

Amato, Fox & Company, PC

City of Lackawanna, New York

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

YEAR ENDED JULY 31, 2017

**Amato
Fox**

Certified Public Accountants

CITY OF LACKAWANNA, NEW YORK

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

YEAR ENDED JULY 31, 2017

CITY OF LACKAWANNA, NEW YORK

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CITY OF LACKAWANNA, NEW YORK

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor & Members of City Council
City of Lackawanna, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lackawanna, New York, as of and for the year ended July 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

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

Auditor's Responsibility

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

An audit involved 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.

INDEPENDENT AUDITOR'S REPORT (CONT.)

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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lackawanna as of July 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 budgetary comparison information on pages 3 through 14 and 24 through 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2017, on our consideration of the City of Lackawanna's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Amato, Fox & Company PC

Tonawanda, NY
December 1, 2017

MANAGEMENT DISCUSSION AND ANALYSIS

CITY OF LACKAWANNA, NEW YORK

Management's Discussion and Analysis July 31, 2017

This section of the City of Lackawanna's (City) annual financial report presents a discussion and analysis of the City's financial performance during the fiscal year ended July 31, 2017. Please read it in conjunction with the City's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- The liabilities of the City exceeded assets at the close of the 2017 fiscal year by \$(47,040,225) (net position). Of this amount, \$15,151,494 is net investment in capital assets, \$1,323,839 is restricted for specific purpose (restricted net position) and the remaining balance is a deficit of \$63,515,558 in unrestricted net position.
- The government's total net position decreased by \$59,074,808.
- As of July 31, 2017, the City's governmental funds reported combined fund balances of \$8,750,419, an increase of \$116,620 in comparison with the prior year. Approximately \$6,019,164 or 68.8% of the combined fund balances is available to meet the City's current and future needs (unassigned fund balance).
- At the end of the fiscal year, unassigned fund balance for the general fund was \$6,540,754 or 72.6% of total general fund balance.

CITY OF LACKAWANNA, NEW YORK

Management's Discussion and Analysis July 31, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

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

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

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

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

The government-wide financial statements can be found on the pages following the Management's Discussion & Analysis section of this report.

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

CITY OF LACKAWANNA, NEW YORK

Management's Discussion and Analysis

July 31, 2017

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

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

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

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on the pages following the government-wide financial statements section of this report.

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

The basic fiduciary funds financial statements can be found on the page following the basic governmental fund financial statements section of this report.

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

The Notes can be found on the pages following the fiduciary funds section of this report.

CITY OF LACKAWANNA, NEW YORK

**Management's Discussion and Analysis
July 31, 2017**

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve, over time, as a useful indicator of a government's financial position. In the case of the City, liabilities exceeded assets by \$47,040,225 at the close of the most recent fiscal year.

Summary of City of Lackawanna's Net Position

	<u>2017</u>	<u>2016</u>	<u>Percentage Change</u>
Current and Other Assets	\$ 18,155,579	\$ 17,888,919	1.49%
Capital Assets	21,546,494	25,130,085	-14.26%
Deferred Outflows	<u>10,336,741</u>	<u>9,305,059</u>	
Total Assets & Deferred Outflows	<u>50,038,814</u>	<u>52,324,063</u>	-4.37%
Long-Term Liabilities	78,506,265	22,596,846	247.42%
Other Liabilities	<u>8,846,396</u>	<u>11,235,751</u>	-21.27%
Total Liabilities	<u>87,352,661</u>	<u>33,832,597</u>	158.19%
Deferred Revenues	4,671,341	4,658,467	0.28%
Deferred Inflows	<u>5,055,037</u>	<u>1,798,416</u>	181.08%
Total Deferred Inflows of Resources	<u>9,726,378</u>	<u>6,456,883</u>	50.64%
Net position:			
Net Investment in capital assets	15,151,494	18,055,085	-16.08%
Restricted	1,323,839	895,514	47.83%
Unrestricted	<u>(63,515,558)</u>	<u>(6,916,016)</u>	818.38%
	<u>\$ (47,040,225)</u>	<u>\$ 12,034,583</u>	

The largest portion of fund balance in the City's net position represents unrestricted net position, which may be used to meet the city's ongoing obligations of (\$63,515,558). This increase was caused because of the implementation of GASB Statement no. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

CITY OF LACKAWANNA, NEW YORK

Management's Discussion and Analysis July 31, 2017

A portion of the City's net position is \$15,151,494, which reflects its investment in capital assets (e.g. land, buildings, improvements, infrastructure, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in 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.

Another portion of the City's net position is \$1,323,839, which represents resources that are subject to external restrictions on how they may be used.

Governmental activities decreased the City's net position by \$59,074,808. The following tables indicate the changes in net position for governmental activities:

Summary of City of Lackawanna's Changes in Net Position

Revenues:	2017	2016	Percentage Change
Program Revenues:			
Charges for Services	\$ 1,934,805	\$ 1,321,210	46.44%
Operating Grants and Contributions	701,863	2,960,715	-76.29%
Capital Grants and Contributions	52,741	799,541	-93.40%
General Revenues:			
Property Taxes	10,257,984	9,492,094	8.07%
Real Property Tax Items	496,540	469,017	5.87%
Non-Property Tax Items	6,066,933	6,059,987	0.11%
Use of Money and Property	74,497	75,707	-1.60%
Fines and Forfeitures	298,771	235,272	26.99%
Sale of Property and Compensation for Loss	702,688	375,447	87.16%
Miscellaneous	160,589	6,412	2404.51%
State and Federal Aid	6,459,189	6,487,455	-0.44%
Total Revenues	<u>27,206,600</u>	<u>28,282,857</u>	-3.81%

CITY OF LACKAWANNA, NEW YORK

**Management's Discussion and Analysis
July 31, 2017**

Summary of City of Lackawanna's Changes in Net Position (Cont.)

	2017	2016	Percentage Change
Expenses:			
General government support	\$ 10,443,956	\$ 4,684,470	122.95%
Public safety	57,575,702	16,187,008	255.69%
Transportation	10,035,397	9,499,369	5.64%
Culture and recreation	1,811,021	1,020,804	77.41%
Home and community services	6,200,445	2,221,877	179.06%
Interest and fiscal charges	214,887	220,713	<u>-2.64%</u>
	<u>86,281,408</u>	<u>33,834,241</u>	155.01%
Changes in net position, increase (decrease)	(59,074,808)	(5,551,384)	
Net position - Beginning	<u>12,034,583</u>	<u>17,585,967</u>	
Net position - Ending	<u><u>\$ (47,040,225)</u></u>	<u><u>\$ 12,034,583</u></u>	

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

CITY OF LACKAWANNA, NEW YORK

Management's Discussion and Analysis July 31, 2017

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

At July 31, 2017, the City's governmental funds reported combined fund balances of \$8,750,419, an increase of \$116,620 in comparison with the prior year. Approximately 68.79% of the combined fund balances, \$6,019,164, constitutes *unassigned fund balance*, which is available to meet the City's current and future operational and capital needs. The remainder of fund balance is *restricted, committed or assigned* to indicate that it is *not* available for new spending because it has already been committed: (1) \$104,063 restricted for narcotic forfeiture activities; (2) 80,037 restricted for asset forfeiture activities; (3) \$200,000 restricted for possible uninsured lawsuits; (4) \$348,560 restricted for future workers' compensation claims; (5) \$330,000 restricted for employee benefits; (6) \$152,600 restricted for workers compensation in the refuse fund; (7) \$108,579 restricted for capital projects; (6) \$1,244,676 assigned for subsequent years' expenditures.

The general fund is the chief operating fund of the City. At July 31, 2017, unassigned fund balance of the general fund was \$6,540,754, while total fund balance was \$9,009,896. As a measure of general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 26.96% of total fund expenditures, while total fund balance represents 37.14% of that same amount.

Revenues for governmental functions totaled \$27,101,623 in fiscal year ended July 31, 2017, which represents a decrease of 4.39% from the fiscal year ended July 31, 2016.

