

**CITY OF DUNKIRK,  
NEW YORK**

*Basic Financial Statements and  
Required Supplementary Information  
for the Year Ended December 31, 2017  
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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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 have 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, 2017, 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.

## ***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 August 16, 2018 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 solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Drescher & Malecki LLP*

August 16, 2018

**CITY OF DUNKIRK, NEW YORK**  
**Management's Discussion and Analysis**  
**Year Ended December 31, 2017**

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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, 2017. This document should be read in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

**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, 2017 by \$16,492,923 (net position). This consists of \$15,895,315 net investment in capital assets, \$1,000,602 restricted for specific purposes, and unrestricted net position of \$(402,994).
- The City's total primary government net position increased by \$428,487 during the year ended December 31, 2017.
- At the close of the current fiscal year, the City's governmental funds reported a combined ending fund balances of \$5,079,292, a fund balance increase of \$6,949,190 in comparison with the prior year's fund balance deficit of \$(1,869,898).
- At the end of the fiscal year, *unassigned fund balance* for the General Fund was \$1,602,685. This total amount is *available for spending* at the City's discretion and constitutes approximately 34.2 percent of the General Fund's total fund balance of \$4,692,182.
- The City's primary government total bonded indebtedness increased by \$7,430,000 as a result of the issuance of \$11,145,000 of serial bonds and refunding bonds and principal payments of \$3,715,000.

**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 six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Water Fund, Wastewater Treatment Fund, Special Grant Fund, Capital Projects Fund and Debt Service 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 20-46 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 47-54 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 \$16,492,923 at the close of the most recent fiscal year, as compared to \$16,064,436, at the close of the fiscal year ended December 31, 2016.

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,	
	2017	2016
Current and other assets	\$ 11,284,893	\$ 12,760,496
Noncurrent assets	36,738,393	34,969,660
Total assets	<u>48,023,286</u>	<u>47,730,156</u>
Deferred outflows of resources	4,565,769	7,937,459
Current and other liabilities	6,637,259	14,658,388
Noncurrent liabilities	28,574,391	23,665,605
Total liabilities	<u>35,211,650</u>	<u>38,323,993</u>
Deferred inflows of resources	884,482	1,279,186
Net position:		
Net investment in capital assets	15,895,315	13,940,352
Restricted	1,000,602	1,000,602
Unrestricted	<u>(402,994)</u>	<u>1,123,482</u>
Total net position	<u>\$ 16,492,923</u>	<u>\$ 16,064,436</u>

The largest portion of the City’s net position, \$15,895,315, 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, \$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.

The final portion of the City’s primary government net position, reflects unrestricted net position of \$(402,994).

Table 2, as presented below shows the changes in net position for the years ended December 31, 2017 and December 31, 2016.

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

	Governmental Activities	
	Year Ended December 31,	
	2017	2016
Revenues:		
Program revenues:		
Charges for services	\$ 10,336,941	\$ 9,445,441
Operating grants and contributions	789,374	926,737
Capital grants and contributions	1,282,821	470,000
General revenues	<u>11,810,629</u>	<u>12,188,161</u>
Total revenues	<u>24,219,765</u>	<u>23,030,339</u>
Program expenses	<u>23,796,278</u>	<u>21,240,235</u>
Excess (deficiency) of revenues over expenses	423,487	1,790,104
Transfers	<u>5,000</u>	<u>1,000</u>
Change in net position	428,487	1,791,104
Net position—beginning	<u>16,064,436</u>	<u>14,273,332</u>
Net position—ending	<u>\$ 16,492,923</u>	<u>\$ 16,064,436</u>

**Governmental activities.** Governmental activities increased the City’s net position by \$428,487. Overall revenues increased 5.2 percent from the prior year largely due to the City receiving funding from New York State Environmental Facilities Corporation to fund capital expenditures. Additionally, the loss of \$2,538,013 of payments received in lieu of taxes in the current fiscal year was partially offset by a subsidy of \$1,787,793 received from New York State. Total expenses increased 12.0 percent from the prior year due primarily to an increase in wastewater treatment expenditures in addition to an overall increase in expenditures.

A summary of sources of revenues for the years ended December 31, 2017 and December 31, 2016 is presented below in Table 3.

**Table 3—Summary of Sources of Revenues—Governmental Activities**

	Year Ended December 31,		Increase/(decrease)	
	2017	2016	Dollars	Percent
Charges for services	\$ 10,336,941	\$ 9,445,441	\$ 891,500	9.4
Operating grants and contributions	789,374	926,737	(137,363)	(14.8)
Capital grants and contributions	1,282,821	470,000	812,821	172.9
Real property taxes and tax items	5,216,410	7,624,940	(2,408,530)	(31.6)
Nonproperty tax items	2,694,161	2,590,214	103,947	4.0
State aid—unrestricted	3,472,996	1,643,151	1,829,845	111.4
Other general revenues	427,062	329,856	97,206	29.5
Total revenues	<u>\$ 24,219,765</u>	<u>\$ 23,030,339</u>	<u>\$ 1,189,426</u>	5.2

The most significant source of revenues is charges for services of \$10,336,941, or 42.7 percent of total governmental activities revenues for the year ended December 31, 2017 and \$9,445,441, or 41.0 percent of total governmental activities revenues, for the year ended December 31, 2016. The next largest source of revenue is real property taxes and tax items of \$5,216,410, or 21.5 percent of total governmental activities revenues for the year ended December 31, 2016 and \$7,624,940, or 33.1 percent of total governmental activities revenues for the year ended December 31, 2016.

A summary of program expenses for the year ended December 31, 2017 and December 31, 2016 is presented below in Table 4.

**Table 4—Summary of Program Expenses—Governmental Activities**

	Year Ended December 31,		Increase/(decrease)	
	2017	2016	Dollars	Percent
General government support	\$ 3,597,607	\$ 3,337,147	\$ 260,460	7.8
Public safety	8,063,459	7,574,630	488,829	6.5
Transportation	1,976,705	1,608,198	368,507	22.9
Economic assistance and opportunity	43,569	44,315	(746)	(1.7)
Culture and recreation	715,034	711,317	3,717	0.5
Home and community services	8,662,884	7,396,120	1,266,764	17.1
Interest and fiscal charges	737,020	568,508	168,512	29.6
Total program expenses	<u>\$ 23,796,278</u>	<u>\$ 21,240,235</u>	<u>\$ 2,556,043</u>	12.0

The most significant expense items for the year ended December 31, 2017 were home and community services of \$8,662,884, or 36.4 percent of total governmental activities expenses, public safety of \$8,063,459, or 33.9 percent of total governmental activities expenses and general government support of \$3,597,607, or 15.1 percent of total governmental activities. For the year ended December 31, 2016, the most significant expense items 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.

## 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 combined ending fund balances of \$5,079,292 an increase of \$6,949,190 in comparison with the prior year's fund balance deficit of \$1,869,898. Of this amount, \$464,646 constitutes *unassigned fund balance*. The remainder of fund balance is (1) not in spendable form, \$1,848,667, (2) restricted for particular purposes, \$1,000,602, or 3) assigned for a particular purpose, \$1,765,377.

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 \$1,602,685, while total fund balance decreased by \$1,674,360 to \$4,692,182. The General Fund fund balance decreased of \$1,674,360 from the prior year was largely the result of transfers to the Capital Projects Fund to close out old projects. 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 10.0 percent of General Fund expenditures and transfers out, while total fund balance represents 29.4 percent of that same amount.

