

CITY OF NIAGARA FALLS, NEW YORK

**Financial Statements as of
December 31, 2012
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

CITY OF NIAGARA FALLS, NEW YORK

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CITY OF NIAGARA FALLS, NEW YORK

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SECTION A

**CITY OF NIAGARA FALLS, NEW YORK
BASIC FINANCIAL STATEMENTS**

INDEPENDENT AUDITOR'S REPORT

June 28, 2013

To the Honorable Members of City Council of:
City of Niagara Falls, New York:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Niagara Falls, New York (the City), as of and for the year ended December 31, 2012, 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 did not audit the financial statements of the Niagara Falls Public Library, which represents approximately 2%, 2% and 98%, respectively, of the assets, net position, and revenues of the component units. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Niagara Falls Public Library, is based solely on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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INDEPENDENT AUDITOR'S REPORT

(Continued)

Opinions

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis and budgetary comparison information on pages 4-12 and 54 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements, and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the schedule of state transportation assistance expended, as required by Draft Part 43 of the New York Code of Rules and Regulations, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements, schedule of expenditures of federal awards and the schedule of state transportation assistance expended are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us. In our opinion, based on our audit and the procedures performed as described above, the combining nonmajor fund financial statements, schedule of expenditures of federal awards and the schedule of state transportation assistance expended are fairly stated in all material respects in relation to the basic financial statements as a whole.

(Continued)

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Bonadio & Co., LLP

CITY OF NIAGARA FALLS, NEW YORK

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012 (UNAUDITED)

INTRODUCTION

It is a privilege to present the financial picture of The City of Niagara Falls, New York (the City). This discussion and analysis includes an overall review of the City's financial activities for the year ended December 31, 2012. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the City's financial position and results of activities.

Management's Discussion and Analysis (MD&A) is an element of required supplementary information specified in the Governmental Accounting Standard Board (GASB) Statement No. 34 - Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments.

FINANCIAL HIGHLIGHTS

Overall, net position increased by \$573,555 (or 1%).

The City does not generally experience huge swings in revenues and expenses. Due to this, the City can maintain a healthy, but not excessive balance in unrestricted net position, allowing for available funds to deal with unexpected problems, pay for routine capital equipment acquisitions, and to help keep tax rates stable.

- The City has not been paid for its Local Share of the slot revenues from the Seneca Niagara Gaming Corporation for the years 2009, 2010, 2011 and 2012. As a result of not receiving these revenues owed to the City, the City was forced to use their unassigned fund balance to cover the loss of revenues included in their General Fund Budget, eliminating the balance from 2010.
- The City's cash flow has been significantly impacted as a result of appropriating a portion of its slot revenues in its 2010, 2011 and 2012 Budgets. A total for the three years of approximately \$17,307,583. The breakdown of the \$17,307,583 budgeted from the City's Local Share of the slot revenue is as follows: \$2,985,667 for loss of City property taxes from the Seneca Niagara Casino, \$772,550 for additional costs in public safety in and around the Seneca Niagara Casino, \$1,035,624 in personnel costs associated with staffing an Economic Development Department, \$904,925 for non-homestead property tax relief as part of the City's overall economic development, \$10,388,317 relating to increase in debt service principal and interest costs from 2005 to 2012 and fund balance appropriated for \$1,220,500 for roads.
- The City is anticipating settlement between the Seneca Niagara Gaming Corporation and New York State by mid-year 2013.
- During the 2010, 2011 and 2012 Budgets, the City was anticipating payment from the Seneca Niagara Casino at any time. This did not happen and as a result put a significant strain on the city's liquidity position.
- Moody's Rating Agency downgraded the City's bond rating from an A2 to a Baa3 with a "negative outlook." Reasoning for this downgrade was largely a result of the city's highly stressed liquidity position that the City currently faces given the continued delay in the remittance of casino revenues from the Seneca Gaming Corporation.

FINANCIAL HIGHLIGHTS (Continued)

- Fitch Rating Agency downgraded the City's bond rating from A to BBB with a "negative watch" pending more information regarding the payment of Casino revenues from the Seneca Niagara Gaming Corporation.
- Standard and Poor's Rating Agency placed the City's bond rating from a BBB+ "stable outlook" to a BBB+ "Credit Watch" with negative implications pending more information regarding the payment of Casino revenues from the Seneca Niagara Gaming Corporation.
- The NYS Comptroller's Office conducted an extensive financial review of fiscal years 2011, 2012 and the 2013 Budget. The Comptroller's report was issued in June 2013.
- The City implemented a "spending freeze" in 2012, as an budget strategy to help recoup some of the Casino revenues that were budgeted but not received in the 2012 Budget.
- In 2012, a major economic development project was completed by the City. The project was a Culinary school. The school is operated by Niagara County Community College. The City financially assisted in the project using part of its local share of Casino funds in the amount of \$2.5 million dollars.