CITY OF LACKAWANNA, NEW YORK

**Management's Discussion and Analysis
July 31, 2017**

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

Revenues Classified by Source
Governmental Funds

	<u>July 31, 2017</u>	<u>Percent of</u>	<u>July 31, 2016</u>	<u>Amount of</u>	<u>Percent of</u>
	<u>Amount</u>	<u>Total</u>	<u>Amount</u>	<u>Increase</u>	<u>Increase</u>
				<u>(Decrease)</u>	<u>(Decrease)</u>
Revenues:					
Real property taxes and tax items	\$ 10,649,547	39.29%	\$ 10,024,824	\$ 624,723	6.23%
Non-property tax items	6,066,933	22.39%	6,059,987	6,946	0.11%
Departmental income	1,871,312	6.90%	2,012,087	(140,775)	-7.00%
Use of money and property	74,497	0.27%	75,707	(1,210)	-1.60%
Licenses and permits	40,337	0.15%	45,110	(4,773)	-10.58%
Fines and forfeitures	298,771	1.10%	235,272	63,499	26.99%
Sale of property and compensation for loss	702,688	2.59%	375,447	327,241	87.16%
Miscellaneous	236,487	0.87%	6,412	230,075	3588.19%
State and Federal Aid	7,161,051	26.42%	9,511,724	(2,350,673)	-24.71%
Total Revenues	<u>\$ 27,101,623</u>	<u>100.00%</u>	<u>\$ 28,346,570</u>	<u>\$ (1,244,947)</u>	<u>-4.39%</u>

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

- Real property taxes and tax items increased due to an increase in the overall tax levy.
- State and Federal Aid decreased due to the completion of capital projects and a decrease in money received to fund snow removal.

CITY OF LACKAWANNA, NEW YORK

**Management's Discussion and Analysis
July 31, 2017**

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

	<u>July 31, 2017</u>	<u>Percent of</u>	<u>July 31, 2016</u>	<u>Amount of</u>	<u>Percent of</u>
	<u>Amount</u>	<u>Total</u>	<u>Amount</u>	<u>Increase</u>	<u>Increase</u>
				<u>(Decrease)</u>	<u>(Decrease)</u>
Expenditures:					
General governmental support	\$ 2,189,328	8.05%	\$ 2,273,023	\$ (83,695)	-3.68%
Public safety	10,858,074	39.95%	9,345,444	1,512,630	16.19%
Transportation	2,334,484	8.59%	5,800,001	(3,465,517)	-59.75%
Culture and recreation	455,333	1.68%	460,061	(4,728)	-1.03%
Home and community services	1,475,624	5.43%	1,966,094	(490,470)	-24.95%
Employee benefits	8,971,013	33.01%	8,356,189	614,824	7.36%
Debt service:					
Principal	680,000	2.50%	675,000	5,000	0.74%
Interest	216,147	0.80%	224,657	(8,510)	-3.79%
Total Expenditures	<u>\$ 27,180,003</u>	<u>100.00%</u>	<u>\$ 29,100,469</u>	<u>\$ (1,920,466)</u>	<u>-6.60%</u>

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

- Public safety expenses increased due to an increase in police overtime and retirement costs associated with fireman.
- Employee benefits increased due to an increase in the cost of health insurance and an increase in the amount of workers' compensation claims.

CITY OF LACKAWANNA, NEW YORK

**Management's Discussion and Analysis
July 31, 2017**

The table below summarizes the changes in fund balance of the City's governmental funds:

	<u>Governmental Funds</u>				
	<u>Major Funds</u>				
	<u>General</u>	<u>Refuse</u>	<u>Special Grant</u>	<u>Capital Projects</u>	<u>Total</u>
Fund Balance at July 31, 2015	\$ 8,372,844	\$ (26,475)	\$ 15	\$ 846,314	\$ 9,192,698
Revenues	24,181,432	1,134,467	2,294,684	735,987	28,346,570
Expenditures	(22,762,127)	(2,374,936)	(2,294,684)	(1,668,722)	(29,100,469)
Other Financing Sources (Uses)	<u>(1,299,005)</u>	<u>1,299,005</u>	<u>-</u>	<u>195,000</u>	<u>195,000</u>
Fund Balance at July 31, 2016	<u>8,493,144</u>	<u>32,061</u>	<u>15</u>	<u>108,579</u>	<u>8,633,799</u>
Revenues	25,351,511	1,697,371	-	52,741	27,101,623
Expenditures	(24,257,792)	(2,126,427)	-	(795,784)	(27,180,003)
Other Financing Sources (Uses)	<u>(576,967)</u>	<u>357,887</u>	<u>-</u>	<u>414,080</u>	<u>195,000</u>
Fund Balance at July 31, 2017	<u>\$ 9,009,896</u>	<u>\$ (39,108)</u>	<u>\$ 15</u>	<u>\$ (220,384)</u>	<u>\$ 8,750,419</u>

CITY OF LACKAWANNA, NEW YORK

**Management's Discussion and Analysis
July 31, 2017**

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an increase of \$851,777 in appropriations and can be briefly summarized as follows:

- \$71,510 was added to general government support.
- \$463,939 was added for public safety.
- \$104,647 was removed from transportation.
- \$12,295 was removed from culture and recreation.
- \$10,607 was removed from employee benefits.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental activities as of July 31, 2017, amounted to \$21,546,494 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, buildings, and equipment.

Capital assets, net of depreciation, are presented below:

Summary of City of Lackawanna's Capital Assets
(Net of Depreciation)

	<u>2017</u>	<u>2016</u>
Land	\$ 431,192	\$ 816,205
Transportation network	16,336,769	19,075,450
Machinery and equipment	2,367,530	2,720,711
Buildings and improvements	<u>2,411,003</u>	<u>2,517,719</u>
Total	<u>\$ 21,546,494</u>	<u>\$ 25,130,085</u>

CITY OF LACKAWANNA, NEW YORK

Management's Discussion and Analysis July 31, 2017

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONT.)

Long-term Debt

At July 31, 2017, the City had total long-term debt outstanding of \$6,005,000 as compared to \$6,490,000 in the prior year. The entire amount is comprised of serial bonds. The City retirement of bonded debt amounted to \$485,000. New York State statutes limit the amount of general obligation debt a governmental entity may issue to 7% of its five-year valuation. The current debt-limitation for the City is \$26,152,628 which is significantly in excess of the City's outstanding general obligation debt.

As of 2017, the City's general obligation debt rating from Moody's is A2.

Additional information on the City's long-term debt can be found in the Notes to the Financial Statements.

Request for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Office of the City Comptroller, 714 Ridge Road, Lackawanna, New York 14218.

BASIC FINANCIAL STATEMENTS

CITY OF LACKAWANNA, NEW YORK

Statement of Net Position
July 31, 2017

<u>ASSETS AND DEFERRED OUTFLOWS</u>	<u>Governmental Activities</u>
Assets:	
Cash	\$ 14,333,604
Receivables (net of allowances for estimated uncollectables):	
Taxes (net of \$87,664)	956,385
Accounts	392,415
State and Federal	117,040
Due from other governments	1,260,678
Prepaid expenditures	162,740
Property acquired for taxes	932,717
Capital Assets:	
Land	431,192
Other Capital Assets, net of depreciation	21,115,302
Total assets	<u>39,702,073</u>
Deferred Outflows of Resources	
Pensions	5,282,707
Other post employment benefits	5,054,034
Total deferred outflows	<u>10,336,741</u>
Total Assets and Deferred Outflows	<u><u>\$ 50,038,814</u></u>

