,782
Allowance for doubtful accounts correction	-	105,000	219,000	-	324,000
Bond anticipation notes payable not previously recorded	-	-	-	(336,000)	(336,000)
Fund balance, December 31, 2015, as restated	<u>\$ 5,770,427</u>	<u>\$ (874,619)</u>	<u>\$ 298,387</u>	<u>\$ (11,688,838)</u>	<u>\$ (6,494,643)</u>

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Available cash of the City is deposited and invested in accordance with the provisions of applicable 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.

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, 2016 are as follows:

	Governmental Funds	Fiduciary Funds	Total
Petty cash (uncollateralized)	\$ 1,400	\$ -	\$ 1,400
Deposits	<u>8,072,697</u>	<u>579,023</u>	<u>8,651,720</u>
Total	<u>\$ 8,074,097</u>	<u>\$ 579,023</u>	<u>\$ 8,653,120</u>

Deposits—All deposits are carried at fair value and are classified by custodial credit risk at December 31, 2016 as follows:

	Bank Balance	Carrying Amount
FDIC Insured	\$ 250,000	\$ 250,000
Uninsured:		
Collateral held by pledging bank's agent in the City's name	<u>8,553,019</u>	<u>8,401,720</u>
Total deposits	<u>\$ 8,803,019</u>	<u>\$ 8,651,720</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, 2016, 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 and deferred inflows of resources related to cash received in advance and unspent debt proceeds as restricted cash and cash equivalents. At December 31, 2016, the City reports restricted cash totaling \$1,227,012 within the General Fund, \$1,740 within the Special Grant Fund and \$3,382,426 within the Capital Projects Fund.

Interest Rate Risk—In accordance with its investment policy, the City manages exposures by limiting investments to low risk type investments governed by New York State statute. At December 31, 2016, the City had no investments.

Discretely Presented Component Units

City of Dunkirk Industrial Development Agency—The Agency had unrestricted deposits of \$16,248, which is covered by FDIC insurance.

City of Dunkirk Housing Authority—The Authority had unrestricted deposits of \$445,059 which were insured or collateralized by securities held by the pledging financial institution’s trust department or agent in the Authority’s name.

The Authority had restricted cash of \$52,838. Additionally, the Authority had \$444,351 of investments that were held as bank certificates of deposit with an original maturity date of more than three months.

4. RECEIVABLES

Taxes Receivable—Represents City and school taxes that remain unpaid. At December 31, 2016, the City recorded \$521,447 related to taxes receivable.

Accounts Receivable—Represents amounts due from various sources. Receivables at December 31, 2016 are:

General Fund:		
Accounts receivable	\$ 582,276	
Allowance	<u>(73,969)</u>	\$ 508,307
Water Fund:		
Accounts receivable	1,115,989	
Allowance	<u>(6,000)</u>	1,109,989
Wastewater Treatment Fund:		
Accounts receivable	934,504	
Allowance	<u>(40,000)</u>	<u>894,504</u>
Total		<u>\$ 2,512,800</u>

Intergovernmental Receivables—Represents amounts due from other units of government, such as Federal, New York State, County of Chautauqua or other local governments. Intergovernmental receivables at December 31, 2016 are:

General Fund	\$ 763,786
Special Grant Fund	21,351
Capital Projects Fund	<u>332,924</u>
Total	<u>\$ 1,118,061</u>

5. CAPITAL ASSETS

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

	Balance 1/1/2016 (as restated)	Increases	Decreases	Balance 12/31/2016
Capital assets, not being depreciated:				
Land	\$ 151,155	\$ -	\$ -	\$ 151,155
Construction in progress	<u>11,631,127</u>	<u>2,050,554</u>	<u>9,251,889</u>	<u>4,429,792</u>
Total capital assets not being depreciated	<u>11,782,282</u>	<u>2,050,554</u>	<u>9,251,889</u>	<u>4,580,947</u>
Capital assets, being depreciated:				
Infrastructure	52,335,183	9,251,889	-	61,587,072
Buildings and building improvements	13,483,876	-	-	13,483,876
Machinery and equipment	<u>18,516,590</u>	<u>94,664</u>	<u>868,420</u>	<u>17,742,834</u>
Total capital assets being depreciated	<u>84,335,649</u>	<u>9,346,553</u>	<u>868,420</u>	<u>92,813,782</u>
Less accumulated depreciation for:				
Infrastructure	34,654,655	1,029,112	-	35,683,767
Buildings and building improvements	11,114,320	108,056	-	11,222,376
Machinery and equipment	<u>15,946,114</u>	<u>393,457</u>	<u>820,645</u>	<u>15,518,926</u>
Total accumulated depreciation	<u>61,715,089</u>	<u>1,530,625</u>	<u>820,645</u>	<u>62,425,069</u>
Total capital assets, being depreciated, net	<u>22,620,560</u>	<u>7,815,928</u>	<u>47,775</u>	<u>30,388,713</u>
Governmental activities capital assets, net	<u>\$ 34,402,842</u>	<u>\$ 9,866,482</u>	<u>\$ 9,299,664</u>	<u>\$ 34,969,660</u>

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

Governmental activities:	
General government support	\$ 127,171
Public safety	139,753
Transportation	135,610
Home and community services	<u>1,128,091</u>
Total depreciation expense—governmental activities	<u>\$ 1,530,625</u>

Discretely Presented Component Units

City of Dunkirk Housing Authority—Capital asset activity for the Authority was as follows:

	Balance 7/1/2015	Increases	Decreases	Balance 6/30/2016
Capital assets, not being depreciated:				
Land	\$ 1,257,808	\$ -	\$ -	\$ 1,257,808
Capital assets, being depreciated:				
Buildings and building improvements	14,067,940	239,986	-	14,307,926
Furniture, equipment and machinery	957,933	25,250	-	983,183
Total capital assets being depreciated	15,025,873	265,236	-	15,291,109
Less accumulated depreciation	11,807,397	417,013	-	12,224,410
Total capital assets, being depreciated, net	3,218,476	(151,777)	-	3,066,699
Total capital assets, net	<u>\$ 4,476,284</u>	<u>(151,777)</u>	<u>\$ -</u>	<u>\$ 4,324,507</u>

6. ACCRUED LIABILITIES

Accrued liabilities include salary and other related liabilities. Accrued liabilities of the City’s governmental funds at December 31, 2016 are:

General Fund	\$ 162,743
Water Fund	37,840
Wastewater Treatment Fund	21,334
Total accrued liabilities	<u>\$ 221,917</u>

7. PENSION PLANS

Plan Description and Benefits Provided

Police and Fire Retirement System (“PFRS”) and Employees’ Retirement System (“ERS”)—The City participates in the PFRS and ERS (the “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, 2016, the City reported the following liabilities for its proportionate share of the net pension liabilities for PFRS and ERS. The net pension liabilities were measured as of March 31, 2016. The total pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of April 1, 2015, 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.

	<u>PFRS</u>	<u>ERS</u>
Measurement date	March 31, 2016	March 31, 2016
Net pension liability	\$ 4,215,877	\$ 2,479,203
City's portion of the Plan's total net pension liability	0.1423904%	0.0154465%

For the year ended December 31, 2016, the City recognized pension expenses of \$1,534,214 and \$933,152 respectively, for PFRS and ERS. At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>PFRS</u>	<u>ERS</u>	<u>PFRS</u>	<u>ERS</u>
Differences between expected and actual experiences	\$ 37,813	\$ 12,528	\$ 637,390	\$ 293,868
Changes of assumptions	1,817,451	661,129	-	-
Net difference between projected and actual earnings on pension plan investments	2,362,658	1,470,799	-	-
Changes in proportion and differences between the City's contributions and proportionate share of contributions	51,563	166,696	147,495	4,061
City contributions subsequent to the measurement date	874,652	482,170	-	-
Total	<u>\$ 5,144,137</u>	<u>\$ 2,793,322</u>	<u>\$ 784,885</u>	<u>\$ 297,929</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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>PFRS</u>	<u>ERS</u>
2017	\$ 827,746	\$ 516,821
2018	827,746	516,821
2019	827,746	516,821
2020	794,849	462,760
2021	206,513	-

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 actuarial assumptions as presented below:

	<u>PFRS</u>	<u>ERS</u>
Measurement date	March 31, 2016	March 31, 2016
Actuarial valuation date	April 1, 2015	April 1, 2015
Interest rate	7.00%	7.00%
Salary scale	3.80%	4.50%
Decrement tables	April 1, 2010- March 31, 2015	April 1, 2010- March 31, 2015
Inflation rate	2.5%	2.5%

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-2014. The actuarial assumptions used in the April 1, 2015 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

The long-term 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 on the following page.

Measurement date	PFRS & ERS	
	March 31, 2016	
	Target Allocation	Long-Term Expected Real Rate of Return
Asset class:		
Domestic equities	38.0 %	7.3 %
International equities	13.0	8.6
Private equity	10.0	11.0
Real estate	8.0	8.3
Absolute return strategies	3.0	6.8
Opportunistic portfolio	3.0	8.6
Real assets	3.0	8.7
Bonds and mortgages	18.0	4.0
Cash	2.0	2.3
Inflation-indexed bonds	2.0	4.0
Total	100.0 %	

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

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

	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Employer's proportionate share of the net pension liability/(asset)—PFRS	\$ 9,416,604	\$ 4,215,877	\$ (143,460)
Employer's proportionate share of the net pension liability/(asset)—ERS	5,590,422	2,479,203	(149,645)

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	March 31, 2016	March 31, 2016	
Employers' total pension liability	\$ 30,347,727	\$ 172,303,544	\$ 202,651,271
Plan fiduciary net position	<u>27,386,940</u>	<u>156,253,265</u>	<u>183,640,205</u>
Employers' net pension liability	<u>\$ 2,960,787</u>	<u>\$ 16,050,279</u>	<u>\$ 19,011,066</u>
System fiduciary net position as a percentage of total pension liability	90.24%	90.68%	90.62%

Discretely Presented Component Unit

City of Dunkirk Housing Authority—The Authority participates in the ERS.

Plan Description and Benefits Provided—The Authority participates in the ERS and the plan description is identical to the County's footnote described above.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions—At June 30, 2016, the Authority reported a liability of \$157,829 for its proportionate share of the net pension liability. This amount is recorded as a long-term liability due to the NYS Retirement System. The net pension liability was measured as of March 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

For the year ended June 30, 2016, the Authority recognized pension expense of \$66,402. At June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experiences	\$ 798	\$ 18,708
Change of assumptions	42,088	-
Net difference between projected and actual earnings on pension plan investments	93,633	-
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	36,356	1,262
Authority contributions subsequent to the measurement date	<u>15,230</u>	<u>-</u>
Total	<u>\$ 188,105</u>	<u>\$ 19,970</u>

The Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows/inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>ERS</u>
2017	\$ 39,898
2018	39,898
2019	39,898
2020	33,211

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

	<u>1% Decrease (6.0%)</u>	<u>Current Assumption (7.0%)</u>	<u>1% Increase (8.0%)</u>
Employer's proportionate share of the net pension liability/(asset)—ERS	\$ 355,839	\$ 157,829	\$ (9,527)

The actuarial assumptions, asset allocations and pension plan fiduciary net position are the same as those disclosed for the System within the City's portion of the footnote.