OVERVIEW OF THE FINANCIAL STATEMENTS

Using this Annual Report

This annual report consists of a series of financial statements and the notes to those statements. The financial statements are organized so that the reader can understand the City as a financial whole.

Two statements portray information about the City as an entire operating entity with a broad overview of finances similar to a private sector business. The focus of these statements is a long-term view. Fund financial statements provide the next level of detail. These statements provide a detailed look at the most significant governmental activities at the fund level. The fund statements show how services were financed in the short term as well as what remains for future spending. The remaining statement provides financial information about activities for which the City acts solely as an agent for the benefit of those outside the government.

Reporting on the City as a Whole (City-wide)

There are two statements that present an aggregate view of the City: the Statement of Net Position and the Statement of Activities. Both of these City-wide financial statements distinguish functions of the City defined as governmental activities. These are activities principally supported by property taxes, sales tax, capital grants and contributions, and other intergovernmental revenues such as state and federal grants, along with charges for services and sales. These statements also include the City's three component units, which are shown in a separate column and described in detail in the notes to the financial statements. Although legally separate, these component units are important because the City is financially accountable for them. N.F.C. Development Corporation and the Niagara Falls Public Library each issue separate, stand-alone financial statements. Bellevue Local Development Corporation does not issue separate financial statements.

Statement of Net Position - presents information on all of the City's assets and liabilities using the accrual basis of accounting, with the difference reported as net position. The most important aspect of accrual accounting is that all of the year's revenues and expenses are reported regardless of when cash is received or paid. Increases or decreases in net position serve as a useful indicator of whether the financial position is improving or deteriorating.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Reporting on the City as a Whole (City-wide) (Continued)

Statement of Activities - presents information showing how net position changed during the 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 the cash flows. Thus, there may be revenues and expenses reported in this statement for items that will result in cash flows in future fiscal periods.

Reporting on the City's Most Significant Funds (Fund Level)

Governmental Funds

The governmental funds financial statements provide detail at the fund level, which is in contrast to the previously described City-wide reporting. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. The City uses fund accounting in its financial records to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds are used to account for most of the same functions reported as governmental activities in the City-wide financial statements. However, the governmental funds financial statements focus on how money flows in and out of the funds and the balances remaining at the end of the fiscal year available for future spending. The funds are reported using the modified accrual basis of accounting that measures cash and all other financial assets that can be readily converted to cash. Therefore, these statements provide a detailed short-term view of City operations and the services it can provide.

There are relationship differences between the governmental funds and governmental activities reported in the Statement of Net Position and the Statement of Activities. These differences are the result of two distinct bases of accounting (accrual versus modified-accrual) and have been reconciled within the financial statements.

The City's financial statements provide detailed information about the funds. Under the GASB definition of major versus nonmajor funds, the City's major funds have been presented separately with the other funds grouped together as nonmajor and presented in total in one column.

Proprietary Funds

The City maintains one type of proprietary fund, which is an internal service fund. Internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its postage, stationary, telephone, and central garage services. Because these services benefit solely the governmental functions, they have been included within the governmental activities in the government-wide financial statements. All of the City's internal service funds are combined into a single presentation in the proprietary fund financial statements. Individual data for the internal service funds is provided in the form of combining statements elsewhere in the financial statements.

Fiduciary Funds

The City is an agent, or fiduciary, for assets that belong to others, such as performance deposits and payroll and other third party withholdings. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. These activities have been excluded from the City's other financial statements because the assets cannot be used to finance City operations.