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

CITY OF LACKAWANNA, NEW YORK

**Statement of Net Position
July 31, 2017**

<u>LIABILITIES, DEFERRED INFLOWS AND NET POSITION</u>	<u>Governmental Activities</u>
Liabilities:	
Current Liabilities:	
Accounts payable	\$ 648,281
Accrued liabilities	344,392
Due to other governments	86,953
Interest payable	69,193
Bonds payable	490,000
Bond anticipation notes payable	390,000
Pension obligations	1,093,535
Net pension liability - proportionate share	5,724,042
Long-term Liabilities:	
Bonds payable	5,515,000
Compensated absences	3,603,922
Worker's compensation liability	4,074,944
Accrued post-employment benefit obligation	64,497,978
Retirement system payable	814,421
Total liabilities	87,352,661
Deferred Inflows of Resources:	
Deferred revenues	4,671,341
Pensions	1,512,914
Other post employment benefits	3,542,123
Total deferred inflows of resources	9,726,378
Net Position:	
Net investment in capital assets	15,151,494
Restricted	1,323,839
Unrestricted	(63,515,558)
Total Net Position	(47,040,225)
Total Liabilities, Deferred Inflows and Net Position	\$ 50,038,814

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

CITY OF LACKAWANNA, NEW YORK

**Statement of Activities
For the Year Ended July 31, 2017**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Functions/Programs:					
Governmental Activities:					
General government	\$ (10,443,956)	\$ 86,086	\$ -	\$ -	\$ (10,357,870)
Public safety	(57,575,702)	113,279	623,731	-	(56,838,692)
Health	-	10,743	-	-	10,743
Transportation	(10,035,397)	-	-	52,741	(9,982,656)
Culture and recreation	(1,811,021)	27,599	78,132	-	(1,705,290)
Home and community services	(6,200,445)	1,697,098	-	-	(4,503,347)
Interest and fiscal charges	(214,887)	-	-	-	(214,887)
Total governmental activities	<u>\$ (86,281,408)</u>	<u>\$ 1,934,805</u>	<u>\$ 701,863</u>	<u>\$ 52,741</u>	<u>(83,591,999)</u>
General Revenues:					
Property taxes levied for general purposes					10,257,984
Real property tax items					496,540
Non-property tax items					6,066,933
Use of money and property					74,497
Fines and forfeitures					298,771
Sale of property and compensation for loss					702,688
Miscellaneous					160,589
State aid					<u>6,459,189</u>
Total general revenues					<u>24,517,191</u>
Change in Net Position					(59,074,808)
Total Net Position at Beginning of Year					<u>12,034,583</u>
Total Net Position at End of Year					<u>\$ (47,040,225)</u>

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

CITY OF LACKAWANNA, NEW YORK

**Reconciliation of Statement of Net Position
To Governmental Fund Balances**

July 31, 2017

	<u>Governmental Activities</u>
Total Governmental Fund Balances	\$ 8,750,419
 Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds	
Capital Assets	65,991,119
Accumulated Depreciation	(44,444,625)
Deferred Outflows of ERS Liability	1,015,609
Deferred Outflows of Police and Fire Liability	4,267,098
Deferred Outflows of Other Post Employment Benefits	5,054,034
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	2,170,658
Net accrued interest expense for bonds and notes are not reported in the funds	(69,193)
Accrued post-employment benefit obligation	(64,497,978)
Long-term liabilities, that are not due and payable in the current period and therefore not reported in the funds	
Bonds Payable	(6,005,000)
Self-Insurance Workers Compensation Liability	(4,074,944)
Compensated Absences	(3,603,922)
Retirement System Payable	(814,421)
Proportionate Share of ERS Liability	(1,251,176)
Proportionate Share of Police and Fire Liability	(4,472,866)
Deferred Inflows of ERS Liability	(262,824)
Deferred Inflows of Police and Fire Liability	(1,250,090)
Deferred Inflows of Other Post Employment Benefits	(3,542,123)
 Net Position of Governmental Activities	 \$ (47,040,225)

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

CITY OF LACKAWANNA, NEW YORK

GOVERNMENTAL FUNDS

**Balance Sheet
July 31, 2017**

	<u>Governmental Funds</u>				<u>Total Governmental Funds</u>
	<u>General</u>	<u>Refuse</u>	<u>Special Grant</u>	<u>Capital Projects</u>	
<u>ASSETS</u>					
Cash	\$ 13,986,906	\$ (211,000)	\$ 235	\$ 557,463	\$ 14,333,604
Receivables (net of allowances for estimated uncollectables):					
Taxes (net of \$87,664)	956,385	-	-	-	956,385
Accounts	145,791	157,921	-	-	303,712
State and Federal	117,040	-	-	-	117,040
Due from other funds	937,613	357,887	-	1,014,982	2,310,482
Prepaid expenditures	161,821	919	-	-	162,740
Due from other governments	1,237,446	-	23,232	-	1,260,678
Property acquired for taxes	932,717	-	-	-	932,717
Total Assets	<u>\$ 18,475,719</u>	<u>\$ 305,727</u>	<u>\$ 23,467</u>	<u>\$ 1,572,445</u>	<u>\$ 20,377,358</u>

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

CITY OF LACKAWANNA, NEW YORK

GOVERNMENTAL FUNDS

Balance Sheet

July 31, 2017

	<u>Governmental Funds</u>				<u>Total Governmental Funds</u>
	<u>General</u>	<u>Refuse</u>	<u>Special Grant</u>	<u>Capital Projects</u>	
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	\$ 207,552	\$ 43,918	\$ -	\$ 396,811	\$ 648,281
Accrued liabilities	297,347	47,045	-	-	344,392
Due to other funds	1,359,137	-	23,232	839,410	2,221,779
Due to other governments	86,733	-	220	-	86,953
Bond anticipation notes payable	-	-	-	390,000	390,000
Pension obligations	1,025,952	67,583	-	-	1,093,535
Total liabilities	<u>2,976,721</u>	<u>158,546</u>	<u>23,452</u>	<u>1,626,221</u>	<u>4,784,940</u>
Deferred Inflows of Resources:					
Deferred revenues	6,489,102	186,289	-	166,608	6,841,999
Total deferred inflows of resources	<u>6,489,102</u>	<u>186,289</u>	<u>-</u>	<u>166,608</u>	<u>6,841,999</u>
Fund Balances:					
Non-spendable	161,821	919	-	-	162,740
Restricted	1,062,660	152,600	-	108,579	1,323,839
Committed	-	-	-	-	-
Assigned	1,244,661	-	15	-	1,244,676
Unassigned	6,540,754	(192,627)	-	(328,963)	6,019,164
Total fund balances	<u>9,009,896</u>	<u>(39,108)</u>	<u>15</u>	<u>(220,384)</u>	<u>8,750,419</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 18,475,719</u>	<u>\$ 305,727</u>	<u>\$ 23,467</u>	<u>\$ 1,572,445</u>	<u>\$ 20,377,358</u>

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

CITY OF LACKAWANNA, NEW YORK

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
For the Year Ended July 31, 2017**

	<u>Governmental Activities</u>
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Net Changes in fund balances of governmental funds	\$ 116,620
Governmental funds reported capital outlays as expenditures. However, in the statement of activities, allocated over their estimated useful lives and reported as a long-term asset. This is the amount which depreciation exceeded capital outlays in the current period.	
Capital Assets	(325,394)
Accumulated Depreciation	(3,258,197)
Expenses in the statement of activities that do not provide current financial resources and are not reported as expenditures in the funds.	104,977
Changes in Self-Insured Workers' Compensation liability are not reflected in the governmental funds.	(960,062)
The repayment of principal of long-term debt consumes the current financial resources of governmental funds. However, in the statement of activities, it is reflected as a reduction of debt.	485,000
Net interest on bonds expensed on the statement of activities, but not governmental funds	1,260
Changes in compensated absences are not reflected in the governmental funds.	(43,007)
Retirement system liability	140,848
The net change in long-term retirement payable are recorded in the statement of activities but not in the statement for governmental funds	
Change in deferred outflows - ERS	(1,168,524)
Change in deferred outflows - PFRS	(2,853,828)
Change in Proportionate Share of ERS Liability	927,705
Change in Proportionate Share of PFRS Liability	1,982,579
Change in deferred inflows - ERS	81,278
Change in deferred inflows - PFRS	204,224
Accrued post-employment benefit obligation liability increases long-term liabilities in the statement of net position and related expenditures in the statement of activities, but not to governmental funds.	
Change in deferred outflows - Other Post Employment Benefits	5,054,034
Change in Total OPEB Liability	(56,022,198)
Change in deferred inflows - Other Post Employment Benefits	<u>(3,542,123)</u>
Change in Net Position of Governmental Activities	<u>\$ (59,074,808)</u>