During the year ended December 31, 2017, the City's Water Fund fund balance increased by \$482,898 from the prior year, resulting in ending fund balance of \$37,495. The increase in fund balance is attributable to an increase in rates in addition to monitoring of expenditures.

At December 31, 2017, the City's Wastewater Treatment Fund reported fund balance of \$1,487,654, an increase of \$905,734 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 \$7,234,918 from December 31, 2016 primarily as a result of the issuance of \$8,170,000 in 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, 2017 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	\$ 14,562,641	\$ 14,973,659	\$ 14,290,482	\$ (683,177)
Expenditures and other financing uses	14,660,402	14,958,192	15,964,842	(1,006,650)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ (97,761)	\$ 15,467	\$ (1,674,360)	\$ (1,689,827)

**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 expenditures in excess of final budgetary appropriations of \$1,689,827 that is attributable to transfers out to the Capital Projects Fund to close out old projects in addition to greater than anticipated expenditures related to public safety, transportation and culture and recreation.

**Capital Assets and Debt Administration**

**Capital assets.** The City’s investment in capital assets for its governmental activities as of December 31, 2017 amounted to \$36,738,393 (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, 2017 and December 31, 2016 are presented in Table 6 on the following page.

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

	Governmental activities	
	December 31,	
	2017	2016
Land	\$ 151,155	\$ 151,155
Construction in progress	7,446,243	4,429,792
Infrastructure	24,888,854	25,903,305
Buildings and building improvements	2,179,139	2,261,500
Machinery and equipment	2,073,002	2,223,908
Total	<u>\$ 36,738,393</u>	<u>\$ 34,969,660</u>

Additional information on the City’s capital assets can be found in Note 4 to the financial statements.

**Long-term liabilities.** At December 31, 2017, the City’s serial bonds totaled \$19,270,000 for governmental activities as compared to the prior year’s total of \$11,840,000. The increase of \$7,430,000 is a result of the issuance of \$8,170,000 and \$2,975,000 of serial bonds and refunding serial bonds, respectively, and principal payments of \$3,715,000.

**Table 7—Summary of Long-Term Liabilities**

	Governmental activities	
	December 31,	
	2017	2016
Serial bonds	\$ 19,270,000	\$ 11,840,000
Premium on serial bonds	283,774	-
Net serial bonds payable	19,553,774	11,840,000
Energy performance contract	559,155	622,309
Capital leases	291,235	449,425
Compensated absences	3,879,926	4,058,791
Net pension liability	4,290,301	6,695,080
Total	<u>\$ 28,574,391</u>	<u>\$ 23,665,605</u>

Additional information on the City’s long-term liabilities can be found in Note 9 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 6.3 percent. This is unfavorable to New York State’s average unemployment rate of 4.4 percent and the national average unemployment rate of 4.1 percent.

The City takes these factors into consideration in preparing the budget for 2018. In developing the 2018 General Fund budget, the City did not appropriate any fund balance. Budgeted appropriations for the year ending December 31, 2018 are \$14,900,673, \$3,460,552 and \$4,042,632 for the General Fund, Water Fund and Wastewater Treatment Fund, respectively, as compared to \$14,562,641, \$3,634,506 and \$3,720,804 for the year ended December 31, 2017.

## **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, 2017**

	<u>Primary Government</u>	<u>Component Units</u>	
		<u>City of Dunkirk Industrial Development Agency</u>	<u>City of Dunkirk Housing Authority</u>
	<u>Governmental Activities</u>		
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,545,422	\$ 15,098	\$ 488,450
Restricted cash and cash equivalents	3,333,060	-	54,593
Investments	-	-	351,080
Receivables (net of allowance):			
Taxes	770,188	-	-
Other	3,483,366	-	46,313
Intergovernmental receivables	1,039,176	-	4,702
Prepaid items	113,681	-	40,184
Inventories	-	-	22,419
Capital assets not being depreciated	7,597,398	-	1,257,808
Capital assets, net of accumulated depreciation	29,140,995	-	3,535,699
Total assets	<u>48,023,286</u>	<u>15,098</u>	<u>5,801,248</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows—relating to pensions	4,565,769	-	103,217
Total deferred outflows of resources	<u>4,565,769</u>	<u>-</u>	<u>103,217</u>
<b>LIABILITIES</b>			
Accounts payable	2,214,095	-	130,507
Retainages payable	124,543	-	-
Accrued liabilities	536,057	-	-
Internal balances	-		
Intergovernmental payables	985,860	-	63,159
Deposits	5,332	-	54,756
Unearned revenue	271,372	-	-
Bond anticipation notes payable	2,500,000	-	-
Noncurrent liabilities:			
Due within one year	1,204,215	-	16,432
Due in more than one year	27,370,176	-	229,089
Total liabilities	<u>35,211,650</u>	<u>-</u>	<u>493,943</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows—relating to pensions	884,482	-	17,155
Total deferred inflows of resources	<u>884,482</u>	<u>-</u>	<u>17,155</u>
<b>NET POSITION</b>			
Net investment in capital assets	15,895,315	-	4,793,507
Restricted for:			
Tax stabilization	484,268	-	-
Employee benefits	516,334	-	-
Unrestricted	(402,994)	15,098	599,860
Total net position	<u>\$ 16,492,923</u>	<u>\$ 15,098</u>	<u>\$ 5,393,367</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, 2017**

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Units	
						City of Dunkirk Industrial Development Agency	City of Dunkirk Housing Authority
<b>Primary government:</b>							
Governmental activities:							
General government support	\$ 3,597,607	\$ 329,692	\$ -	\$ -	\$ (3,267,915)	\$ -	\$ -
Public safety	8,063,459	398,792	31,161	-	(7,633,506)	-	-
Transportation	1,976,705	17,929	332,259	-	(1,626,517)	-	-
Economic assistance and opportunity	43,569	3,500	-	-	(40,069)	-	-
Culture and recreation	715,034	33,124	-	-	(681,910)	-	-
Home and community services	8,662,884	9,553,904	425,954	1,282,821	2,599,795	-	-
Interest and fiscal charges	737,020	-	-	-	(737,020)	-	-
Total primary government	<u>23,796,278</u>	<u>10,336,941</u>	<u>789,374</u>	<u>1,282,821</u>	<u>(11,387,142)</u>	<u>-</u>	<u>-</u>
<b>Component units:</b>							
City of Dunkirk Industrial Development Agency	\$ 1,150	\$ -	\$ -	\$ -		(1,150)	-
City of Dunkirk Housing Authority	<u>1,665,268</u>	<u>784,183</u>	<u>521,566</u>	<u>788,695</u>		<u>-</u>	<u>429,176</u>
Total component units	<u>\$ 1,666,418</u>	<u>\$ 784,183</u>	<u>\$ 521,566</u>	<u>\$ 788,695</u>		<u>(1,150)</u>	<u>429,176</u>
General revenues:							
Real property taxes and tax items					5,216,410	-	-
Nonproperty tax items					2,694,161	-	-
Use of money and property					178,506	-	1,080
Sale of property and compensation for loss					6,125	-	770
State aid—unrestricted					3,472,996	-	-
Miscellaneous					242,431	-	-
Transfers					5,000	-	-
Total general revenues and transfers					<u>11,815,629</u>	<u>-</u>	<u>1,850</u>
Change in net position					428,487	(1,150)	431,026
Net position—beginning					<u>16,064,436</u>	<u>16,248</u>	<u>4,962,341</u>
Net position—ending					<u>\$ 16,492,923</u>	<u>\$ 15,098</u>	<u>\$ 5,393,367</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, 2017**