Notes to Financial Statements

The notes to the financial statements follow the City-wide and fund financial statements in the report. They complement the financial statements by describing pertinent details as of year-end and other changes that occurred during the fiscal year. The notes are essential to a full understanding of the financial information provided in the statements.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Required Supplementary Information

This information further explains and supports the financial statements and includes budgetary comparisons of the general fund and other major operating funds.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Statements of Net Position

	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 117,966,837	\$ 118,379,268
Capital assets	<u>109,401,986</u>	<u>102,073,243</u>
Total assets	<u>227,368,823</u>	<u>220,452,511</u>
Long-term liabilities	137,278,037	131,412,212
Other liabilities	<u>36,038,787</u>	<u>35,561,855</u>
Total liabilities	<u>173,316,824</u>	<u>166,974,067</u>
Net position:		
Net investment in capital assets	39,129,125	28,243,601
Restricted	3,607,933	4,218,821
Unrestricted	<u>11,314,941</u>	<u>21,016,022</u>
Total net position	<u>\$ 54,051,999</u>	<u>\$ 53,478,444</u>

The largest portion of the City's total assets (48% at 2012 and 46% at 2011) represents its net investment in capital assets (land, buildings, improvements, machinery and equipment). Liabilities consist primarily of long-term debt. The City uses these capital assets to provide services and, as such, these assets are not available for future use. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

Restricted net position represents amounts required by law to be used for a specific purpose and include reserves for future capital projects and funds restricted for future debt service. These funds can only be used for expenditures for their respective purpose.

Unrestricted net position may be used to fund City programs in the next fiscal year. However, this does not mean that the City has significant surplus resources available to pay its bills next year. Rather, it is the result of having long-term commitments that are less than currently available resources.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (Continued)

Statements of Activities

	Governmental Activities	
	<u>2012</u>	<u>2011</u>
Revenues		
Program revenues		
Charges for services	\$ 6,089,467	\$ 6,211,130
Operating grants and contributions	22,780,605	36,134,803
Capital grants and contributions	13,887,734	18,934,811
General revenues		
Taxes and related items	49,021,861	49,896,972
State aid not received for a specific purpose	17,804,742	17,794,424
Interest and other	<u>2,272,991</u>	<u>3,064,902</u>
Total revenue	<u>111,857,400</u>	<u>132,037,042</u>
Program expenses		
General government	17,022,432	25,506,974
Public safety	52,811,269	52,338,220
Transportation	10,894,853	16,673,074
Economic assistance and opportunity	5,783,457	7,189,761
Culture and recreation	7,838,960	7,483,695
Home and community service	13,752,645	15,100,092
Interest	<u>3,180,229</u>	<u>3,057,121</u>
Total expenses	<u>111,283,845</u>	<u>127,348,937</u>
Increase in net position	<u>573,555</u>	<u>4,688,105</u>
Net position - beginning of year, as previously reported	53,478,444	67,317,088
Prior period adjustment	<u>-</u>	<u>(18,526,749)</u>
Net position - beginning of year, as restated	<u>53,478,444</u>	<u>48,790,339</u>
Net position - end of year	<u>\$ 54,051,999</u>	<u>\$ 53,478,444</u>

The primary support for the City's programs is local property taxes, State Aid, and sharing of sales tax from Niagara County and New York State. Taxes and related items represent 44% of total revenues (38% in 2011). Charges for services, approximating 5.5% of total revenues (4.7% in 2011), consist mainly of parking tickets, permits and City Clerk fees.

Program expenses include an allocable share of insurance and depreciation on capital assets for each category presented. Interest expense is not allocated. The most significant category of expense is public safety at approximately 47% of total expenses in 2012 (41% in 2011), consisting principally of the City's police and fire departments. Total expenses decreased by \$16,065,092 (or 12.6%).

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.

General Fund

The General Fund is the City's main operating fund. This fund is used to account for all City operations that are not financed by a special revenue source. It includes all general City offices, police, justice courts, recreation, safety inspection, other general services and self-insurance.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (Continued)

General Fund (Continued)

The General Fund experienced a decrease in fund balance of approximately \$3,231,000 for 2012. This decrease is consistent with the budgeted use of appropriated fund balance for 2012. The City generally does not budget grants as revenue or expenditure until a specific grant is awarded. These items can be difficult to predict from one year to the next.

Expenditures in the General Fund were approximately \$1,950,000 lower than expected. This was attributable to the spending freeze put in place during 2012 and all of the departments being strongly encouraged to be fiscally responsible.

Miscellaneous Special Revenue Fund

The Miscellaneous Special Revenue Fund is a special revenue fund supported fund from the Seneca Niagara Casino received in an allocation from New York State. The fund balance increased by \$78,030 in 2012.