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

CITY OF LACKAWANNA, NEW YORK

GOVERNMENTAL FUNDS

**Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended July 31, 2017**

	Governmental Funds				Total Governmental Funds
	General	Refuse	Special Grant	Capital Projects	
Revenues:					
Real property taxes	\$ 10,153,007	\$ -	\$ -	\$ -	\$ 10,153,007
Real property tax items	496,540	-	-	-	496,540
Non-property tax items	6,066,933	-	-	-	6,066,933
Departmental income	121,472	1,697,099	-	52,741	1,871,312
Use of money and property	74,306	191	-	-	74,497
Licenses and permits	40,337	-	-	-	40,337
Fines and forfeitures	298,771	-	-	-	298,771
Sale of property and compensation for loss	702,607	81	-	-	702,688
Miscellaneous	236,487	-	-	-	236,487
State aid	7,123,057	-	-	-	7,123,057
Federal aid	37,994	-	-	-	37,994
Total revenues	<u>\$ 25,351,511</u>	<u>\$ 1,697,371</u>	<u>\$ -</u>	<u>\$ 52,741</u>	<u>\$ 27,101,623</u>

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

CITY OF LACKAWANNA, NEW YORK

GOVERNMENTAL FUNDS

**Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended July 31, 2017**

	<u>Governmental Funds</u>				<u>Total Governmental Funds</u>
	<u>General</u>	<u>Refuse</u>	<u>Special Grant</u>	<u>Capital Projects</u>	
Expenditures:					
Current:					
General government support	\$ 2,189,328	\$ -	\$ -	\$ -	\$ 2,189,328
Public safety	10,375,647	-	-	482,427	10,858,074
Transportation	2,042,553	-	-	291,931	2,334,484
Culture and recreation	455,333	-	-	-	455,333
Home and community services	24,682	1,429,516	-	21,426	1,475,624
Employee benefits	8,274,102	696,911	-	-	8,971,013
Debt Service:					
Principal	680,000	-	-	-	680,000
Interest	216,147	-	-	-	216,147
Total expenditures	<u>24,257,792</u>	<u>2,126,427</u>	<u>-</u>	<u>795,784</u>	<u>27,180,003</u>
Excess (deficiency) of revenues over expenditures	<u>1,093,719</u>	<u>(429,056)</u>	<u>-</u>	<u>(743,043)</u>	<u>(78,380)</u>
Other Sources and (Uses):					
Transfers from other funds	21,010	357,887	-	240,090	618,987
Transfers to other funds	(597,977)	-	-	(21,010)	(618,987)
BAN's redeemed from appropriations	<u>-</u>	<u>-</u>	<u>-</u>	<u>195,000</u>	<u>195,000</u>
Total other sources and (uses)	<u>(576,967)</u>	<u>357,887</u>	<u>-</u>	<u>414,080</u>	<u>195,000</u>
Excess (Deficiency) of revenues and other sources over expenditures and other uses	516,752	(71,169)	-	(328,963)	116,620
Fund Balance at Beginning of Year	<u>8,493,144</u>	<u>32,061</u>	<u>15</u>	<u>108,579</u>	<u>8,633,799</u>
Fund Balance at End of Year	<u>\$ 9,009,896</u>	<u>\$ (39,108)</u>	<u>\$ 15</u>	<u>\$ (220,384)</u>	<u>\$ 8,750,419</u>

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

CITY OF LACKAWANNA, NEW YORK

GENERAL FUND

**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
(Non-GAAP Basis of Budgeting)**

For the Year Ended July 31, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Actual</u>	<u>Variance Final Budget Positive (Negative)</u>
Revenues:				
Real property taxes	\$ 10,328,392	\$ 10,328,392	\$ 10,153,007	\$ (175,385)
Real property tax items	446,644	446,644	496,540	49,896
Non-property tax items	5,766,000	5,766,000	6,066,933	300,933
Departmental income	107,500	107,500	121,472	13,972
Use of money and property	75,000	75,000	74,306	(694)
Licenses and permits	40,000	40,000	40,337	337
Fines and forfeitures	200,000	200,000	298,771	98,771
Sale of property and compensation for loss	185,000	254,542	702,607	448,065
Miscellaneous	15,000	57,500	236,487	178,987
State aid	6,933,341	6,929,689	7,123,057	193,368
Federal aid	-	14,418	37,994	23,576
Total revenues	<u>\$ 24,096,877</u>	<u>\$ 24,219,685</u>	<u>\$ 25,351,511</u>	<u>\$ 1,131,826</u>

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

CITY OF LACKAWANNA, NEW YORK

GENERAL FUND

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

For the Year Ended July 31, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Actual</u>	<u>Variance Final Budget Positive (Negative)</u>
Expenditures:				
Current:				
General government support	\$ 2,410,019	\$ 2,481,529	\$ 2,189,328	292,201
Public safety	10,555,663	11,019,602	10,375,647	643,955
Transportation	2,406,850	2,302,203	2,042,553	259,650
Culture and recreation	536,855	524,560	455,333	69,227
Home and community services	30,000	30,000	24,682	5,318
Employee benefits	8,717,200	8,706,593	8,274,102	432,491
Debt Service:				
Principal	680,000	680,000	680,000	-
Interest	216,240	216,240	216,147	93
Total expenditures	<u>25,552,827</u>	<u>25,960,727</u>	<u>24,257,792</u>	<u>1,702,935</u>
 Excess (Deficiency) of revenues over expenditures	 <u>(1,455,950)</u>	 <u>(1,741,042)</u>	 <u>1,093,719</u>	 <u>2,834,761</u>
 Other Sources and (Uses):				
Transfers to other funds	-	(443,877)	(597,977)	(154,100)
Transfers from other funds	-	-	21,010	21,010
 Excess (Deficiency) of revenues and other sources over expenditures and other uses	 <u>(1,455,950)</u>	 <u>(2,184,919)</u>	 <u>516,752</u>	 <u>2,701,671</u>
 Fund Balance at Beginning of Year	 <u>2,114,026</u>	 <u>(1,568,985)</u>	 <u>8,493,144</u>	 <u>10,062,128</u>
 Fund Balance at End of Year	 <u>\$ 658,076</u>	 <u>\$ (3,753,904)</u>	 <u>\$ 9,009,896</u>	 <u>\$ 12,763,799</u>

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

CITY OF LACKAWANNA, NEW YORK

FIDUCIARY FUNDS

Statement of Fiduciary Net Position

July 31, 2017

	<u>Agency Fund</u>
Assets:	
Cash and cash equivalents	\$ <u>100,613</u>
Total Assets	\$ <u><u>100,613</u></u>
Liabilities and Net Position:	
Liabilities:	
Section 125 Plan	11,253
Due to other funds	88,703
Due to other governments	<u>657</u>
Total liabilities	<u>100,613</u>
Net Position:	
Net position	<u>-</u>
Total Liabilities and Net Position	\$ <u><u>100,613</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

CITY OF LACKAWANNA, NEW YORK

Notes to the Financial Statements July 31, 2017

Note 1 - Summary of Significant Accounting Policies

The financial statements of the City of Lackawanna, New York (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Financial Reporting Entity - The City of Lackawanna, New York, which was incorporated in 1909, is governed by City Law and other general laws of the State of New York and various local laws and ordinances. The City Council is the legislative body responsible for overall operations of the City. The Mayor serves as Chief Executive Officer and the City Comptroller as the Chief Fiscal Officer of the City.