	<b>Special Revenue</b>						<b>Total Governmental Funds</b>
	<b>General</b>	<b>Water</b>	<b>Wastewater Treatment</b>	<b>Special Grant</b>	<b>Capital Projects</b>	<b>Debt Service</b>	
<b>ASSETS</b>							
Cash and cash equivalents	\$ 2,008,861	\$ 473,638	\$ 62,923	\$ -	\$ -	\$ -	\$ 2,545,422
Restricted cash and cash equivalents	1,247,361	22,873	-	1,740	2,061,086	-	3,333,060
Receivables (net of allowance):							
Taxes	770,188	-	-	-	-	-	770,188
Other	611,772	1,390,827	1,480,767	-	-	-	3,483,366
Intergovernmental receivables	622,455	-	-	72,814	343,907	-	1,039,176
Prepaid items	82,739	14,291	16,651	-	-	-	113,681
Due from other funds	2,270,950	100,000	764,853	-	276,967	-	3,412,770
Total assets	<u>7,614,326</u>	<u>2,001,629</u>	<u>2,325,194</u>	<u>74,554</u>	<u>2,681,960</u>	<u>-</u>	<u>14,697,663</u>
<b>LIABILITIES</b>							
Accounts payable	\$ 1,264,241	\$ 157,371	\$ 141,706	\$ 72,814	\$ 577,963	\$ -	\$ 2,214,095
Accrued liabilities	186,247	17,454	25,241	-	-	-	228,942
Due to other funds	239,037	1,766,436	670,593	-	742,036	-	3,418,102
Intergovernmental payables	985,860	-	-	-	-	-	985,860
Unearned revenue	246,759	22,873	-	1,740	-	-	271,372
Bond anticipation notes payable	-	-	-	-	2,500,000	-	2,500,000
Total liabilities	<u>2,922,144</u>	<u>1,964,134</u>	<u>837,540</u>	<u>74,554</u>	<u>3,819,999</u>	<u>-</u>	<u>9,618,371</u>
<b>FUND BALANCES (DEFICITS)</b>							
Nonspendable	1,064,864	14,291	769,512	-	-	-	1,848,667
Restricted	1,000,602	-	-	-	-	-	1,000,602
Assigned	1,024,031	23,204	718,142	-	-	-	1,765,377
Unassigned	1,602,685	-	-	-	(1,138,039)	-	464,646
Total fund balances (deficit)	<u>4,692,182</u>	<u>37,495</u>	<u>1,487,654</u>	<u>-</u>	<u>(1,138,039)</u>	<u>-</u>	<u>5,079,292</u>
Total liabilities and fund balances (deficit)	<u>\$ 7,614,326</u>	<u>\$ 2,001,629</u>	<u>\$ 2,325,194</u>	<u>\$ 74,554</u>	<u>\$ 2,681,960</u>	<u>\$ -</u>	<u>\$ 14,697,663</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, 2017**

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

Total fund balances (deficit)—governmental funds (page 14)	\$	5,079,292
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of these assets is \$100,572,555 and the accumulated depreciation is \$63,834,162.		36,738,393
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	\$ 1,302,327	
Deferred outflows related to experience and investment earnings	3,263,442	
Deferred inflows of resources related to pensions	<u>(884,482)</u>	3,681,287
Retained percentages are not a current liability and, therefore, are not reported in the funds.		(124,543)
Net accrued interest expense for debt is not reported in the funds.		(307,115)
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	\$ (19,270,000)	
Premium on serial bonds	(283,774)	
Energy performance contract	(559,155)	
Capital leases	(291,235)	
Compensated absences	(3,879,926)	
Net pension liability	<u>(4,290,301)</u>	<u>(28,574,391)</u>
Net position of governmental activities	\$	<u><u>16,492,923</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 (Deficit)—Governmental Funds**  
**Year Ended December 31, 2017**

	Special Revenue					Total Governmental Funds	
	General	Water	Wastewater Treatment	Special Grant	Capital Projects		Debt Service
<b>REVENUES</b>							
Real property taxes	\$ 4,871,868	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,871,868
Real property tax items	344,542	-	-	-	-	-	344,542
Nonproperty tax items	2,694,161	-	-	-	-	-	2,694,161
Departmental income	1,381,325	3,693,087	4,332,628	-	-	-	9,407,040
Intergovernmental charges	621,429	-	-	-	-	-	621,429
Use of money and property	2,487	-	-	-	176,019	-	178,506
Licenses and permits	51,200	-	-	-	-	-	51,200
Fines and forfeitures	111,565	-	145,707	-	-	-	257,272
Sale of property and compensation for loss	295	5,830	-	-	-	-	6,125
Miscellaneous	217,616	2,899	14,329	-	-	-	234,844
State aid	3,844,600	-	-	-	1,282,821	-	5,127,421
Federal aid	-	-	-	417,770	-	-	417,770
Total revenues	<u>14,141,088</u>	<u>3,701,816</u>	<u>4,492,664</u>	<u>417,770</u>	<u>1,458,840</u>	<u>-</u>	<u>24,212,178</u>
<b>EXPENDITURES</b>							
Current:							
General government support	1,794,803	385,109	404,009	-	-	-	2,583,921
Public safety	5,808,986	-	-	-	-	-	5,808,986
Transportation	1,349,375	-	-	-	-	-	1,349,375
Economic assistance and opportunity	43,569	-	-	-	-	-	43,569
Culture and recreation	520,372	-	-	-	-	-	520,372
Home and community services	922,154	1,584,693	2,666,310	363,109	-	-	5,536,266
Employee benefits	4,213,702	592,121	514,566	-	-	-	5,320,389
Debt service:							
Principal	296,215	380,105	212,631	-	-	3,080,000	3,968,951
Interest and fiscal charges	90,807	318,379	120,416	-	-	124,669	654,271
Capital outlay							
Total expenditures	<u>15,039,983</u>	<u>3,260,407</u>	<u>3,917,932</u>	<u>363,109</u>	<u>2,950,856</u>	<u>3,204,669</u>	<u>28,736,956</u>
Excess (deficiency) of revenues over expenditures	(898,895)	441,409	574,732	54,661	(1,492,016)	(3,204,669)	(4,524,778)
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	116,787	151,489	355,552	9,283	1,232,602	-	1,865,713
Transfers out	(924,859)	(110,000)	(24,550)	(63,944)	(737,360)	-	(1,860,713)
Serial bonds issued	-	-	-	-	8,170,000	-	8,170,000
Refunding bonds issued	-	-	-	-	-	2,975,000	2,975,000
Premium on serial bonds and refunding bonds	-	-	-	-	61,692	229,669	291,361
Capital leases	32,607	-	-	-	-	-	32,607
Total other financing sources (uses)	<u>(775,465)</u>	<u>41,489</u>	<u>331,002</u>	<u>(54,661)</u>	<u>8,726,934</u>	<u>3,204,669</u>	<u>11,473,968</u>
Net change in fund balances	(1,674,360)	482,898	905,734	-	7,234,918	-	6,949,190
Fund balances (deficits)—beginning	<u>6,366,542</u>	<u>(445,403)</u>	<u>581,920</u>	<u>-</u>	<u>(8,372,957)</u>	<u>-</u>	<u>(1,869,898)</u>
Fund balances (deficit)—ending	<u>\$ 4,692,182</u>	<u>\$ 37,495</u>	<u>\$ 1,487,654</u>	<u>\$ -</u>	<u>\$ (1,138,039)</u>	<u>\$ -</u>	<u>\$ 5,079,292</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 (Deficit)—Governmental Funds to the Government-wide Statement of Activities**  
**Year Ended December 31, 2017**