Revenues were \$2,548, while expenditures were \$23,509. The biggest outflow was the funding of capital projects in the amount of \$32,848 that was transferred to other funds during the year.

Community Development Fund

The Community Development Fund is a special revenue fund supported by money from the U.S. Department of Housing and Urban Development. The fund balance decreased by \$(268,143) in 2012.

Capital Projects Funds

Used to account for financial resources to be used for the acquisition of construction of major capital facilities.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of interest and principal on, general governmental obligations.

Other Governmental Funds

Nonmajor funds include the Debt Service, Golf Course, Parking Ramp, and Public Library funds. The decrease in fund balance of \$1,460,241 during 2012 was principally due to the use of excess debt service fund balance transferred to the General Fund for use in balancing the 2012 budget.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were less than budgeted by \$4,918,035. The largest variance was in the state aid section, which was lower than expected by \$6,190,008. Majority of this is a result of the City budgeting in its 2012 budget \$5,945,394 in Casino revenues not received. An accounts receivable was not recorded for this since there is no time frame as to when the Casino revenue is expected to be received. Nonproperty tax items, including sales tax, was higher than expected by \$2,368,713.

Actual expenditures were lower than budgeted by \$1,952,396. The largest causes of this decrease were in the retiree health insurance, the police and fire retirement bill and the spending freezes put in place.

GENERAL FUND BUDGETARY HIGHLIGHTS (Continued)

Amendments to the budget occur throughout the year for a variety of reasons. These include reserves for encumbrances from prior year unexpended purchase orders which are added to the current year budget at time of closing of the prior year, grants or other forms of financial aid which were received during the year but not anticipated in the original budget, appropriations of fund balances needed to offset unanticipated and unavoidable expenditures, and transfers of appropriations among object classes within department budgets to address particular requirements not anticipated at the level of object class totals within each department. The department heads and Comptroller have the authority to transfer appropriations among line items within each object class within departments. The reserve for encumbrances on prior year purchase orders are added to the budget as part of the annual financial closing process. All other budget amendments must be authorized by formal resolution of the City Council.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets, net of depreciation, are as follows:

	<u>2012</u>	<u>2011</u>
Land and land improvements	\$ 5,217,128	\$ 3,817,761
Buildings and improvements	10,175,763	4,610,541
Works of art	17,378	17,378
Infrastructure	45,100,531	45,447,643
Equipment and furniture	1,166,861	1,272,318
Vehicles	6,537,248	7,146,695
Construction in progress	<u>41,187,077</u>	<u>39,760,907</u>
	<u>\$ 109,401,986</u>	<u>\$ 102,073,243</u>

Net capital assets increased by \$7,328,743 during the current year. This reflects new improvement and infrastructure projects under construction of \$1,426,170, infrastructure additions of \$1,353,069, building and land improvement additions of \$7,718,895, vehicle additions of \$744,004, furniture and office equipment additions of \$125,344, and reduced by current year depreciation expense of \$4,038,739.

Debt

A summary of the City's outstanding obligations are:

	<u>2012</u>	<u>2011</u>
Debt to Finance Capital Assets:		
Serial Bonds	\$ 69,130,884	\$ 72,552,939
Installment Purchase Debt	<u>1,141,977</u>	<u>1,276,703</u>
Total Debt to Finance Capital Assets	<u>\$ 70,272,861</u>	<u>\$ 73,829,642</u>

At December 31, 2012, the City has total long-term debt outstanding of \$70,272,861, of which \$3,491,714 is estimated to be payable within the next year. The City has pledged its full faith and credit for the serial bonds that are outstanding. The remainder of the City's outstanding obligations arise out of contractual or other legal obligations.

The State of New York has a statutory limit for the amount of general obligation debt a local governmental entity may enter into. This limitation is applicable to the serial bonded debt of the City. In general the City may issue such obligations not to exceed 7% of its annual average five year valuation. The current debt-margin for the City approximates \$27,714,646; therefore the City is in compliance with its constitutional debt limit.

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

The City has a bond rating of BBB+ from Standard and Poor's, BBB from Fitch Rating Services, and Moody's Investors Service, Inc. Baa3 to the uninsured outstanding bonded indebtedness of the City.

FACTORS BEARING ON THE CITY'S FUTURE

Health insurance costs continue to increase at rates well above the rate of inflation which makes budgeting difficult. The majority of the City's employees receive 100% of their health care coverage under collective bargaining agreements.