8. LEASE OBLIGATIONS

Capital Lease—During 2013, 2015 and 2016 the City entered into agreements as lessee for financing the acquisition of certain police, fire and highway equipment. The lease agreements qualify as a capital lease/installment purchase contracts for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date.

The following table summarizes the requirements of the capital lease:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>
2017	\$ 182,270
2018	147,059
2019	134,991
Less: amount representing imputed interest	<u>(14,895)</u>
Present value of minimum lease payments	<u>\$ 449,425</u>

The assets acquired through the capital leases are as follows:

	<u>Governmental Activities</u>
Assets:	
Vehicles and equipment	\$ 660,459
Less: Accumulated depreciation	<u>(149,391)</u>
Total	<u>\$ 511,068</u>

9. SHORT-TERM DEBT

Liabilities for bond anticipation notes (“BANs”) are generally accounted for in the Capital Projects Fund. Principal payments on BANs must be made annually. State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. The following is a summary of the City’s short-term debt for the year ended December 31, 2016:

Description	Issue/ Maturity	Interest Rate	Balance	Issues	Redemptions	Balance
			1/1/2016 (as restated)			12/31/2016
Water system/Seawall	2015/2016	0.75%	\$ 13,150,000	\$ -	\$ 13,150,000	\$ -
Water system/Seawall	2016/2017	2.00%	-	8,350,000	-	8,350,000
Water pollution control plant	2016/2017	2.00%	-	2,500,000	-	2,500,000
Water system-phase III	2016/2017	0.98%	-	650,000	-	650,000
Total			<u>\$ 13,150,000</u>	<u>\$ 11,500,000</u>	<u>\$ 13,150,000</u>	<u>\$ 11,500,000</u>

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, energy performance contract, capital leases, compensated absences 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, 2016 follows:

	Balance	Additions	Reductions	Balance	Due Within
	1/1/2016 (as restated)			12/31/2016	One Year
Serial bonds	\$ 7,735,000	\$ 4,515,000	\$ 410,000	\$ 11,840,000	\$ 600,000
Energy performance contract	668,761	-	46,452	622,309	63,154
Capital leases	581,461	63,238	195,274	449,425	174,116
Compensated absences*	4,102,018	-	43,227	4,058,791	202,940
Net pension liability*	93,269	6,601,811	-	6,695,080	-
Total	<u>\$ 13,180,509</u>	<u>\$ 11,180,049</u>	<u>\$ 694,953</u>	<u>\$ 23,665,605</u>	<u>\$ 1,040,210</u>

*changes to compensated absences and net pension liability are shown net of additions/deletions.

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.

In the current year, the City issued \$4,515,000 in Public Improvement Serial Bonds for water system improvements. The interest rate ranges between 2.0% and 3.0%. The bonds will mature on March 15, 2035.

Presented below is a summary of bond transactions of the City for the fiscal year ended December 31, 2016:

Purpose	Fiscal Year of		Balance			Balance 12/31/2016
	Issue/ Maturity	Interest Rate	1/1/2016	Additions	Payments	
Water Treatment Plant	2008/2033	4.250-4.750%	\$ 3,410,000	\$ -	\$ 165,000	\$ 3,245,000
Board Walk	2011/2021	2.500-3.750%	420,000	-	65,000	355,000
Water System Equipment	2013/2033	3.375-4.000%	725,000	-	30,000	695,000
Water System Improvements	2015/2035	2.500-3.000%	3,180,000	-	150,000	3,030,000
Water System Improvements	2016/2035	2.000-3.000%	-	4,515,000	-	4,515,000
			<u>\$ 7,735,000</u>	<u>\$ 4,515,000</u>	<u>\$ 410,000</u>	<u>\$ 11,840,000</u>

Energy Performance Contract—The City entered into an energy performance contract during 2008 in the amount of \$1,063,697. Principal and interest payments are made quarterly. During 2009, the City made its initial interest payment on the debt. The interest rate of the energy performance contract approximates 2.23 percent.

The following summarizes requirements of the energy performance contract:

Year Ending December 31,	Total
2017	\$ 76,511
2018	76,511
2019	76,511
2020	76,511
2021	76,511
2022-2025	<u>306,048</u>
Total minimum lease payments	688,603
Less: amounts representing imputed interest costs	<u>66,294</u>
Present value of minimum lease payments	<u>\$ 622,309</u>

Capital Leases—The outstanding balance at December 31, 2016 for the City’s capital leases was \$449,425. Refer to Note 8 for additional information related to the City’s capital leases.

Compensated Absences—As explained in Note 1, the City records the value of governmental fund type compensated absences. The annual budgets of the operating funds provide funding for these benefits as they become payable. The value recorded in the financial statements at December 31, 2016, for governmental activities is \$4,058,791. Management estimates that \$202,940 is due within one year. Since payments of compensated absences are dependent upon many factors, the timing of future payments is not readily determinable.