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

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

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

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

CITY OF LACKAWANNA, NEW YORK

Notes to the Financial Statements July 31, 2017

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

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

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

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

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

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

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

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

CITY OF LACKAWANNA, NEW YORK

**Notes to the Financial Statements
July 31, 2017**

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont.) - The City reports the following major governmental funds:

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

Special Grant Fund - Used to account for federal and state operating grants earmarked for specific programs, so the grantor accounting and reporting requirements can be satisfied.

Refuse Fund - Used to account for financial resources to be used for refuse collection services provided by the City.

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

Additionally, the City reports the following fiduciary fund type that is used to account for assets held by the City in a custodial capacity:

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

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

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

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. General revenues are those that cannot be associated directly with program activities.

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

CITY OF LACKAWANNA, NEW YORK

**Notes to the Financial Statements
July 31, 2017**

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

Property Tax Revenue Recognition - The City-wide property tax is levied by the City Council effective August 1 of the year the taxes are recognizable as revenue. Property tax is only recognized as revenue in the year for which the levy is made, and to the extent that such taxes are received within the reporting period or sixty days thereafter in the fund financial statements.

Delinquent property taxes not collected at year-end (excluding collections in the 60-day subsequent period) are recorded as deferred revenue in the fund financial statements. The portion of delinquent property taxes for all prior year's estimated to be uncollectible at July 31, 2017, amounted to \$87,664. This amount has been recorded as an allowance against the property taxes receivable account.

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

1. On the first day of April in each year, department heads are required to submit their tentative departmental budgets to the Mayor. The tentative departmental budgets include proposed expenditures and the proposed means of financing for all funds except the Capital Projects Fund. The Mayor then adjusts these tentative departmental budgets and formulates a proposed budget, which must be submitted to the City Council on or before May 10th.
2. Public hearings are conducted to obtain taxpayer comments.
3. The City Council has the power to delete, reduce or add items to the proposed budget, and they must adopt a budget on or before June 10th. The affirmative vote of three councilmen is necessary for the Council to adopt a budget.
4. The Mayor then has ten days to veto any provision within the Council's adopted budget that changes the Mayor's proposed budget, and the Council then has thirty days to override the Mayor's veto. Four affirmative votes of the Council are required to override Mayoral vetoes.

CITY OF LACKAWANNA, NEW YORK

**Notes to the Financial Statements
July 31, 2017**

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

Budgets and Budgetary Data (Cont.)

5. At any time within the last three months of the budget year: (a) the City Council may, by resolution, transfer any portion of an unencumbered appropriation balance from one department to another; and (b) the Director of the Department of Administration and Finance, with the approval of the Mayor, may transfer any portion of an unencumbered appropriation balance between the same general classifications of expenditures within any department.
6. Annual appropriated budgets are adopted and employed for control of the General Fund minimally detailed to the department and account level. This budget is adopted on a basis consistent with GAAP, except that encumbrances are reported as budgetary expenditures in the year of incurrence of commitment to purchase, as well as in the year of expenditure if the expenditure occurs in a fiscal year subsequent to the commitment in the General Fund. All unencumbered appropriations lapse at the end of the fiscal year. Budgetary comparisons presented in this report are on the budgetary basis, and represent the budget as modified. Annual appropriated budgets are not employed for the Grants Fund.
7. Capital Projects Funds are subject to project budgets determined primarily by the bonding authorizations used to fund a particular project rather than annual budgetary appropriations. These budgets do not lapse at year-end; rather, they lapse upon termination of the project.
8. At August 1, the amount of encumbrances carried forward from the prior year are reestablished as budgeted appropriations and expenditures.

Expenditures within the General Fund may not legally exceed the amount appropriated for such accounts or sub-accounts within an administrative unit. During the year, numerous supplementary appropriations were necessary.

Individual governmental fund comparisons of budgetary and actual data at the legal level of control established by the adopted budget (i.e., minimally the department and account level) are not presented in this report for the General Fund due to the excessive detail involved. However, a separate budgetary comparison report is available which contains this information.

CITY OF LACKAWANNA, NEW YORK

Notes to the Financial Statements
July 31, 2017

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

Encumbrances - Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed in all City funds. Outstanding encumbrances at year end, exclusive of grant-related commitments, are presented for GAAP reporting purposes as reservations of fund balances, and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Investments - The City had no investments outstanding at July 31, 2017.

Advances to Other Funds - In the fund financial statements, as at July 31, 2017, there are no non-current portions of inter-fund loans receivable.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. streets) are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost equal to or greater than \$25,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives.

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	20-40 years
Transportation Network	40 years
Machinery and Equipment	5-20 years

CITY OF LACKAWANNA, NEW YORK

Notes to the Financial Statements
July 31, 2017

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

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

Insurance - The City has insurance coverage as of August 1, 2017, for general, property, auto, inland marine, public officials, police professional and umbrella coverage. The general coverage has a limit per occurrence of \$1,000,000 and \$3,000,000 aggregate. The property coverage has a limit of \$21,990,807 subject to a \$50,000 deductible. The auto coverage has a limit of \$1,000,000. The inland marine coverage has a limit of \$1,152,113 subject to a \$1,000 deductible. The public officials' coverage has a limit of \$1,000,000 per occurrence and an aggregate of \$3,000,000. The police professional coverage has a limit per occurrence of \$1,000,000 and an aggregate of \$3,000,000 subject to a \$25,000 deductible. The umbrella coverage has a limit of \$5,000,000 subject to a \$10,000 deductible.

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

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

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

Compensated absences for governmental fund type employees are reported as a fund liability and expenditure in the government-wide financial statements. The compensated absences liability for the City at July 31, 2017, totaled \$3,603,922. Payment of compensated absences recorded in the government-wide financial statements is dependent on many factors; therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payment of compensated absences when such payments become due.

CITY OF LACKAWANNA, NEW YORK

Notes to the Financial Statements July 31, 2017

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

Postemployment Benefits- In addition to providing pension benefits, the City provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the City's employees may become eligible for these benefits if they reach normal retirement age while working for the City. Health care benefits and survivors benefits are provided through insurance companies whose premiums are based on the benefits paid during the year. These benefits terminate upon death of the retired employee. The City recognizes the cost of providing benefits by recording its share of insurance premiums as an expenditure in the year paid. During the 2016-2017 fiscal year, approximately \$1,763,876 was paid on behalf of 154 retirees and recorded as an expenditure in the General Fund.

Government-wide Statements - In the government-wide statements there are three classes of net position:

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.

Restricted Net Position - This category presents external restrictions imposed by creditors, grantors, contributors or laws or 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.

Governmental Funds Statements - In the governmental funds statements there are five classifications of fund balance:

Non-spendable - Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The city had non-spendable balance of \$162,740 at July 31, 2017.

Restricted - Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or law or regulations of other governments; or imposed by law through constitutional provisions on enabling legislation. The City has established the following restricted fund balances:

CITY OF LACKAWANNA, NEW YORK

Notes to the Financial Statements
July 31, 2017

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

Restricted (Cont.)

Reserved for Asset/Narcotics Forfeiture - representing resources from asset/narcotics forfeitures that must be used to pay costs associated with pursuing narcotics related crimes.

Reserved for Liability Insurance - representing resources that must be used for liability insurance payments that will be made in future periods.

Reserved for Workers' Compensation - representing resources that must be used for workers' compensation payments that will be made in future periods.

Reserved for Employee Benefits - representing resources that must be used for employee benefit payments that will be made in future periods.

Restricted fund balance includes the following:

General Fund:	
Narcotics Forfeiture	\$ 104,063
Asset Forfeiture - Treasury	80,037
Liability Insurance	200,000
Workers' Compensation	348,560
Employee Benefits	330,000
Total General Fund	<u>1,062,660</u>
Refuse Fund:	
Workers' Compensation	<u>152,600</u>
Total Refuse Fund	<u>152,600</u>
Capital Fund	
Fund Balance	<u>108,579</u>
Total Capital Fund	<u>108,579</u>
Total Restricted Funds	<u>\$ 1,323,839</u>

CITY OF LACKAWANNA, NEW YORK

Notes to the Financial Statements July 31, 2017

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

Equity Classifications (Cont.)