Retirement costs for employees as mandated by New York State Local Employees Retirement System and the New York State Police & Fire Retirement System are projected to remain at levels well above the average over the past 10 years.

State Aid has been cut \$1,181,324 from 2009 – 2011, remaining the same since 2011.

IMPACT OF SENECA NATION/NEW YORK STATE COMPACT

In August of 2002 a Nation-State Gaming Compact was entered into by and between the Seneca Nation of Indians and the State of New York. This compact is for a term of 14 years. This compact permits the Senecas to operate Class III gaming facilities in certain geographic areas in Western New York. In consideration for this exclusivity, the Senecas agreed to pay New York State a percentage of the net drop from a certain type of gaming device. During years 8 through 14 of the compact, that percentage is 25 percent. Legislation was enacted that provided for New York State to pay a certain amount that it receives from the Senecas to the host communities. That Legislation is Section 99-h of the New York State Finance Law and the City is one of those host communities. Since the compact came into existence, the City has benefited from this compact and the legislation. Section 99-h provides for the host community, the City, to pay certain amounts to various entities such as the Niagara Falls School District and the Niagara Falls Memorial Medical Center Hospital from its share of host community benefit revenues. The balance is retained by the City for economic development purposes. Those revenues to the City during the first several years amounted to a net amount to the City of an average of approximately Twelve Million Dollars (\$12,000,000.00) per year and have increased each year since.

The State of New York and the Senecas are now embroiled in a dispute which has been raging for approximately four (4) years. As a result, the Senecas have not made payments to New York State but rather, have made their payments into an escrow account pending the resolution of the dispute. The result for the City is that it has not been paid any casino revenues in four (4) years. The City is now owed approximately Seventy-Two Million Dollars (\$72,000,000) in casino revenues through 2012. An estimate of this amount, Fifty-Four Million Dollars (\$54,000,000) is viewed as a receivable on the City's financial statements at December 31, 2012. In June 2013, the State of New York and the Seneca Indian Nation announced a deal to resolve the long-standing dispute. Under the terms of the settlement, the City will receive approximately Eighty-Nine Million Dollars (\$89,000,000); however the timing of those payments has not yet been determined.

The City's financial statements would look much differently had those revenues been received by the City in a timely fashion.

IMPACT OF SENECA NATION/NEW YORK STATE COMPACT (Continued)

Minimum Fund Balance Policy

Under the City's minimum fund balance policy, approximately 5% of the General Fund appropriations (\$4,071,539) should be reported as unassigned fund balance. At December 31, 2012, the unassigned fund balance of the general fund was zero in part as a result of the uncertainty of receipt of the casino funds due the City under Section 99-H. It is anticipated that appropriate budgetary modifications will occur until such time as the funds are received by the City and the minimum fund balance can be restored.

CONTACT FOR CITY'S FINANCIAL MANAGEMENT

This report is designed for those interested parties to provide a general overview of the City's finances. Questions concerning any information within this report or requests for additional information should be addressed to the Office of the City Controller, City of Niagara Falls, 745 Main Street, P.O. Box 69, Niagara Falls, New York 14302.

CITY OF NIAGARA FALLS, NEW YORK

STATEMENT OF NET POSITION DECEMBER 31, 2012

	Governmental Activities	Component Units
ASSETS		
Cash and cash equivalents	\$ 15,395,580	\$ 2,070,364
Accounts receivable	2,032,922	4,333
Due from Federal and State governments	63,518,733	-
Loans receivable	4,043,801	433,759
Notes receivable	643,573	-
Taxes receivable, net	15,348,891	-
Due from other funds	11,077,782	-
Due from other governments	3,541,220	74,263
Prepaid expenses	1,762,561	-
Inventory	601,774	-
Capital assets, net	109,401,986	36,343,458
Total assets	227,368,823	38,926,177
LIABILITIES		
Accounts payable	6,960,942	30,929
Accrued liabilities	2,229,542	23,866
Retainages payable	734,345	-
Due to other funds	11,979,403	-
Due to other governments	9,920,444	44,196
Unearned revenue	4,214,111	7,492
Long-term liabilities -		
Due within one year	4,627,720	-
Due in more than one year	132,650,317	-
Total liabilities	173,316,824	106,483
NET POSITION		
Net investment in capital assets	39,129,125	36,343,458
Restricted -		
Risk retention	2,950,074	-
Trolley services	442,920	-
Tourism	214,939	-
Unrestricted	11,314,941	2,476,236
Total net position	\$ 54,051,999	\$ 38,819,694

The accompanying notes are an integral part of these statements.