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

Net change in fund balances (deficit)—total governmental funds (page 16)	\$	6,949,190
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.		
Capital asset additions	\$	3,262,187
Depreciation expense		(1,485,954)
Loss on disposition of assets		<u>(7,500)</u>
		1,768,733
Net differences between pension contributions recognized on the fund financial statements and the government-wide financial statements are as follows:		
Direct pension contributions	\$	1,754,600
Cost of benefits earned net of employee contributions		<u>(2,523,179)</u>
		(768,579)
Governmental funds report retained percentages expenditures on construction contracts when such a retained percentage is paid. However, in the statement of activities retained percentages on construction contracts is reported as an expense as it accrues.		
		(124,543)
In the statement of activities, interest expense is recognized as it accrues, regardless of when it is paid.		
		(82,749)
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:		
Proceeds from serial bonds and refunding bonds	\$	(11,145,000)
Principal payments on serial bonds		3,715,000
Premium on serial bonds and refunding bonds		(291,361)
Amortization of premium on serial bonds		7,587
Principal payments on energy performance contract		63,154
Proceeds from capital leases		(32,607)
Principal payments on capital leases		190,797
Change in compensated absences		<u>178,865</u>
		<u>(7,313,565)</u>
Change in net position of governmental activities	\$	<u><u>428,487</u></u>

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, 2017**

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	<u>Private Purpose Trust</u>	<u>Agency</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 77,103	\$ 389,198
Due from other funds	-	5,332
Total assets	<u>77,103</u>	<u>\$ 394,530</u>
<b>LIABILITIES</b>		
Other agency liabilities	-	394,530
Due to other funds	-	-
Total liabilities	<u>-</u>	<u>\$ 394,530</u>
<b>NET POSITION</b>		
Restricted for investments	<u>\$ 77,103</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, 2017**

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	<u>Private Purpose Trust</u>
<b>DEDUCTIONS</b>	
Transfers out	\$ 5,000
Total deductions	<u>5,000</u>
 Change in net position	 (5,000)
 Net position—beginning	 <u>82,103</u>
Net position—ending	<u>\$ 77,103</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, 2017**

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**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.

#### ***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.
- *Debt Service Fund*—The debt service fund is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

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 transferred to the General Fund 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, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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, 2017. 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.

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

***Capital Assets***—The City’s 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:

Assets	Years
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 cash received have not been spent or otherwise used to meet the revenue recognition criteria for government-wide or fund financial purposes. At December 31, 2017, the City reported unearned revenues of \$246,759, \$22,873 and \$1,740 within the General Fund, Water 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, 2017, 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, 2017, the City has one item that qualifies for reporting in this category. This 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 1<sup>st</sup> of the year the taxes are recognizable as revenue. Taxes become a lien on the related property on January 1<sup>st</sup> of the year for which they are levied. In the government-wide statements, property tax receivables and related revenue include all amounts due to the City regardless of when cash is received. The City also collects school taxes for the local school district for remittance to them. 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 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 9.

***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 6.

#### ***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, 2017, the City implemented GASB Statement 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 Agreement*, and No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for the year ending December 31, 2017. GASB Statement No. 74 improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) for making decisions and accessing accountability. GASB Statement No. 80 improves financial reporting by clarifying the financial statement presentation requirements for certain component units. GASB Statement No. 81 improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government

is a beneficiary of the agreement. GASB Statement No. 82 addresses certain issues that have been raised with respect to GASB Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statements 67 and 68*. GASB Statements No. 74, 80, 81, and 82 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 No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; No. 85, *Omnibus 2017*; and No. 86, *Certain Debt Extinguishment Issues* effective for the year ending December 31, 2018, No. 83, *Certain Asset Retirement Obligations*; No. 84, *Fiduciary Activities*; and No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*; and No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61* effective for the year ending December 31, 2019, and No. 87, *Leases* and No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for the year ending December 31, 2020. The City is, therefore, unable to disclose the impact that adopting GASB Statements No. 75, 83, 84, 85, 86, 87, 88, 89 and 90 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 15<sup>th</sup>.
- 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 15<sup>th</sup> 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 15<sup>th</sup> 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 and the end of the

fiscal year. Budgetary comparisons presented in this report are on the budgetary basis and represent the budget as modified.

**Deficit Fund Balances**—At December 31, 2017, the Capital Projects Fund has a deficit fund balance of \$(1,138,039). 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. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

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

Cash and cash equivalents and restricted cash and cash equivalents at December 31, 2017 are as follows:

	Governmental Funds	Fiduciary Funds	Total
Petty cash (uncollateralized)	\$ 1,360	\$ -	\$ 1,360
Deposits	<u>5,877,122</u>	<u>466,301</u>	<u>6,343,423</u>
Total	<u>\$ 5,878,482</u>	<u>\$ 466,301</u>	<u>\$ 6,344,783</u>

**Deposits**—All deposits are carried at fair value and are classified by custodial credit risk at December 31, 2017 as follows:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
FDIC Insured	\$ 250,000	\$ 250,000
Uninsured:		
Collateral held by pledging bank's agent in the City's name	<u>6,312,318</u>	<u>6,093,423</u>
Total deposits	<u>\$ 6,562,318</u>	<u>\$ 6,343,423</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, 2017, the City’s deposits were either FDIC insured or collateralized with securities held by the pledging bank’s agent in the City’s name.

**Restricted Cash and Cash Equivalents**—The City reports fund balance restrictions, unearned revenue related to cash received in advance and unspent debt proceeds as restricted cash and cash equivalents. At December 31, 2017, the City reports restricted cash totaling \$1,247,361 within the General Fund, \$22,873 within the Water Fund, \$1,740 within the Special Grant Fund and \$2,061,086 within the Capital Projects Fund.

**Investments**—The City’s governmental activities had no investments at December 31, 2017.

**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, 2017, the City had no investments.

**Discretely Presented Component Units**

**City of Dunkirk Industrial Development Agency**—At December 31, 2017, the Agency had unrestricted deposits of \$15,098, which were covered by FDIC insurance.

**City of Dunkirk Housing Authority**—At December 31, 2017, the Authority had unrestricted deposits of \$488,450 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 \$54,593. Additionally, the Authority had \$351,080 of investments that were held as bank certificates of deposit with an original maturity date of more than three months.

### 3. RECEIVABLES

**Taxes Receivable**—Represents City and school taxes that remain unpaid. At December 31, 2017, the City recorded \$770,188 related to taxes receivable.