Committed - Includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision making authorities. The City has no committed fund balances as of July 31, 2017.

Assigned - Includes amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. All encumbrances of the General Fund are classified as Assigned fund balance in the General Fund. Assigned fund balance designation of subsequent years' expenditures of \$1,244,661 in the General Fund and \$15 in the Special Grant Fund.

Unassigned - Includes all other General Fund net position that do not meet the definition of the above four classifications and are deemed to be available for general use by the City.

Order of Use of Fund Balance - The City's policy is to apply expenditures against non-spendable 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, non-spendable fund balances are determined first and then restricted fund balance. In the General Fund, committed fund balance is determined next and then assigned. The remaining amounts are reported as unassigned. Assignments of fund balance cannot cause a negative unassigned fund balance.

New Accounting Standard - The City has adopted all current Statements of Government Accounting Standards Board (GASB) that are applicable. The City has adopted and implemented the following current statements of the Government Accounting Standards Board (GASB) that are applicable as of July 31, 2017:

GASB Statement no. 75, *Accounting and Financial
Reporting for Postemployment Benefits Other than Pensions*

Effective for the year
ending July 31, 2018

Subsequent Events - The City has evaluated events and transactions for potential recognition or disclosure in the financial statements through December 1, 2017 (the date the financial statements were available to be issued).

Note 2 - Reporting on Budgetary Basis

The City reports its budgetary status with the actual data including encumbrances as charges against budget appropriations. In addition, budgetary comparison information is not presented for certain Special Revenue Funds because they are not considered part of the City's annual budgetary plan. Accordingly, the budgetary status does not include the activity of the Special Grant Fund. The Special Grant Fund had no encumbrances at the beginning or at the end of the year.

CITY OF LACKAWANNA, NEW YORK

**Notes to the Financial Statements
July 31, 2017**

Note 2 - Reporting on Budgetary Basis (Cont.)

Budgetary control of the General Fund is minimally exercised at the department and account level. There were no excesses of expenditures/expenses over appropriations at the established control level.

Note 3 - Cash and Investments

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

Collateral is required for demand deposits and certificates of deposit in an amount equal to at least 105% of the amount of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the state and its municipalities and school districts.

The detail of cash at July 31, 2017, consists of:

Petty Cash	\$	1,000
Deposits:		
Checking and Savings Accounts		<u>14,433,217</u>
Total	\$	<u>14,434,217</u>

CITY OF LACKAWANNA, NEW YORK

**Notes to the Financial Statements
July 31, 2017**

Note 3 - Cash and Investments (Cont.)

Deposits - Deposits at July 31, 2017, were entirely covered by federal depository insurance or by collateral held by the City's custodial bank in the City's name.

All deposits are carried at cost and consist of:

<u>Fund</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>	
Primary Government:			
General Fund	\$ 14,366,872	\$ 13,986,906	Insured (FDIC), collateral held by City's Custodial Bank
Refuse Fund	65,534	(211,000)	Insured (FDIC), collateral held by City's Custodial Bank
Special Grant Fund	235	235	Insured (FDIC), collateral held by City's Custodial Bank
Capital Projects Fund	<u>609,800</u>	<u>557,463</u>	Insured (FDIC), collateral held by City's Custodial Bank
	<u>15,042,441</u>	<u>14,333,604</u>	
Fiduciary Fund:			
Agency Fund	<u>99,992</u>	<u>100,613</u>	Insured (FDIC), collateral held by City's Custodial Bank
Total	<u>\$ 15,142,433</u>	<u>\$ 14,434,217</u>	

Negative Cash Balance – Cash balances in the Refuse Fund were negative due to timing differences caused by transfers outstanding at the end of the year.

CITY OF LACKAWANNA, NEW YORK

**Notes to the Financial Statements
July 31, 2017**

Note 4 - Property Taxes

The City-wide property tax is levied by the City Council effective August 1st of the year the taxes are recognizable as revenue. Taxes are payable in two installments, on August 31st and January 31st. The first installment is equal to one-half of the current year levy. The second installment is equal to the difference between the tax levied and assessed for the current year and the amount of the first installment.

At July 31, 2017, the total real property tax receivables of \$1,044,049 are offset by an allowance for uncollectible taxes of \$87,664 in the fund financial statements.

The City is responsible for School District taxes after reaching two years delinquency.

State law limits the amount of taxes that the City may levy. For the City's fiscal year ending July 31, 2017, the City had a constitutional tax margin of \$440,308.

Note 5 - Receivables - State and Federal

State and federal receivables accrued by the City at July 31, 2017, include the following:

General Fund:

State Aid - Game Changers	\$	12,471
State Aid - School Lunch Program		12,420
State Aid - Court Security		<u>92,149</u>
Total General Fund	\$	<u><u>117,040</u></u>

CITY OF LACKAWANNA, NEW YORK

**Notes to the Financial Statements
July 31, 2017**

Note 6 - Due from Other Governments

Other government receivables accrued by the City at July 31, 2017, include the following:

General Fund:

County of Erie - Sales Tax	\$ 1,237,446
Total General Fund	<u><u>\$ 1,237,446</u></u>

Special Grant Fund:

DASNY - State & Municipal Facilities Program	\$ 13,732
NYSERDA - Lackawanna Compensation Plan	9,500
Total Special Grant Fund	<u><u>\$ 23,232</u></u>

CITY OF LACKAWANNA, NEW YORK

**Notes to the Financial Statements
July 31, 2017**

Note 7 - Capital Assets

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

<u>Type</u>	<u>Balance at 7/31/2016</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at 7/31/2017</u>
Capital Assets Not Being Depreciated:				
Land	\$ 816,205	\$ -	\$ (385,013)	\$ 431,192
Capital Assets Being Depreciated:				
Buildings and Improvements	\$ 13,921,958	\$ -	\$ -	\$ 13,921,958
Machinery and Equipment	8,710,822	156,857	(97,238)	8,770,441
Transportation Network	42,867,528	-	-	42,867,528
Total Capital Assets Being Depreciated	<u>65,500,308</u>	<u>156,857</u>	<u>(97,238)</u>	<u>65,559,927</u>
Less: Accumulated Depreciation for:				
Buildings and Improvements	11,404,239	106,716	-	11,510,955
Machinery and Equipment	5,990,112	452,410	(39,611)	6,402,911
Transportation Network	23,792,077	2,738,682	-	26,530,759
Total Accumulated Depreciation	<u>41,186,428</u>	<u>3,297,808</u>	<u>(39,611)</u>	<u>44,444,625</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 24,313,880</u>	<u>\$ (3,140,951)</u>	<u>\$ (57,627)</u>	<u>\$ 21,115,302</u>

Note 8 - Retirement Plans

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

CITY OF LACKAWANNA, NEW YORK

Notes to the Financial Statements
July 31, 2017

Note 8 - Retirement Plans (Cont.)

Funding Policy - The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary. Employees in the tier 3 and tier 4 System more than ten years are no longer required to contribute and those in the tier 5 and tier 6 are required to contribute the entire life of service. Under the authority of the NYSRSSL, the New York State Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

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

	<u>ERS</u>	<u>PFRS</u>
2017	\$ 551,111	\$ 1,703,226
2016	691,383	1,369,841
2015	333,545	1,500,642

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

Pension Liabilities, Pension Expenses and Deferred Outflows of resources and deferred Inflows of Resourced Related to Pensions

At July 31, 2017, the City of Lackawanna reported a liability of \$5,724,042 for its proportionate share of the pension liability. 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 City of Lackawanna's proportion of the net pension liability was based on a projection of the City of Lackawanna's long-term share of contributions to the pension plan relative to the projected contribution of all participating members, actuarially determined.

At July 31, 2017, the City of Lackawanna's proportion was .23 percent, which was a decrease of .001 percent from its proportion measured March 31, 2016.

CITY OF LACKAWANNA, NEW YORK

**Notes to the Financial Statements
July 31, 2017**

Note 8 - Retirement Plans (Cont.)