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 \$6,695,080 in the governmental activities. Refer to Note 7 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	Energy Performance Contract	Capital Leases	Compensated Absences	Net Pension Liability	Total
2017	\$ 600,000	\$ 63,154	\$ 174,116	\$ 202,940	\$ -	\$ 1,040,210
2018	615,000	64,574	142,428	-	-	822,002
2019	635,000	66,027	132,881	-	-	833,908
2020	650,000	67,513	-	-	-	717,513
2021	665,000	69,032	-	-	-	734,032
2022-2026	3,085,000	292,009	-	-	-	3,377,009
2027-2031	3,250,000	-	-	-	-	3,250,000
2032-2036	2,340,000	-	-	3,855,851	6,695,080	12,890,931
	<u>\$ 11,840,000</u>	<u>\$ 622,309</u>	<u>\$ 449,425</u>	<u>\$ 4,058,791</u>	<u>\$ 6,695,080</u>	<u>\$ 23,665,605</u>

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

Year ending December 31,	Amount
2017	\$ 385,896
2018	367,970
2019	349,112
2020	329,523
2021	308,628
2022-2026	1,232,844
2027-2031	685,024
2032-2036	127,876
	<u>\$ 3,786,873</u>

Discretely Presented Component Unit

City of Dunkirk Housing Authority—The Authority’s outstanding long-term liability balances and activity for the year are summarized below:

	Balance 7/1/2015	Additions	Reductions	Balance 6/30/2016	Due Within One Year
Compensated absences*	\$ 205,178	\$ -	\$ 7,905	\$ 197,273	\$ 19,727
Net pension liability*	35,205	122,624	-	157,829	-
Total	<u>\$ 240,383</u>	<u>\$ 122,624</u>	<u>\$ 7,905</u>	<u>\$ 355,102</u>	<u>\$ 19,727</u>

*changes to compensated absences and net pension liability are shown net of additions/deletions.

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	\$ 34,969,660
Related debt:	
Serial bonds	\$ (11,840,000)
Bond anticipation notes	(11,500,000)
Unspent debt proceeds	3,382,426
Energy performance contract	(622,309)
Capital lease	(449,425)
	<u>(21,029,308)</u>
Net investment in capital assets—governmental activities	<u>\$ 13,940,352</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. As of December 31, 2016, the General Fund has long-term interfund amounts receivable from the Water Fund, the Wastewater Treatment Fund and the Capital Projects Fund that are not expected to be realized within the subsequent year.

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, 2016 is as follows:

	General Fund
Tax stabilization	\$ 484,268
Employee benefits	516,334
Total restricted fund balance	<u>\$ 1,000,602</u>

- **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 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.

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, 2016, 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, 2016, the balances presented below were considered to be assigned.

	General Fund	Wastewater Treatment Fund
Encumbrances	\$ 97,761	\$ 97,801
Capital improvements	799,649	-
Specific use	-	484,119
Total assigned fund balance	<u>\$ 897,410</u>	<u>\$ 581,920</u>

- **Assigned to encumbrances**—Represents authorizations related to unperformed contracts or purchase orders for goods or services.
- **Assigned capital improvements**—Represents funds assigned for capital improvements.
- **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, and Water Fund and Capital Projects Fund deficits.

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, 2016 consisted of the following:

Fund	Interfund	
	Receivables	Payables
Governmental Funds:		
General Fund	\$ 3,257,808	\$ 300,867
Water Fund	109,070	1,647,432
Wastewater Treatment Fund	496,700	1,103,327
Capital Projects Fund	735,088	1,012,949
Fiduciary Funds:		
Trust Fund	-	6,000
Agency Fund	-	528,091
Total	<u>\$ 4,598,666</u>	<u>\$ 4,598,666</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. All of these other balances are expected to be collected/paid within the subsequent year, except the portion of fund balance composed of a receivable from the Water Fund, Wastewater Treatment Fund and Capital Projects Fund to the General Fund in the amount of \$2,729,089.

The City made the following transfers during the year ended December 31, 2016:

Fund	Transfers	Transfers
	In	Out
Governmental Funds:		
General Fund	\$ 28,198	\$ 45,000
Water Fund	-	225,000
Wastewater Fund	-	15,000
Special Grant Fund	-	27,198
Capital Projects Fund	285,000	-
Fiduciary Funds:		
Trust Fund	-	1,000
Total	<u>\$ 313,198</u>	<u>\$ 313,198</u>

Transfers are used primarily to pay debt service expenditures relating to bond anticipation notes.

13. LABOR RELATIONS

City employees are represented by four bargaining units. The City of Dunkirk Professional Firefighter's Association contract was settled through December 31, 2016 and the City of Dunkirk AFSCME, Local 912 has a contract negotiated through December 31, 2020. The City of Dunkirk Local 2693 COD is currently in negotiations with a contract settled through December 31, 2010 the City of Dunkirk Police Benevolent Association is currently in negotiations with a contract negotiated through December 31, 2015.

14. COMMITMENTS

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

The City considers encumbrances significant if they are in excess of \$10,000. Significant encumbrances as of December 31, 2016, are as listed below:

<u>Fund</u>	<u>Purpose</u>	<u>Amount Encumbered</u>
General Fund	Computer program	\$ 11,030
General Fund	Construction materials	25,000
Wastewater Treatment Fund	Chemicals	10,354
Wastewater Treatment Fund	Engineering	12,500
Wastewater Treatment Fund	Contractual	15,420
Wastewater Treatment Fund	Contractual	14,267

15. 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. During 2014, the U.S. Department of Housing and Urban Development (“HUD”) completed its review of the City’s utilization and administration of certain Community Development Block Grants (“CDBG”) funds over the past several years. As a result of such review, HUD determined that various allocations of certain CDBG funds were noncompliant with certain HUD protocols and guidelines and directed the City to reimburse the CDBG program monies delineated for various uses. The City and HUD reached an agreement whereby the City remitted a total of \$750,000, and had a voluntary grant reduction during the 2016 program year.