**Accounts Receivable**—Represents amounts due from various sources. Receivables at December 31, 2017 are:

General Fund:		
Accounts receivable	\$ 685,741	
Allowance	<u>(73,969)</u>	\$ 611,772
Water Fund:		
Accounts receivable	1,399,279	
Allowance	<u>(8,452)</u>	1,390,827
Wastewater Treatment Fund:		
Accounts receivable	1,520,767	
Allowance	<u>(40,000)</u>	<u>1,480,767</u>
Total		<u>\$ 3,483,366</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, 2017 are:

General Fund	\$ 622,455
Special Grant Fund	72,814
Capital Projects Fund	<u>343,907</u>
Total	<u>\$ 1,039,176</u>

#### 4. CAPITAL ASSETS

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

	Balance 1/1/2017	Increases	Decreases	Balance 12/31/2017
Capital assets, not being depreciated:				
Land	\$ 151,155	\$ -	\$ -	\$ 151,155
Construction in progress	4,429,792	3,016,451	-	7,446,243
Total capital assets not being depreciated	<u>4,580,947</u>	<u>3,016,451</u>	<u>-</u>	<u>7,597,398</u>
Capital assets, being depreciated:				
Infrastructure	61,587,072	-	-	61,587,072
Buildings and building improvements	13,483,876	-	-	13,483,876
Machinery and equipment	17,742,834	245,736	84,361	17,904,209
Total capital assets being depreciated	<u>92,813,782</u>	<u>245,736</u>	<u>84,361</u>	<u>92,975,157</u>
Less accumulated depreciation for:				
Infrastructure	35,683,767	1,014,451	-	36,698,218
Buildings and building improvements	11,222,376	82,361	-	11,304,737
Machinery and equipment	15,518,926	389,142	76,861	15,831,207
Total accumulated depreciation	<u>62,425,069</u>	<u>1,485,954</u>	<u>76,861</u>	<u>63,834,162</u>
Total capital assets, being depreciated, net	<u>30,388,713</u>	<u>(1,240,218)</u>	<u>7,500</u>	<u>29,140,995</u>
Governmental activities capital assets, net	<u>\$ 34,969,660</u>	<u>\$ 1,776,233</u>	<u>\$ 7,500</u>	<u>\$ 36,738,393</u>

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

Governmental activities:	
General government support	\$ 118,048
Public safety	130,381
Transportation	122,552
Home and community services	<u>1,114,973</u>
Total depreciation expense—governmental activities	<u>\$ 1,485,954</u>

***Discretely Presented Component Units***

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

	Balance 7/1/2016	Increases	Decreases	Balance 6/30/2017
Capital assets, not being depreciated:				
Land	\$ 1,257,808	\$ -	\$ -	\$ 1,257,808
Capital assets, being depreciated:				
Buildings and building improvements	14,307,926	711,799	-	15,019,725
Furniture, equipment and machinery	983,183	154,689	13,097	1,124,775
Total capital assets being depreciated	15,291,109	866,488	13,097	16,144,500
Less accumulated depreciation	12,224,410	392,401	8,010	12,608,801
Total capital assets, being depreciated, net	3,066,699	474,087	5,087	3,535,699
Total capital assets, net	\$ 4,324,507	474,087	\$ 5,087	\$ 4,793,507

**5. ACCRUED LIABILITIES**

Accrued liabilities include salary and other related liabilities. Accrued liabilities of the City’s governmental funds at December 31, 2017 are:

General Fund	\$ 186,247
Water Fund	17,454
Wastewater Treatment Fund	25,241
Total accrued liabilities	<u>\$ 228,942</u>

**6. 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](http://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, 2017, 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, 2017. The total pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of April 1, 2016, with update procedures used to roll forward the total net pension liabilities to the measurement date. The City's proportion of the net pension liabilities were based on projections of the City's long-term share of contributions to the System relative to the projected contributions of all participating members, actuarially determined. This information was provided by the System in reports provided to the City.

	PFRS	ERS
Measurement date	March 31, 2017	March 31, 2017
Net pension liability	\$ 2,947,210	\$ 1,343,091
City's portion of the Plan's total net pension liability	0.1421951%	0.0142939%

For the year ended December 31, 2017, the City recognized pension expenses of \$1,714,573 and \$823,971 respectively, for PFRS and ERS. At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	PFRS	ERS	PFRS	ERS
Differences between expected and actual experiences	\$ 386,623	\$ 33,657	\$ 509,213	\$ 203,956
Changes of assumptions	1,451,966	458,849	-	-
Net difference between projected and actual earnings on pension plan investments	440,162	268,270	-	-
Changes in proportion and differences between the City's contributions and proportionate share of contributions	38,672	185,243	130,744	40,569
City contributions subsequent to the measurement date	844,496	457,831	-	-
Total	<u>\$ 3,161,919</u>	<u>\$ 1,403,850</u>	<u>\$ 639,957</u>	<u>\$ 244,525</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, 2018. 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>
2018	\$ 565,401	\$ 308,838
2019	565,401	308,838
2020	532,550	256,780
2021	(54,997)	(172,962)
2022	69,111	-

**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, 2017	March 31, 2017
Actuarial valuation date	April 1, 2016	April 1, 2016
Interest rate	7.00%	7.00%
Salary scale	4.50%	3.80%
Decrement tables	April 1, 2010- March 31, 2015	April 1, 2010- March 31, 2015
Inflation rate	2.5%	2.5%
Cost-of-living adjustments	1.3%	1.3%

Annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System's experience with adjustments for mortality improvements based on Society of Actuaries' Scale MP-2014. The actuarial assumptions used in the April 1, 2016 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 and ERS	
	Target Allocation	Long-Term Expected Real Rate of Return
	March 31, 2017	
Asset class:		
Domestic equities	36.0 %	4.6 %
International equities	14.0	6.4
Private equity	10.0	7.8
Real estate	10.0	5.8
Absolute return strategies	2.0	4.0
Opportunistic portfolio	3.0	5.9
Real assets	3.0	5.5
Bonds and mortgages	17.0	1.3
Cash	1.0	(0.3)
Inflation-indexed bonds	4.0	1.5
Total	<u>100.0 %</u>	

**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 below 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	\$ 8,355,170	\$ 2,947,210	\$ (1,588,744)
Employer's proportionate share of the net pension liability/(asset)—ERS	4,289,566	1,343,091	(1,148,149)

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

	(Dollars in Thousands)		
	PFRS	ERS	Total
Valuation date	April 1, 2016	April 1, 2016	
Employers' total pension liability	\$ 31,670,483	\$ 177,400,586	\$ 209,071,069
Plan fiduciary net position	29,597,830	168,004,363	197,602,193
Employers' net pension liability	<u>\$ 2,072,653</u>	<u>\$ 9,396,223</u>	<u>\$ 11,468,876</u>
System fiduciary net position as a percentage of total pension liability	93.5%	94.7%	94.5%

**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, 2017, the Authority reported a liability of \$81,205 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, 2017, 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, 2017, the Authority recognized pension expense of \$60,160. At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experiences	\$ 2,035	\$ 12,331
Change of assumptions	27,743	-
Net difference between projected and actual earnings on pension plan investments	16,220	-
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	44,456	4,824
Authority contributions subsequent to the measurement date	<u>12,763</u>	<u>-</u>
Total	<u>\$ 103,217</u>	<u>\$ 17,155</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>
2018	\$ 29,014
2019	29,014
2020	22,534
2021	(7,263)

***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	\$ 259,353	\$ 81,205	\$ (69,419)

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.