For the year ended July 31, 2017, the City of Lackawanna recognized pension expense of \$3,307,295. At July 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following resources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 618,116	\$ 962,810
Changes of assumptions	2,631,041	-
Net difference between projected and actual earnings on pension plan investments	917,927	-
Changes in proportion and differences between City contributions and proportionate share of contributions	256,837	550,104
City's contributions subsequent to the measurement date	<u>858,786</u>	<u>-</u>
	<u>\$ 5,282,707</u>	<u>\$ 1,512,914</u>

CITY OF LACKAWANNA, NEW YORK

**Notes to the Financial Statements
July 31, 2017**

Note 8 - Retirement Plans (Cont.)

Deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended July 31, 2017. Other amounts reported as deferred outflows of resources or deferred inflows of resources that relate to pensions will be recognized in pension expense as follows:

Year Ended July 31,	
2018	\$ 1,083,362
2019	1,083,362
2020	968,879
2021	(314,490)
2022	89,833
Thereafter	-

Actuarial Assumptions

The total pension liability at March 31, 2017 was determined by using an actuarial valuation as of April 1, 2016, with updated procedures used to roll forward the total pension liability to March 31, 2017. The actuarial valuation used the following actuarial assumptions:

Significant actuarial assumptions used in the April 1, 2016 valuation were as follows:

Interest Rate	7.0%
ERS	4.9%
PFRS	6.0%
Decrement Tables	April 1, 2005 - March 31, 2010 system's experience
Inflation Rate	2.0%

CITY OF LACKAWANNA, NEW YORK

**Notes to the Financial Statements
July 31, 2017**

Note 8 - Retirement Plans (Cont.)

Annuitant mortality rates are based on April 1, 2005- March 31, 2011 System's experience with adjustments for mortality improvement based on 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, 2005-March 31, 2010

The long term expected rate of return on pension plan investments was determined using a building block method which is best estimates ranges of best estimate future real rates of return (expected returns nets of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2017 are summarized below:

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

Discount Rate

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

CITY OF LACKAWANNA, NEW YORK

**Notes to the Financial Statements
July 31, 2017**

Note 8 - Retirement Plans (Cont.)

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

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

	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
City's proportionate share of the net pension liability	<u>\$ 16,676,324</u>	<u>\$ 5,724,042</u>	<u>\$ (3,480,749)</u>

Pension Plan Fiduciary Net Position

The components of the current-year net position liability of the employers as of March 31, 2017, were as follows:

	(Dollars in thousands)		
	<u>Employees' Retirement System</u>	<u>Police and Fire Retirement System</u>	<u>Total</u>
Employers' total pension liability	\$ 1,251,176	\$ 4,472,866	\$ 5,724,042
Plan net position	-	-	-
Employers net pension liability	<u>\$ 1,251,176</u>	<u>\$ 4,472,866</u>	<u>\$ 5,724,042</u>
Ration of plan net position to the employers' total pension liability	100%	100%	100%

CITY OF LACKAWANNA, NEW YORK

**Notes to the Financial Statements
July 31, 2017**

Note 9 - Short-term Debt

The City may issue Revenue Anticipation Notes and Tax Anticipation Notes, in anticipation of the receipt of revenues. These notes are recorded as a liability of the fund that will actually receive the proceeds from the issuance of the notes. The RAN's and TAN's represent a liability that will be extinguished by the use of expendable, available resources of the fund. The City had no outstanding RAN's or TAN's at July 31, 2017.

Liabilities for bond anticipation notes (BAN's) are generally accounted for in the Capital Projects Funds. Principal payments on BAN's must be made annually. The following is a summary of BAN transactions of the City for the year ended July 31, 2017:

<u>Description</u>	<u>Interest Rate</u>	<u>Balance 7/31/2016</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance 7/31/2017</u>
Equipment and Building Demolition	1.50%	585,000	-	195,000	390,000
		<u>\$ 585,000</u>	<u>\$ -</u>	<u>\$ 195,000</u>	<u>\$ 390,000</u>

State law generally requires that BAN's issued for capital purposes be converted to long-term obligations within five years after the original issue date. However, BAN's issued for assessable improvement projects may be renewed for periods equivalent to the maximum life of the permanent financing, provided that stipulated reductions of principal are made on an annual basis.

CITY OF LACKAWANNA, NEW YORK

**Notes to the Financial Statements
July 31, 2017**

Note 10 - Long-term Debt

Bonded Indebtedness - The following is a summary of serial bond transactions of the City for the year ended July 31, 2017:

<u>Description</u>	<u>Original Issue Date</u>	<u>Final Maturity Date</u>	<u>Interest Rate</u>	<u>Balance 7/31/2016</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance 7/31/2017</u>
Public Improvements	7/14/2011	11/1/2027	4.00%	\$ 3,915,000	\$ -	\$ 270,000	\$ 3,645,000
Capital Improvements	8/28/2013	3/1/2028	3.00%	2,575,000	-	215,000	2,360,000
				<u>\$ 6,490,000</u>	<u>\$ -</u>	<u>\$ 485,000</u>	<u>\$ 6,005,000</u>

Other Long-term Obligations - The value of compensated absences recorded in the government-wide financial statements at July 31, 2017, for governmental activities is \$3,603,922.

The value of the self-insured workers' compensation liability in the government-wide financial statements at July 31, 2017, for governmental activities is \$4,074,944. The City uses a service agent to administer the self-insured workers' compensation program.

The City contributes to the New York State Employee Retirement System (ERS) and Police and Fire Retirement System (PFRS). The Retirement System Liability is the result of the Contribution Stabilization Program. The value of the Retirement System Liability for governmental activities is \$814,421.

CITY OF LACKAWANNA, NEW YORK

**Notes to the Financial Statements
July 31, 2017**

Note 10 - Long-term Debt (Cont.)

Summary Long-term Debt - The following is a summary of long-term liabilities outstanding at July 31, 2017:

	Balance at 7/31/2016	Additions	Deletions	Balance at 7/31/2017
Serial Bonds	\$ 6,490,000	\$ -	\$ (485,000)	\$ 6,005,000
Self-Insured Workers' Compensation Liability	3,114,882	960,062	-	4,074,944
Compensated Absences	3,560,915	43,007	-	3,603,922
Total OPEB Liability	8,475,780	56,022,198	-	64,497,978
Retirement System Liability	955,269	-	(140,848)	814,421
	\$ 22,596,846	\$ 57,025,267	\$ (625,848)	\$ 78,996,265

Additions and deletions to compensated absences, self-insured workers' compensation liability, retirement system liability, and total OPEB liability are shown net since it is impracticable to determine these amounts separately.

The large increase in the Total OPEB Liability was due to the implementation of GASB statement no. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This statement replaces GASB statement no. 45.

CITY OF LACKAWANNA, NEW YORK

**Notes to the Financial Statements
July 31, 2017**

Note 10 - Long-term Debt (Cont.)

Maturity Schedule - The following schedule sets forth the debt service requirements of serial bonds at July 31, 2017:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	490,000	197,106	687,106
2019	495,000	184,113	679,113
2020	505,000	169,863	674,863
2021	520,000	155,181	675,181
2022	530,000	138,853	668,853
2023-2027	2,850,000	413,778	3,263,778
2028	615,000	16,500	631,500
Total	<u>\$ 6,005,000</u>	<u>\$ 1,275,394</u>	<u>\$ 7,280,394</u>

Payments of compensated absences, self-insured workers' compensation liabilities and accrued postemployment benefit obligations are dependent upon many factors; therefore, timing of future payments are not readily determinable.