CITY OF NIAGARA FALLS, NEW YORK

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2012

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Component Units
PRIMARY GOVERNMENT:					
Governmental activities -					
General governmental support	\$ 17,022,432	\$ 2,092,812	\$ 15,130,108	\$ -	\$ 200,488
Public safety	52,811,269	1,461,395	637,783	-	(50,712,091)
Transportation	10,894,853	465,157	667,491	7,999,071	(1,763,134)
Economic assistance and opportunity	5,783,457	23,113	-	5,075,080	(685,264)
Culture and recreation	7,838,960	2,021,030	24,564	813,583	(4,979,783)
Home and community services	13,752,645	25,960	6,320,659	-	(7,406,026)
Interest on long-term debt	3,180,229	-	-	-	(3,180,229)
Total governmental activities	111,283,845	6,089,467	22,780,605	13,887,734	(68,526,039)
COMPONENT UNITS	\$ 3,551,585	\$ 2,209,090	\$ -	\$ -	\$ (1,342,495)
GENERAL REVENUES AND TRANSFERS:					
Real property taxes and real property tax items					29,753,148
Nonproperty tax items					19,268,713
Use of money and property					638,862
Sale of property and compensation for loss					125,884
State aid not received for a specific purpose					17,804,742
Miscellaneous					1,508,245
Total general revenues and transfers					69,099,594
Change in net position					573,555
Net position - beginning of year					(1,338,398)
Net position - end of year					40,158,092
					\$ 54,051,999
					\$ 38,819,694

The accompanying notes are an integral part of these statements.

CITY OF NIAGARA FALLS, NEW YORK

BALANCE SHEET - GOVERNMENTAL FUNDS DECEMBER 31, 2012

	General	Community Development	Capital Projects	Miscellaneous Special Revenue	Total Nonmajor Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 4,339,807	\$ 3,000,712	\$ 6,854,232	\$ 1,007,894	\$ 74,408	\$ 15,277,053
Due from Federal and State governments	1,935,695	-	6,680,927	-	-	8,616,622
Due from other governments	1,869,159	957,400	714,861	-	-	3,541,220
Loans receivable	-	4,043,801	-	-	-	4,043,801
Notes receivable	643,573	-	-	-	-	643,573
Taxes receivable, net	15,348,891	-	-	-	-	15,348,891
Accounts receivable	1,878,936	4,379	63,793	-	85,814	2,032,922
Prepaid expenditures	1,762,561	-	-	-	-	1,762,561
Due from other funds	5,816,151	-	5,261,631	-	-	11,077,782
Total assets	\$ 33,594,773	\$ 8,006,292	\$ 19,575,244	\$ 1,007,894	\$ 160,222	\$ 62,344,425
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES						
LIABILITIES:						
Accounts payable	\$ 3,795,185	\$ 242,633	\$ 2,810,768	\$ -	\$ 67,713	\$ 6,916,299
Accrued liabilities	1,754,845	-	-	-	11,064	1,765,909
Retainages payable	9,587	-	724,758	-	-	734,345
Due to other funds	6,109,293	574,964	-	5,261,631	32,726	11,978,614
Due to other governments	8,403,838	1,516,606	-	-	-	9,920,444
Unearned revenue	-	4,098,183	115,928	-	-	4,214,111
Total liabilities	20,072,748	6,432,386	3,651,454	5,261,631	111,503	35,529,722
DEFERRED INFLOWS:						
Unearned property taxes	8,122,689	-	-	-	-	8,122,689
FUND BALANCES:						
Nonspendable	1,969,233	-	-	-	-	1,969,233
Restricted	3,607,933	-	-	-	-	3,607,933
Assigned	-	1,573,906	15,923,790	-	48,719	17,546,415
Unassigned	(177,830)	-	-	(4,253,737)	-	(4,431,567)
Total fund balances	5,399,336	1,573,906	15,923,790	(4,253,737)	48,719	18,692,014
Total liabilities, deferred inflows and fund balances	\$ 33,594,773	\$ 8,006,292	\$ 19,575,244	\$ 1,007,894	\$ 160,222	\$ 62,344,425

The accompanying notes are an integral part of these statements.

CITY OF NIAGARA FALLS, NEW YORK

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION DECEMBER 31, 2012

Total fund balance - governmental funds \$ 18,692,014

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not current financial resources and; therefore, are not reported in the funds.