## 7. LEASE OBLIGATIONS

***Capital Lease***—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>
2018	\$ 163,741
2019	134,990
Less: amount representing imputed interest	<u>(7,496)</u>
Present value of minimum lease payments	<u>\$ 291,235</u>

The assets acquired through the capital leases are as follows:

	<u>Governmental Activities</u>
Assets:	
Vehicles and equipment	\$ 713,116
Less: Accumulated depreciation	<u>(220,704)</u>
Total	<u>\$ 492,412</u>

## 8. 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, 2017:

Description	Issue/ Maturity	Interest Rate	Balance 1/1/2017	Issues	Redemptions	Balance 12/31/2017
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	-
Water pollution control plant	2017/2018	1.64%	-	2,500,000	-	2,500,000
Total			<u>\$ 11,500,000</u>	<u>\$ 2,500,000</u>	<u>\$ 11,500,000</u>	<u>\$ 2,500,000</u>

## 9. 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, 2017 follows:

	Balance 1/1/2017	Additions	Reductions	Balance 12/31/2017	Due Within One Year
Serial bonds	\$ 11,840,000	\$ 11,145,000	\$ 3,715,000	\$ 19,270,000	\$ 770,000
Premium on serial bonds	-	291,361	7,587	283,774	17,292
Net serial bonds payable	11,840,000	11,436,361	3,722,587	19,553,774	787,292
Energy performance contract	622,309	-	63,154	559,155	64,574
Capital leases	449,425	32,607	190,797	291,235	158,353
Compensated absences*	4,058,791	-	178,865	3,879,926	193,996
Net pension liability*	6,695,080	-	2,404,779	4,290,301	-
Total	<u>\$ 23,665,605</u>	<u>\$ 11,468,968</u>	<u>\$ 6,560,182</u>	<u>\$ 28,574,391</u>	<u>\$ 1,204,215</u>

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

**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.

On March 23, 2017, the City issued \$8,170,000 in Public Improvement Serial Bonds for water system improvements and seawall reconstruction. The interest rate ranges from 2.0% to 4.0% and the bonds will mature on March 15, 2038.

On August 10, 2017, the City issued \$2,975,000 of Public Improvement Refunding Serial Bonds. The proceeds of the issue after premium of \$229,669 were used to refund the principal of the 2008 Public Improvement Serial Bonds in the amount of \$3,080,000 on September 11, 2017. The interest rate ranges from 1.0% to 5.0% and the bonds will mature on November 1, 2033. The refund resulted in a net present value benefit to the City of \$393,556.

Presented below is a summary of bond transactions of the City for the fiscal year ended December 31, 2017:

Purpose	Fiscal Year of		Balance 1/1/2017	Issues	Redemptions	Balance 12/31/2017
	Issue/ Maturity	Interest Rate				
Water treatment plant	2008/2033	4.250-4.750%	\$ 3,245,000	\$ -	\$ 3,245,000	\$ -
Boardwalk	2011/2021	2.500-3.750%	355,000	-	65,000	290,000
Water system equipment	2013/2033	3.375-4.000%	695,000	-	30,000	665,000
Water system improvements	2015/2035	2.500-3.000%	3,030,000	-	155,000	2,875,000
Water system improvements	2016/2035	2.000-3.000%	4,515,000	-	185,000	4,330,000
Water & seawall projects	2017/2038	2.000-4.000%	-	8,170,000	-	8,170,000
Water & seawall projects	2017/2033	3.000-5.000%	-	2,975,000	35,000	2,940,000
			<u>\$ 11,840,000</u>	<u>\$ 11,145,000</u>	<u>\$ 3,715,000</u>	<u>\$ 19,270,000</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
2018	\$ 76,511
2019	76,511
2020	76,511
2021	76,511
2022	76,511
2023-2025	<u>229,537</u>
Total minimum lease payments	612,092
Less: amounts representing imputed interest costs	<u>52,937</u>
Present value of minimum lease payments	<u>\$ 559,155</u>

**Capital Leases**—The outstanding balance at December 31, 2017 for the City’s capital leases was \$291,235. Refer to Note 7 for additional information related to the City’s capital leases.

**Compensated Absences**—As explained in Note 1, the City provides vacation, personal, sick leave and compensatory time to its employees. The annual budgets of the operating funds provide funding for these benefits as they become payable. In the event of termination or upon retirement, an employee is entitled to payment for accumulated vacation, sick leave and unused compensatory absences at various rates subject to certain conditions, maximum limitations and union affiliations. The value recorded as a liability within governmental activities at December 31, 2017, for such benefits is \$3,879,926. Management estimates that \$193,996 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 \$4,290,301 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	Premium on Serial Bonds	Energy Performance Contract	Capital Leases	Compensated Absences	Net Pension Liability	Total
2018	\$ 770,000	\$ 17,292	\$ 64,574	\$ 158,353	\$ 193,996	\$ -	\$ 1,204,215
2019	925,000	17,292	66,027	132,882	-	-	1,141,201
2020	945,000	17,292	67,513	-	-	-	1,029,805
2021	965,000	17,292	69,032	-	-	-	1,051,324
2022	925,000	17,292	70,582	-	-	-	1,012,874
2023-2027	4,775,000	86,460	221,427	-	-	-	5,082,887
2028-2032	5,290,000	86,460	-	-	-	-	5,376,460
2033-2037	4,115,000	23,666	-	-	-	-	4,138,666
2038	560,000	728	-	-	3,685,930	4,290,301	8,536,959
	<u>\$ 19,270,000</u>	<u>\$ 283,774</u>	<u>\$ 559,155</u>	<u>\$ 291,235</u>	<u>\$ 3,879,926</u>	<u>\$ 4,290,301</u>	<u>\$ 28,574,391</u>

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

Year ending December 31,	Amount
2018	\$ 766,240
2019	605,928
2020	581,204
2021	555,143
2022	529,048
2023-2027	2,196,130
2028-2032	1,319,435
2033-2037	428,475
2038	11,200
	<u>\$ 6,992,803</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 <u>7/1/2016</u>	Additions	Reductions	Balance <u>6/30/2017</u>	Due Within <u>One Year</u>
Compensated absences*	\$ 197,273	\$ -	\$ 32,957	\$ 164,316	\$ 16,432
Net pension liability*	<u>157,829</u>	<u>-</u>	<u>76,624</u>	<u>81,205</u>	<u>-</u>
Total	<u>\$ 355,102</u>	<u>\$ -</u>	<u>\$ 109,581</u>	<u>\$ 245,521</u>	<u>\$ 16,432</u>

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

**10. 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	\$ 36,738,393
Related debt:	
Serial bonds	\$ (19,270,000)
Unamortized serial bond premium	(283,774)
Bond anticipation notes	(2,500,000)
Unspent debt proceeds	2,061,086
Energy performance contract	(559,155)
Capital lease	<u>(291,235)</u>
Net investment in capital assets—governmental activities	<u>\$ 15,895,315</u>

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

In the fund financial statements, nonspendable amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance maintained by the City at December 31, 2017 includes:

	General Fund	Water Fund	Wastewater Treatment Fund	Total
Prepaid items	\$ 82,739	\$ 14,291	\$ 16,651	\$ 113,681
Long-term interfund loans	982,125	-	752,861	1,734,986
	<u>\$ 1,064,864</u>	<u>\$ 14,291</u>	<u>\$ 769,512</u>	<u>\$ 1,848,667</u>

- **Prepaid items**—Represents the portion of fund balance composed of prepaid expenses that are applicable to future accounting periods.
- **Long-term interfund loan**—Represents the portion of fund balance composed of receivables from the Water 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, 2017 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, 2017, 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, 2017, the balances presented on the following page were considered to be assigned.