Environmental Remediation—The City’s policy is not to take possession or ownership of properties with potential or known pollution remediation issues. The City currently does not have any properties with pollution remediation obligations where the City retains ownership rights that have either been remediated or have grant funding in place to be remediated. The City has not made any adjustments related to potential environmental remediation.

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. The City purchases commercial insurances to cover such potential risks.

16. TAX ABATEMENTS

The City is subject to tax abatements granted by the Chautauqua County Industrial Development Agency (“CCIDA”). These programs have the stated purpose of increasing business activity and employment in the region. Economic development agreements are entered into by the CCIDA 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 CCIDA, the City collected \$2,760,449 during the 2016 fiscal year in payments in lieu of taxes (“PILOT”), these collections were made in lieu of \$3,981,055 in property taxes.

17. SUBSEQUENT EVENTS

On March 23, 2017, the City issued \$8,170,000 of serial bonds with an interest rate of 2.0-4.0 percent. These bonds mature on March 15, 2038. The proceeds of the bonds, along with \$180,000, were used to redeem and retire \$8,350,000 of outstanding bond anticipation notes of the City that were issued on March 24, 2016.

On August 10, 2017, the City issued \$2,975,000 of refunding serial bonds with an interest rate of 3.0-5.0 percent. These bonds mature on May 1, 2033. The proceeds of the bonds, were used to refund the 2008 serial bonds.

On December 20, 2017, the City reissued \$2,500,000 of bond anticipation notes with an interest rate of 1.64 percent. These notes mature on September 11, 2018.

Management has evaluated subsequent events through December 21, 2017, which is the date the financial statements are available for issuance, and have determined, except as disclosed above, there are no subsequent events that require disclosure under generally accepted accounting principles.

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REQUIRED SUPPLEMENTARY INFORMATION

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

	Year Ended December 31,		
	2016	2015	2014
City of Dunkirk (the "City"):			
Measurement date	March 31, 2016	March 31, 2015	March 31, 2014
City's proportion of the net pension liability	0.1423904%	0.1435222%	0.1435222%
City's proportionate share of the net pension liability	<u>\$ 4,215,877</u>	<u>\$ 395,059</u>	<u>\$ 597,497</u>
City's covered-employee payroll	\$ 4,969,778	\$ 4,812,487	\$ 4,905,883
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	84.83%	8.21%	12.18%
Plan fiduciary net position as a percentage of the total pension liability	90.2%	99.0%	98.5%

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

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

	Year Ended December 31,		
	2016	2015	2014
City of Dunkirk ("City"):			
Contractually required contribution	\$ 1,166,202	\$ 944,688	\$ 1,363,752
Contributions in relation to the contractually required contribution	(1,166,202)	(944,688)	(1,363,752)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
City's covered-employee payroll	4,771,005	5,003,936	4,803,141
Contributions as a percentage of covered-employee payroll	24.4%	18.9%	28.4%

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

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

	Year Ended December 31,		
	2016	2015	2014
Measurement date	March 31, 2016	March 31, 2015	March 31, 2014
Plan fiduciary net position as a percentage of the total pension liability	90.7%	97.9%	97.2%
Governmental Activities:			
City of Dunkirk (the "City"):			
City's proportion of the net pension liability	0.0154465%	0.0156356%	0.0156356%
City's proportionate share of the net pension liability	<u>\$ 2,479,203</u>	<u>\$ 528,210</u>	<u>\$ 706,553</u>
City's covered-employee payroll	\$ 4,198,903	\$ 4,247,481	\$ 4,158,262
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	59.04%	12.44%	16.99%

Discretely Presented Component Unit:

City of Dunkirk Housing Authority ("Authority")

	Year Ended June 30,	
	2016	2015
Authority's proportion of the net pension liability	0.0009833%	0.0000000%
Authority's proportionate share of the net pension liability	<u>\$ 157,829</u>	<u>\$ 35,205</u>
Authority's covered-employee payroll	\$ 319,483	\$ 376,775
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	49.40%	9.34%

*Information prior to the year ended December 31, 2014 for the City and June 30, 2015 for the Authority is not available.

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

	Year Ended December 31,		
	2016	2015	2014
Governmental Activities:			
City of Dunkirk (the "City"):			
Contractually required contribution	\$ 642,893	\$ 770,830	\$ 893,049
Contributions in relation to the contractually required contribution	(642,893)	(770,830)	(893,049)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
City's covered-employee payroll	4,032,993	4,262,655	4,249,954
Contributions as a percentage of covered-employee payroll	15.9%	18.1%	21.0%
Discretely Presented Component Unit:			
City of Dunkirk Housing Authority ("Authority"):			
	Year Ended June 30,		
	2016	2015	
Contractually required contribution	\$ 69,960	\$ 76,318	
Contributions in relation to the contractually required contribution	(69,960)	(76,318)	
Contribution deficiency (excess)	\$ -	\$ -	
Authority's covered-employee payroll	319,483	376,775	
Contributions as a percentage of covered-employee payroll	21.9%	20.3%	

*Information prior to the year ended December 31, 2014 for the City and June 30, 2015 for the Authority is not available.