Cost of capital assets	215,053,762	
Accumulated depreciation	<u>(105,651,776)</u>	
		109,401,986

Compensated absences are not reported in the funds under fund accounting, but are expensed in the statement of activities as the liability is incurred. (11,432,626)

The net position of the internal service funds are not included in the fund financial statements, but are included in the governmental activities of the statement of net position.

Assets	720,301	
Liabilities	<u>(45,432)</u>	
		674,869

Revenue related to the tax levy is recognized when earned in the statement of activities, but recorded as a deferred inflow in the fund statements if collection is anticipated to exceed sixty days after year-end. 8,122,689

Accrued interest on long-term debt, including serial bonds, is an expense in the funds when paid, but a liability in the statement of net position when incurred. (463,633)

Casino revenue earned, but not received at year-end related to State Finance Law Section 99-H are not considered receivables under the modified accrual basis of accounting. 54,902,111

Long-term debt, including serial bonds, is not due and payable in the current period and; therefore, is not reported as fund liabilities. (125,845,411)

Total net position of governmental activities \$ 54,051,999

CITY OF NIAGARA FALLS, NEW YORK

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>General</u>	<u>Community Development</u>	<u>Capital Projects</u>	<u>Miscellaneous Special Revenue</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
REVENUES:						
Real property taxes and tax items	\$ 30,300,909	\$ -	\$ -	\$ -	\$ -	\$ 30,300,909
Nonproperty tax items	19,268,713	-	-	-	-	19,268,713
Departmental income	1,901,183	20	-	-	1,340,432	3,241,635
Use of money and property	624,787	6,975	1,145	2,548	3,407	638,862
Licenses and permits	1,001,626	-	-	-	-	1,001,626
Fines and forfeitures	609,984	-	-	-	-	609,984
Interfund revenue	37,699	-	-	-	-	37,699
Sale of property and compensation for loss	125,884	-	-	-	-	125,884
Miscellaneous	498,078	-	-	-	1,010,167	1,508,245
State aid	19,140,438	260,118	7,705,440	-	-	27,105,996
Federal aid	378,646	6,320,659	5,765,669	-	-	12,464,974
Total revenues	<u>73,887,947</u>	<u>6,587,772</u>	<u>13,472,254</u>	<u>2,548</u>	<u>2,354,006</u>	<u>96,304,527</u>
EXPENDITURES:						
General governmental support	11,151,500	-	1,384,585	23,509	376,812	12,936,406
Public safety	35,829,620	-	581,528	-	-	36,411,148
Transportation	3,800,585	-	9,200,563	-	-	13,001,148
Economic assistance and opportunity	5,592,586	-	4,927,399	-	-	10,519,985
Culture and recreation	2,358,337	-	732,463	-	2,980,242	6,071,042
Home and community services	5,470,363	6,855,915	-	-	-	12,326,278
Employee benefits	14,344,795	-	-	-	-	14,344,795
Debt service -						
Principal	-	-	-	-	3,556,781	3,556,781
Interest	-	-	-	-	3,138,091	3,138,091
Total expenditures	<u>78,547,786</u>	<u>6,855,915</u>	<u>16,826,538</u>	<u>23,509</u>	<u>10,051,926</u>	<u>112,305,674</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(4,659,839)</u>	<u>(268,143)</u>	<u>(3,354,284)</u>	<u>(20,961)</u>	<u>(7,697,920)</u>	<u>(16,001,147)</u>
OTHER FINANCING SOURCES (USES):						
Operating transfers - in	10,604,293	-	794,385	131,839	8,811,528	20,342,045
Operating transfers - out	(9,175,894)	-	(8,559,454)	(32,848)	(2,573,849)	(20,342,045)
Total other financing sources and uses	<u>1,428,399</u>	<u>-</u>	<u>(7,765,069)</u>	<u>98,991</u>	<u>6,237,679</u>	<u>-</u>
CHANGE IN FUND BALANCE	<u>(3,231,440)</u>	<u>(268,143)</u>	<u>(11,119,353)</u>	<u>78,030</u>	<u>(1,460,241)</u>	<u>(16,001,147)</u>
FUND BALANCE - beginning of year	<u>8,630,776</u>	<u>1,842,049</u>	<u>27,043,143</u>	<u>(4,331,767)</u>	<u>1,508,960</u>	<u>34,693,161</u>
FUND BALANCE - end of year	<u>\$ 5,399,336</u>	<u>\$ 1,573,906</u>	<u>\$ 15,923,790</u>	<u>\$ (4,253,737)</u>	<u>\$ 48,719</u>	<u>\$ 18,692,014</u>

The accompanying notes are an integral part of these statements.