Note 11 - Interfund Receivables, Payables and Transfers

Inter-fund receivables, payables and transfers at July 31, 2017, were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Interfund Transfers In</u>	<u>Interfund Transfers Out</u>
General Fund	\$ 937,613	\$ (1,359,137)	\$ (21,010)	\$ 597,977
Special Grant	-	(23,232)	-	-
Refuse Fund	357,887	-	(357,887)	-
Capital Fund	1,014,982	(839,410)	(240,090)	21,010
Trust Fund	-	(88,703)	-	-
Total	<u>\$ 2,310,482</u>	<u>\$ (2,310,482)</u>	<u>\$ (618,987)</u>	<u>\$ 618,987</u>

CITY OF LACKAWANNA, NEW YORK

Notes to the Financial Statements July 31, 2017

Note 12 - Labor Relations

City employees are represented by four bargaining units with the balance governed by City Council rules and regulations. As of July 31, 2017, DPW, Police, and Clerical contracts through 2016 and 2017 were negotiated and approved in 2016. The Fire unit was negotiated and approved on November 6, 2014 for the dates of September 1, 2009 through July 31, 2017. The City is currently in the process of negotiating all labor contracts.

Note 13 - Contingencies

The City is named as a defendant in various lawsuits and claims. At July 31, 2017, those matters either cannot be estimated due to early stages of the filing or are immaterial for disclosure purposes. The City currently has general liability insurance coverage with a \$50,000 self-insured retention thereby limiting the City's exposure for liability.

In the normal course of operations, the City receives grant funds from various Federal and State agencies. These grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed expenditures resulting from such audits could become a liability of the governmental funds. While the amount of any expenditures which may be disallowed cannot be determined at this time, management expects any amounts to be immaterial.

Note 14 - Other Postemployment Benefits / Implementation of GASB Statement 75

General Information about the OPEB Plan

Plan Description – The City's defined benefit OPEB plan provides OPEB for all permanent full-time general and public safety employees of the City. The plan is a single-employer defined benefit OPEB plan administered by the City. Article 11 of the State Compiled Statutes grants the authority to establish and amend the benefit terms and financing requirements to the City Council. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided – The City provides healthcare benefits for retirees and their dependents. The benefit terms are dependent on which contract each employee falls under. The specifics of each contract are on file at the districts offices and are available upon request.

CITY OF LACKAWANNA, NEW YORK

**Notes to the Financial Statements
July 31, 2017**

Note 14 - Other Postemployment Benefits / Implementation of GASB Statement 75 (Cont.)

Employee Covered by Benefit Terms – At July 31, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments:	256
Inactive employees entitled to but not yet receiving benefit payments:	-
Active employees:	156
	<u>412</u>

Total OPEB Liability

The City’s total OPEB liability of \$64,497,978 was measured as of July 31, 2017, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs – The total OPEB liability in the July 31, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate:	3.72 percent
Initial Healthcare Cost Trend Rate:	5.30 percent
Ultimate Healthcare Cost Trend Rate:	4.17 percent

The discount rate was based on a blending of the investment rate of return and the long-term bond rate using expected plan benefit payments.

Mortality rates were based on the Mortality Improvement Scale MP-2016, as appropriate, with adjustments for mortality improvements based on Scale AA.

CITY OF LACKAWANNA, NEW YORK

**Notes to the Financial Statements
July 31, 2017**

Note 14 - Other Postemployment Benefits / Implementation of GASB Statement 75 (Cont.)

Changes in the Total OPEB Liability

Balance at July 31, 2016	<u>\$ 61,375,257</u>
<u>Changes for the Year -</u>	
Service Cost	1,337,129
Interest	2,007,626
Changes of benefit terms	-
Difference between expected and actual experience	5,526,374
Changes in assumptions or other inputs	(3,873,162)
Benefit payments	<u>(1,875,246)</u>
Net Changes	<u>3,122,721</u>
Balance at July 31, 2017	<u><u>\$ 64,497,978</u></u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.30 percent in 2016 to 3.72 percent in 2017.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would have be if it were calculated using a discount rate that is 1 percentage point lower (2.72 percent) or 1 percentage point higher (4.72 percent) than the current discount rate:

	<u>1% Decrease</u> <u>(2.72%)</u>	<u>Discount Rate</u> <u>(3.72%)</u>	<u>1% Increase</u> <u>(4.72%)</u>
Total OPEB Liability	<u>\$ 75,826,270</u>	<u>\$ 64,497,978</u>	<u>\$ 55,490,566</u>

CITY OF LACKAWANNA, NEW YORK

**Notes to the Financial Statements
July 31, 2017**

Note 14 - Other Postemployment Benefits / Implementation of GASB Statement 75 (Cont.)

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower (4.30 percent) or 1 percentage point higher (6.30 percent) than the current healthcare cost trend rate:

	1% Decrease (4.30% Decreasing to 3.17%)	Healthcare Cost Trend Rates (5.30% Decreasing to 4.70%)	1% Increase (6.30% Decreasing to 5.17%)
Total OPEB Liability	<u>\$ 52,979,880</u>	<u>\$ 64,497,978</u>	<u>\$ 80,008,802</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended July 31, 2017, the City recognized negative OPEB expense of \$3,486,056. At July 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,054,034	\$ -
Changes of assumptions or other inputs	<u>-</u>	<u>3,542,123</u>
Total	<u>\$ 5,054,034</u>	<u>\$ 3,542,123</u>

CITY OF LACKAWANNA, NEW YORK

Notes to the Financial Statements
July 31, 2017

Note 14 - Other Postemployment Benefits / Implementation of GASB Statement 75 (Cont.)

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

Fiscal Year	
<u>Ending July 31, 2017</u>	<u>Amount</u>
2018	\$ 141,301
2019	141,301
2020	141,301
2021	141,301
2022	141,301
Thereafter	<u>805,406</u>
	<u>\$ 1,511,911</u>

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LACKAWANNA, NEW YORK

**Schedule of the City's Proportionate Share
of the Net Pension Liability**

**NYSLRS Pension Plan
July 31, 2017**

	<u>ERS 2017</u>	<u>PFRS 2017</u>	<u>ERS 2016</u>	<u>PFRS 2016</u>	<u>ERS 2015</u>	<u>PFRS 2015</u>
City's proportion of the net pension liability (asset)	0.0133%	0.2158%	0.0136%	0.2180%	0.0155%	0.2657%
City's proportionate share of the net pension liability (asset)	1,251,176	4,472,866	2,178,881	6,455,445	522,032	731,387
City's covered - employee payroll	9,309,615	9,309,615	11,681,862	11,681,862	11,681,862	11,681,862
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	13.44%	48.05%	18.65%	55.26%	4.47%	6.26%

See Independent Auditor's Report.

CITY OF LACKAWANNA, NEW YORK

Schedule of City's Contributions

NYSLRS Pension Plan

July 31, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	2,254,337	3,128,638	2,644,452
Contributions in relation to the contractually required contribution	2,254,337	3,128,638	2,644,452
Contribution deficiency (excess)	-	-	-
City's covered-employee payroll	9,309,615	11,681,862	11,681,862
Contributions as a percentage of covered-employee payroll	24.22%	26.78%	22.64%

See Independent Auditor's Report.

CITY OF LACKAWANNA, NEW YORK

**Schedule of the City's Changes in
the Total OPEB Liability**

July 31, 2017

	<u>2017</u>
Service Cost	\$ 1,337,129
Interest	2,007,626
Changes of benefit terms	-
Differences between expected and actual experience	5,526,374
Changes in assumptions or other inputs	(3,873,162)
Expected benefit payments	<u>(1,875,246)</u>
Net Changes in total OPEB liability	3,122,721
Total OPEB liability - beginning	<u>61,375,257</u>
Total OPEB liability - ending	<u><u>\$ 64,497,978</u></u>
Covered employee payroll	\$ 9,309,615
Total OPEB liability as a percentage of covered employee payroll	692.81%

See Independent Auditor's Report.

**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 & Members of City Council
City of Lackawanna, New York

We have audited the financial statements of the City of Lackawanna, New York as of and for the year ended July 31, 2017 and have issued our report thereon dated December 1, 2017. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Lackawanna's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lackawanna's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lackawanna's internal control over financial reporting.

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**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* (CONT.)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lackawanna's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies or pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Amato, Fox & Company PC

Tonawanda, NY
December 1, 2017