CITY OF DUNKIRK, NEW YORK
Schedule of Revenues, Expenditures, and Changes in Fund
Balances—Budget and Actual—General Fund
Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
REVENUES				
Real property taxes	\$ 4,837,477	\$ 4,837,477	\$ 4,837,476	\$ (1)
Real property tax items	2,830,531	2,830,531	2,787,464	(43,067)
Nonproperty tax items	2,605,000	2,605,000	2,590,214	(14,786)
Departmental income	1,484,204	1,509,931	1,504,515	(5,416)
Intergovernmental charges	643,900	643,900	619,469	(24,431)
Use of money and property	21,933	21,933	24,933	3,000
Licenses and permits	40,200	40,200	44,832	4,632
Fines and forfeitures	127,000	127,000	139,880	12,880
Sale of property and compensation for loss	50,000	50,000	68,865	18,865
Miscellaneous	26,500	33,600	103,716	70,116
State aid	2,146,827	2,229,231	2,272,157	42,926
Total revenues	<u>14,813,572</u>	<u>14,928,803</u>	<u>14,993,521</u>	<u>64,718</u>
EXPENDITURES				
Current:				
General government support	1,840,549	1,830,007	1,688,820	141,187
Public safety	5,735,498	5,816,077	5,773,325	42,752
Transportation	1,309,371	1,304,063	1,127,852	176,211
Economic assistance and opportunity	49,725	49,725	44,315	5,410
Culture and recreation	520,945	521,908	548,079	(26,171)
Home and community services	752,702	835,749	855,610	(19,861)
Employee benefits	4,376,461	4,376,461	4,065,167	311,294
Debt service:				
Principal	286,688	286,688	286,688	-
Interest and fiscal charges	53,986	53,986	53,986	-
Total expenditures	<u>14,925,925</u>	<u>15,074,664</u>	<u>14,443,842</u>	<u>630,822</u>
Excess (deficiency) of revenues over expenditures	<u>(112,353)</u>	<u>(145,861)</u>	<u>549,679</u>	<u>695,540</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	90,000	91,000	28,198	(62,802)
Transfers out	(63,750)	(63,750)	(45,000)	18,750
Capital leases	-	63,238	63,238	-
Total other financing sources (uses)	<u>26,250</u>	<u>90,488</u>	<u>46,436</u>	<u>(44,052)</u>
Net change in fund balances *	(86,103)	(55,373)	596,115	651,488
Fund balances—beginning, as restated	<u>5,770,427</u>	<u>5,770,427</u>	<u>5,770,427</u>	<u>-</u>
Fund balances—ending	<u>\$ 5,684,324</u>	<u>\$ 5,715,054</u>	<u>\$ 6,366,542</u>	<u>\$ 651,488</u>

* The net change in fund balances was included in the budget as a re-appropriation of prior year encumbrances.

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

CITY OF DUNKIRK, NEW YORK
Schedule of Revenues, Expenditures, and Changes in Fund
Balances—Budget and Actual—Water Fund
Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
REVENUES				
Departmental income	\$ 3,243,679	\$ 3,243,679	\$ 3,460,828	\$ 217,149
Use of money and property	2,500	2,500	3,370	870
Miscellaneous	<u>1,500</u>	<u>1,500</u>	<u>13,986</u>	<u>12,486</u>
Total revenues	<u>3,247,679</u>	<u>3,247,679</u>	<u>3,478,184</u>	<u>230,505</u>
EXPENDITURES				
Current:				
General government support	438,608	409,108	382,122	26,986
Home and community services	1,627,570	1,653,901	1,547,127	106,774
Employee benefits	504,834	504,834	464,805	40,029
Debt service:				
Principal	187,432	187,432	187,432	-
Interest and fiscal charges	<u>280,701</u>	<u>280,701</u>	<u>242,482</u>	<u>38,219</u>
Total expenditures	<u>3,039,145</u>	<u>3,035,976</u>	<u>2,823,968</u>	<u>212,008</u>
Excess of revenues over expenditures	<u>208,534</u>	<u>211,703</u>	<u>654,216</u>	<u>442,513</u>
OTHER FINANCING USES				
Transfers out	<u>(225,000)</u>	<u>(225,000)</u>	<u>(225,000)</u>	<u>-</u>
Total other financing uses	<u>(225,000)</u>	<u>(225,000)</u>	<u>(225,000)</u>	<u>-</u>
Net change in fund balances*	(16,466)	(13,297)	429,216	442,513
Fund balances—beginning, as restated	<u>(874,619)</u>	<u>(874,619)</u>	<u>(874,619)</u>	<u>-</u>
Fund balances—ending	<u>\$ (891,085)</u>	<u>\$ (887,916)</u>	<u>\$ (445,403)</u>	<u>\$ 442,513</u>

* The net change in fund balances was included in the budget as a re-appropriation of prior year encumbrances.