	General Fund	Water Fund	Wastewater Treatment Fund	Total
Encumbrances	\$ 224,382	\$ 23,204	\$ 103,811	\$ 351,397
Capital improvements	799,649	-	-	799,649
Specific use	-	-	614,331	614,331
Total assigned fund balance	<u>\$ 1,024,031</u>	<u>\$ 23,204</u>	<u>\$ 718,142</u>	<u>\$ 1,765,377</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 the Capital Projects Fund deficit.

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.

## 11. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables of the City at December 31, 2017 consisted of the following:

Fund	Interfund Receivables	Interfund Payables
Governmental Funds:		
General Fund	\$ 2,270,950	\$ 239,037
Water Fund	100,000	1,766,436
Wastewater Treatment Fund	764,853	670,593
Capital Projects Fund	276,967	742,036
Fiduciary Funds:		
Agency Fund	5,332	-
Total	<u>\$ 3,418,102</u>	<u>\$ 3,418,102</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 to the General Fund and Wastewater Treatment Fund in the amount of \$1,734,986.

The City made the following transfers during the year ended December 31, 2017:

Fund	Transfers In	Transfers Out
Governmental Funds:		
General Fund	\$ 116,787	\$ 924,859
Water Fund	151,489	110,000
Wastewater Treatment Fund	355,552	24,550
Special Grant Fund	9,283	63,944
Capital Projects Fund	1,232,602	737,360
Fiduciary Funds:		
Trust Fund	-	5,000
Total	<u>\$ 1,865,713</u>	<u>\$ 1,865,713</u>

Transfers are used primarily to pay debt service expenditures relating to bond anticipation notes and close capital projects.

## 12. LABOR RELATIONS

City employees are represented by four bargaining units. The City of Dunkirk Professional Firefighter’s Association, the City of Dunkirk AFSCME, Local 912 and the City of Dunkirk Local 2693 COD have contracts settled through December 31, 2020 the City of Dunkirk Police Benevolent Association contract is settled through December 31, 2019.

## 13. 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, 2017, are as listed below:

Fund	Purpose	Amount Encumbered
General Fund	Public safety equipment	\$ 11,648
General Fund	Radio equipment	20,787
General Fund	Asphalt	52,808
General Fund	Ice salt	10,899
General Fund	Solid waste	18,222
Wastewater Treatment Fund	Generator	25,000
Wastewater Treatment Fund	Landfill supplies	18,577

## 14. CONTINGENCIES

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

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

**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.

## 15. 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 which is limited to \$2,500,000 per occurrence. The general aggregate limit is \$5,000,000.

## 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 \$242,454 during the 2017 fiscal year in payments in lieu of taxes (“PILOT”), these collections were made in lieu of \$2,426,047 in property taxes.

## 17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 16, 2018, which is the date the financial statements are available for issuance, and have determined 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 Four Fiscal Years\***

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	Year Ended December 31,			
	2017	2016	2015	2014
<b>City of Dunkirk (the "City"):</b>				
Measurement date	March 31, 2017	March 31, 2016	March 31, 2015	March 31, 2014
City's proportion of the net pension liability	0.1421951%	0.1423904%	0.1435222%	0.1435222%
City's proportionate share of the net pension liability	<u>\$ 2,947,210</u>	<u>\$ 4,215,877</u>	<u>\$ 395,059</u>	<u>\$ 597,497</u>
City's covered payroll	\$ 4,725,943	\$ 4,969,778	\$ 4,812,487	\$ 4,905,883
City's proportionate share of the net pension liability as a percentage of its covered payroll	62.4%	84.8%	8.2%	12.2%
Plan fiduciary net position as a percentage of the total pension liability	93.5%	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 Four Fiscal Years\***

	Year Ended December 31,			
	2017	2016	2015	2014
<b>City of Dunkirk ("City"):</b>				
Contractually required contribution	\$ 1,136,046	\$ 1,166,202	\$ 944,688	\$ 1,363,752
Contributions in relation to the contractually required contribution	<u>(1,136,046)</u>	<u>(1,166,202)</u>	<u>(944,688)</u>	<u>(1,363,752)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	4,835,534	4,771,005	5,003,936	4,803,141
Contributions as a percentage of covered payroll	23.5%	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 Four Fiscal Years\***

	Year Ended December 31,			
	2017	2016	2015	2014
Measurement date	March 31, 2017	March 31, 2016	March 31, 2015	March 31, 2014
Plan fiduciary net position as a percentage of the total pension liability	94.7%	90.7%	97.9%	97.2%
<b>Governmental Activities:</b>				
<b>City of Dunkirk (the "City"):</b>				
City's proportion of the net pension liability	0.0142939%	0.0154465%	0.0156356%	0.0156356%
City's proportionate share of the net pension liability	<u>\$ 1,343,091</u>	<u>\$ 2,479,203</u>	<u>\$ 528,210</u>	<u>\$ 706,553</u>
City's covered payroll	\$ 4,038,665	\$ 4,198,903	\$ 4,247,481	\$ 4,158,262
City's proportionate share of the net pension liability as a percentage of its covered payroll	33.3%	59.0%	12.4%	17.0%

**Discretely Presented Component Unit:**

**City of Dunkirk Housing Authority ("Authority")**

	Year Ended June 30,		
	2017	2016	2015
Authority's proportion of the net pension liability	0.0008642%	0.0009833%	0.0000000%
Authority's proportionate share of the net pension liability	<u>\$ 81,205</u>	<u>\$ 157,829</u>	<u>\$ 35,205</u>
Authority's covered payroll	\$ 305,807	\$ 319,483	\$ 376,775
Authority's proportionate share of the net pension liability as a percentage of its covered payroll	26.6%	49.4%	9.3%

\*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 the City's Contributions—**  
**Employees' Retirement System**  
**Last Four Fiscal Years\***

	Year Ended December 31,			
	2017	2016	2015	2014
<b>Governmental Activities:</b>				
<b>City of Dunkirk (the "City"):</b>				
Contractually required contribution	\$ 618,554	\$ 642,893	\$ 770,830	\$ 893,049
Contributions in relation to the contractually required contribution	<u>(618,554)</u>	<u>(642,893)</u>	<u>(770,830)</u>	<u>(893,049)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 4,173,028	\$ 4,032,993	\$ 4,262,655	\$ 4,249,954
Contributions as a percentage of covered payroll	14.8%	15.9%	18.1%	21.0%