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

CITY OF DUNKIRK, NEW YORK
Schedule of Revenues, Expenditures, and Changes in Fund
Balances—Budget and Actual—Wastewater Fund
Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
REVENUES				
Departmental income	\$ 3,829,000	\$ 3,829,000	\$ 3,546,554	\$ (282,446)
Fines and forfeitures	50,000	50,000	129,363	79,363
Miscellaneous	3,000	3,000	18,551	15,551
Total revenues	<u>3,882,000</u>	<u>3,882,000</u>	<u>3,694,468</u>	<u>(187,532)</u>
EXPENDITURES				
Current:				
General government support	506,772	506,772	382,122	124,650
Home and community services	2,567,282	2,566,581	2,156,326	410,255
Employee benefits	492,206	492,206	521,519	(29,313)
Debt service:				
Principal	177,606	177,606	177,606	-
Interest and fiscal charges	158,363	158,363	158,362	1
Total expenditures	<u>3,902,229</u>	<u>3,901,528</u>	<u>3,395,935</u>	<u>505,593</u>
Excess (deficiency) of revenues over expenditures	<u>(20,229)</u>	<u>(19,528)</u>	<u>298,533</u>	<u>318,061</u>
OTHER FINANCING USES				
Transfers out	(21,250)	(21,250)	(15,000)	6,250
Total other financing uses	<u>(21,250)</u>	<u>(21,250)</u>	<u>(15,000)</u>	<u>6,250</u>
Net change in fund balances*	(41,479)	(40,778)	283,533	324,311
Fund balances—beginning, as restated	<u>298,387</u>	<u>298,387</u>	<u>298,387</u>	<u>-</u>
Fund balances—ending	<u>\$ 256,908</u>	<u>\$ 257,609</u>	<u>\$ 581,920</u>	<u>\$ 324,311</u>

* The net change in fund balances was included in the budget as a re-appropriation of prior year encumbrances.

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

CITY OF DUNKIRK, NEW YORK
Note to the Required Supplementary Information
Year Ended December 31, 2016

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 Wastewater Fund. The Special Grant Fund does 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.

General Fund culture and recreation and home and community services expenditures exceeded the adjusted budget due to greater than anticipated personnel and contractual costs. Wastewater Fund employee benefits expenditures exceeded the adjusted budget due to greater than anticipated medical costs.

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Certified Public Accountants

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

Honorable Mayor and Members of the Common Council
City of Dunkirk, 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, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dunkirk, New York (the "City") as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 21, 2017. Our report includes a reference to other auditors who audited the financial statements of the City of Dunkirk Industrial Development Agency and the City of Dunkirk Housing Authority, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented,

or detected and corrected on a timely basis. We consider the deficiencies described as items 2016-001 and 2016-002 in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described as item 2016-003 in the accompanying schedule of findings to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings as item 2016-004.

The City's Response to Findings

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

Purpose of this Report

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

Drescher & Malecki LLP

December 21, 2017

CITY OF DUNKIRK, NEW YORK
Schedule of Findings
Year Ended December 31, 2016

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

Finding 2016-001—Interfund Loans

Criteria: General municipal law section 9-a cites that “moneys temporarily advanced pursuant to this section shall be repaid to the fund from which they were advanced as soon as available but in no event later than the close of the fiscal year in which the advance was made. If moneys from a fund which, if raised by taxes, special ad valorem levies or special assessments, would be raised from taxes, ad valorem levies or special assessments on a different base of properties than those for which taxes, ad valorem levies or special assessments would be raised for the fund to which the advance is made, the repayment shall include an amount reasonably estimated to be the additional amount that would have been earned on the investment of moneys in the fund making the advance had the advance not been made.”

Condition and Context: As of December 31, 2016, interfund balances amount to \$4,598,666. The majority of balances originated prior to the implementation of the current software in 2011. The General Fund is owed \$1,173,432 and \$720,451 from the Water Fund and Wastewater Treatment Fund, respectively, which do not have current resources to make full repayments in the upcoming year. Additionally, the General Fund is owed \$835,206 from the Capital Projects Fund, which it is not currently determinable if the resources exist to make repayments.

Cause: Lack of procedures to review outstanding interfund loans and initiate repayments. Additionally, certain loans are unable to be repaid due to lack of resources.

Effect or Potential Effect: Of the outstanding loan balance of \$4,598,666, the General Fund is owed \$2,729,089 which is considered long-term. If this amount is unable to be repaid, the General Fund will have to recognize a significant loss.

Recommendation: We recommend that the City review its interfund balances to determine if funds are available for repayment, in which the loans should be repaid. If funds are not available, the City should develop a short-term and long-term plan for repayment.

Management’s Corrective Action Plan: A comprehensive review of all interfund loans has been completed, subsequent to year-end many have been repaid, and upon reconciliation, the outstanding balance has been reduced by 26% from \$4,598,666 to \$3,404,127. Remaining outstanding loans will be monitored by the Fiscal Affairs Officer in conjunction with the City Treasurer; new loans will be minimized to eventual elimination and a purposeful cash flow analysis policy will be put into place to facilitate the repayment of old loans within 36 months.

Finding 2016-002—Recordkeeping, Policies and Procedures

Criteria: Internal controls over financial reporting should be designed by management to prevent or detect and correct misstatements and to comply with Governmental Accounting Standards Board (“GASB”) requirements. The City should formalize accounting policies and procedures 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 does not have formal policies and procedures documented for critical accounting cycles including journal entries, bank reconciliations, capital assets and information technology controls. As a result, journal entries posted to the accounting system and bank reconciliations were not consistently reviewed by an employee independent from the preparer. Additionally, bank reconciliations were not reconciled to general ledger cash balances. And, the City does not have a comprehensive capital asset policy addressing inventory procedures, additions and deletions. As a result, it was determined that amounts within construction in progress represented projects that were completed in previous years. The City failed to record additions relating to its energy performance contract and capital leases. Although there may be informal procedures in place, certain information technology policies and procedures are not formally documented.