**Discretely Presented Component Unit:**

**City of Dunkirk Housing Authority ("Authority"):**

	Year Ended June 30,		
	2017	2016	2015
Contractually required contribution	\$ 57,177	\$ 69,960	\$ 76,318
Contributions in relation to the contractually required contribution	<u>(57,177)</u>	<u>(69,960)</u>	<u>(76,318)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered payroll	\$ 305,807	\$ 319,483	\$ 376,775
Contributions as a percentage of covered payroll	18.7%	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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
<b>REVENUES</b>				
Real property taxes	\$ 4,871,870	\$ 4,871,870	\$ 4,871,868	\$ (2)
Real property tax items	605,133	607,437	344,542	(262,895)
Nonproperty tax items	2,789,061	2,789,061	2,694,161	(94,900)
Departmental income	1,361,663	1,446,050	1,381,325	(64,725)
Intergovernmental charges	646,900	650,400	621,429	(28,971)
Use of money and property	12,033	12,033	2,487	(9,546)
Licenses and permits	24,200	52,288	51,200	(1,088)
Fines and forfeitures	130,000	130,000	111,565	(18,435)
Sale of property and compensation for loss	12,000	12,000	295	(11,705)
Miscellaneous	31,900	244,750	217,616	(27,134)
State aid	3,981,131	4,023,413	3,844,600	(178,813)
Total revenues	<u>14,465,891</u>	<u>14,839,302</u>	<u>14,141,088</u>	<u>(698,214)</u>
<b>EXPENDITURES</b>				
Current:				
General government support	1,822,714	1,810,591	1,794,803	15,788
Public safety	5,385,520	5,644,196	5,808,986	(164,790)
Transportation	1,264,482	1,230,148	1,349,375	(119,227)
Economic assistance and opportunity	48,833	48,833	43,569	5,264
Culture and recreation	472,670	479,670	520,372	(40,702)
Home and community services	879,386	957,957	922,154	35,803
Employee benefits	4,347,275	4,347,275	4,213,702	133,573
Debt service:				
Principal	296,103	296,215	296,215	-
Interest and fiscal charges	90,919	90,807	90,807	-
Total expenditures	<u>14,607,902</u>	<u>14,905,692</u>	<u>15,039,983</u>	<u>(134,291)</u>
Deficiency of revenues over expenditures	<u>(142,011)</u>	<u>(66,390)</u>	<u>(898,895)</u>	<u>(832,505)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	96,750	101,750	116,787	15,037
Transfers out	(52,500)	(52,500)	(924,859)	(872,359)
Capital leases	-	32,607	32,607	-
Total other financing sources (uses)	<u>44,250</u>	<u>81,857</u>	<u>(775,465)</u>	<u>(857,322)</u>
Net change in fund balances *	(97,761)	15,467	(1,674,360)	(1,689,827)
Fund balances—beginning	<u>6,366,542</u>	<u>6,366,542</u>	<u>6,366,542</u>	<u>-</u>
Fund balances—ending	<u>\$ 6,268,781</u>	<u>\$ 6,382,009</u>	<u>\$ 4,692,182</u>	<u>\$ (1,689,827)</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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
<b>REVENUES</b>				
Departmental income	\$ 3,621,006	\$ 3,637,612	\$ 3,693,087	\$ 55,475
Sale of property and compensation for loss	4,500	4,500	5,830	1,330
Miscellaneous	9,000	9,000	2,899	(6,101)
Total revenues	<u>3,634,506</u>	<u>3,651,112</u>	<u>3,701,816</u>	<u>50,704</u>
<b>EXPENDITURES</b>				
Current:				
General government support	434,625	434,625	385,109	49,516
Home and community services	1,582,692	1,606,900	1,584,693	22,207
Employee benefits	482,474	482,474	592,121	(109,647)
Debt service:				
Principal	545,105	545,105	380,105	165,000
Interest and fiscal charges	479,610	479,610	318,379	161,231
Total expenditures	<u>3,524,506</u>	<u>3,548,714</u>	<u>3,260,407</u>	<u>288,307</u>
Excess of revenues over expenditures	<u>110,000</u>	<u>102,398</u>	<u>441,409</u>	<u>339,011</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	151,489	151,489
Transfers out	(110,000)	(110,000)	(110,000)	-
Total other financing sources (uses)	<u>(110,000)</u>	<u>(110,000)</u>	<u>41,489</u>	<u>151,489</u>
Net change in fund balances	-	(7,602)	482,898	490,500
Fund balances—beginning, as restated	(445,403)	(445,403)	(445,403)	-
Fund balances—ending	<u>\$ (445,403)</u>	<u>\$ (453,005)</u>	<u>\$ 37,495</u>	<u>\$ 490,500</u>

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 Treatment Fund**  
**Year Ended December 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
<b>REVENUES</b>				
Departmental income	\$ 3,642,804	\$ 3,725,788	\$ 4,332,628	\$ 606,840
Fines and forfeitures	75,000	75,000	145,707	70,707
Miscellaneous	3,000	3,000	14,329	11,329
Total revenues	<u>3,720,804</u>	<u>3,803,788</u>	<u>4,492,664</u>	<u>688,876</u>
<b>EXPENDITURES</b>				
Current:				
General government support	445,121	445,121	404,009	41,112
Home and community services	2,474,256	2,461,841	2,666,310	(204,469)
Employee benefits	489,450	489,450	514,566	(25,116)
Debt service:				
Principal	177,631	177,631	212,631	(35,000)
Interest and fiscal charges	214,647	214,647	120,416	94,231
Total expenditures	<u>3,801,105</u>	<u>3,788,690</u>	<u>3,917,932</u>	<u>(129,242)</u>
Excess (deficiency) of revenues over expenditures	<u>(80,301)</u>	<u>15,098</u>	<u>574,732</u>	<u>559,634</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	355,552	355,552
Transfers out	(17,500)	(17,500)	(24,550)	(7,050)
Total other financing sources (uses)	<u>(17,500)</u>	<u>(17,500)</u>	<u>331,002</u>	<u>348,502</u>
Net change in fund balances*	(97,801)	(2,402)	905,734	908,136
Fund balances—beginning	581,920	581,920	581,920	-
Fund balances—ending	<u>\$ 484,119</u>	<u>\$ 579,518</u>	<u>\$ 1,487,654</u>	<u>\$ 908,136</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, 2017**

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**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 public safety, transportation, culture and recreation and transfers out expenditures exceeded the adjusted budget due to greater than anticipated personnel and contractual costs. Water Fund employee benefits expenditures exceeded the adjusted budget due to greater than anticipated medical insurance costs. Wastewater Treatment Fund home and community services, employee benefits, principal and transfers out expenditures exceeded the adjusted budget due to greater than anticipated personnel, contractual and 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 16, 2018. 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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be significant deficiencies as items 2017-001 and 2017-002.

### ***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 2017-003.

### ***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*

August 16, 2018

**CITY OF DUNKIRK, NEW YORK**  
**Schedule of Findings**  
**Year Ended December 31, 2017**

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*We consider the deficiencies presented below to be significant deficiencies in internal control.*

**Finding 2017-001—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:* At December 31, 2017, the General Fund and the Wastewater Treatment Fund are owed \$982,125 and \$752,861 from the Water Fund, respectively, which does not have current resources to repay the loans.

*Cause:* Interfund loans from the General and Wastewater Treatment Funds are unable to be repaid due to lack of current resources.

*Effect or Potential Effect:* The General Fund and the Wastewater Treatment Fund are owed \$982,125 and \$752,861, which is considered long-term receivables within those funds. As a result, these amounts are recognized within nonspendable fund balance. If these balances are not repaid, then the General Fund and Wastewater Treatment Fund will have to recognize a significant loss. Additionally, interest is not being charged and an agreement to repay does not exist.

*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 continue to monitor its short-term and long-term plan for repayment. The City should develop a formal agreement for repayment.

*Management’s Corrective Action Plan:* 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.

**Finding 2017-002—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, 2017, 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, 2017. The presence of several material adjusting journal entries identified during the audit of the year ended December 31, 2017 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 following deficiency to be a significant deficiency in compliance.***

**Finding 2017-003—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, 2017.

*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.

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