The City has an undue reliance on its independent auditors for GASB compliance and governmental generally accepted accounting principles, as evidenced by several material proposed adjusting journal entries for the year ended December 31, 2016, including the omission of certain accruals and the appropriate accounting for capital leases.

Cause: Lack of formalized policies and procedures in addition to personnel limitations for the year ended December 31, 2016. The presence of several material adjusting journal entries identified during the audit of the year ended December 31, 2016 indicates insufficient utilization of GASB standards and Generally Accepted Accounting Principles (“GAAP”).

Effect or Potential Effect: Increased risk of asset misappropriation and fraudulent financial reporting. The financial statements include several adjusting journal entries, which have a material effect on the City’s financial statements.

Recommendation: We recommend that the City formalize policies and procedures related to each accounting cycle. Included within these policies and procedures should be the assessment and evaluation of internal controls, to ensure that controls surrounding key accounting functions are regularly revisited to provide assurance that they are designed effectively and operating efficiently. Such policies should be approved by the Common Council, regularly reviewed and updated on a regular basis. In addition:

All journal entries should be reviewed and approved by an individual independent of the employee who prepared the journal entry. The reviewer should have adequate knowledge surrounding accounting transactions to be able to properly review and approve the entries made.

A formal written bank reconciliation policy should detail bank reconciliation procedures and the responsibilities of the designated employees. We suggest that all bank reconciliations be performed monthly, within 15 days of receiving the respective bank statements and any differences between net bank balances and general ledger cash accounts should be researched and addressed. The reconciliations should be performed by an employee or official who does not have custody or access to cash and who does not record cash receipt, cash disbursement, or journal entry transactions. Finally, all bank reconciliations should be reviewed in a timely manner by management.

We recommend that the City review its construction in progress listing and start depreciating infrastructure items upon the earlier occurrence of execution of substantial completion contract documents, occupancy, or when the asset is placed into service. Further, we recommend the City implement a capital asset disposal approval process and perform capital asset inventories on a more regular basis to ensure that all assets are appropriately added or disposed.

Although the City utilizes an outside contractor for information technology, we recommend having formal, written policies to formally communicate the City's to all current and new employees, as well as improve the City's control over its systems.

Management's Corrective Action Plan: Under the direction of the Mayor, in October 2017, a Fiscal Affairs Officer with a BS in Accounting and 30+ years of corporate finance and accounting experience was appointed guaranteeing the compliance with GASB and eliminating the City's reliance on outside accounting firms. All cash accounts as well as the general ledger and balance sheets will be reconciled on a monthly basis, and an independent audit of the City's capital asset inventory has been ordered by the Mayor. Additionally, financial policies and procedures establishing the framework for the City's overall fiscal planning and management will be developed and implemented to ensure the residents of the City's commitment to sound financial management and fiscal integrity.

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

Finding 2016-003—Water Fund

Criteria: Budgeting practices should strive to accurately estimate the amount of revenues and expenditures to be earned and expended in order to adequately sustain the financial operations.

Condition and Context: For the year ended December 31, 2016 the Water Fund reported a total deficit of \$(445,403), which is an improvement from the December 31, 2015 deficit of \$(874,619).

Cause: Total Water Fund expenditures exceeding total revenues in the fund over several years.

Effect or Potential Effect: If the fund is unable to remedy its deficit, the result would be negative for the General Fund, which is owed \$1,173,432 at year end and will continue to have to provide additional cash to fund operations in the Water Fund.

Recommendation: The City should continue to monitor the Fund. Rates should be set to exceed current spending. A plan to repay the General Fund should be formally established.

Managements Corrective Action Plan: As a result of a 2015 deficit, the City was forced to increase its water rates. Due to the Mayor's establishment of stricter control over the purchasing function, the total deficit in the water fund was reduced by 50% in 2016. After analyzing the budget, the Mayor implemented an "emergent needs only" policy and procedure requiring his direct approval. The Mayor's policy produced a significant reduction in repair expenses due to the Water Treatment Plant Phase I/II/III capital projects.

We consider the following deficiency to be a significant deficiency in compliance.

Finding 2016-004—Expenditures exceeding Budget Lines

Criteria: Total expenditures per budget line item may not exceed the budgeted amount without obtaining budget amendments approved by the Common Council.

Condition and Context: We noted that the City had expenditure accounts that had overspent their respective budget without approved budget amendments or transfers approved by the Common Council.

Cause: Budget monitoring procedures appear to be inefficient.

Effect or Potential Effect: By allowing expenditures to exceed budget lines without appropriate review and approval, the City overspent certain lines during the year ended December 31, 2016.

Recommendation: We recommend that the City develop procedures to more actively monitor the budget and perform transfers/amendments as necessary. Additionally, the City should ensure that all budget amendments and transfers, as required by policy, are approved by the Common Council prior to incurring an expenditure that will cause a budget line item to be exceeded. Finally, the ability to override the computer system should be locked, if possible, and require management employees to approve an override and only then in an unusual circumstance.

Management's Corrective Action Plan: With the development and implementation of the policies and procedures, the Mayor has instructed that there be a constant monitoring of all budget lines to ensure that only those items which are budgeted are approved. All department heads have been advised to take prompt action when an unexpected expense arises and to communicate immediately with the Fiscal Affairs Officer for further analysis; the Mayor and the Fiscal Affairs Officer will bring necessary resolutions before the City Council for a redistribution of funds as they deem necessary with the intent of keeping each fund balanced.