CITY OF NIAGARA FALLS, NEW YORK

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2012

Net change in fund balances - governmental funds \$ (16,001,147)

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. Depreciation expense is recorded in the statement of activities over the estimated useful lives, but not as a change in fund balance of the governmental funds, since no expenditures are made.

Capital additions	11,367,482	
Depreciation	<u>(4,038,739)</u>	
		7,328,743

Unearned tax revenues are recorded on the modified accrual basis, but are not reported in the government-wide financial statements. (547,761)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 3,556,781

Casino revenue is not reported in the modified accrual basis since the amounts were not received in time to pay current financial obligations. 14,000,000

The change in accrued interest on bonds is an expenditure in the statement of activities of the government-wide statement, but is not reported as an expenditure in the governmental funds. (42,138)

The change in accrued compensated absences is reported in the statement of activities, but does not require the use of current financial resources and; therefore, this is not reported as an expenditure in the governmental funds. 259,831

The change in accrued workers' compensation is reported in the statement of activities, but does not require the use of current financial resources and; therefore, this is not reported as an expenditure in the governmental funds. 171,089

Deferrals and amortization of the amounts owed to the New York State Retirement System do not require the use of current financial resources and; therefore, these are not reported as expenditures in the governmental funds.

2012 deferral	(1,133,819)	
Amortization	<u>516,081</u>	
		(617,738)

(Continued)

CITY OF NIAGARA FALLS, NEW YORK

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

The change in other post employment benefits is reported in the statement of activities, but does not require the use of current financial resources and; therefore, this is not reported as an expenditure in the governmental funds. (9,235,788)

Payment of claims and judgments is an expenditure in the governmental funds, but the repayment reduces accrued liabilities in the statement of net position. 750,000

Certain revenues are not available to provide financial resources and therefore are not reported as due from Federal and State governments in governmental funds. 902,111

Internal service funds are used by management to charge the cost of certain activities, such as self insurance and workers' compensation claims, to individual funds. The change in net position of the internal service funds is reported with governmental activities. 49,572

Change in net position of governmental activities \$ 573,555

The accompanying notes are an integral part of these statements.

CITY OF NIAGARA FALLS, NEW YORK

**COMBINING STATEMENT OF NET POSITION - PROPRIETARY FUNDS - INTERNAL SERVICE FUNDS
DECEMBER 31, 2012**

	<u>Postage</u>	<u>Stationary</u>	<u>Telephone</u>	<u>Central Garage</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 519	\$ -	\$ 59,156	\$ 58,852	\$ 118,527
Inventory	<u>5,877</u>	<u>789</u>	<u>604</u>	<u>594,504</u>	<u>601,774</u>
Total assets	<u>6,396</u>	<u>789</u>	<u>59,760</u>	<u>653,356</u>	<u>720,301</u>
LIABILITIES					
Accounts payable	5,000	-	-	39,643	44,643
Due to other funds	<u>-</u>	<u>789</u>	<u>-</u>	<u>-</u>	<u>789</u>
Total liabilities	<u>5,000</u>	<u>789</u>	<u>-</u>	<u>39,643</u>	<u>45,432</u>
NET POSITION					
Unrestricted	<u>1,396</u>	<u>-</u>	<u>59,760</u>	<u>613,713</u>	<u>674,869</u>
Total net position	<u>\$ 1,396</u>	<u>\$ -</u>	<u>\$ 59,760</u>	<u>\$ 613,713</u>	<u>\$ 674,869</u>

The accompanying notes are an integral part of these statements.

CITY OF NIAGARA FALLS, NEW YORK

COMBINING STATEMENT OF ACTIVITIES - PROPRIETARY FUNDS - INTERNAL SERVICE FUNDS FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Postage</u>	<u>Stationary</u>	<u>Telephone</u>	<u>Central Garage</u>	<u>Total</u>
REVENUES					
Charges for services	\$ 59,269	\$ 2,032	\$ 86,864	\$ 1,088,057	\$ 1,236,222
Total revenues	59,269	2,032	86,864	1,088,057	1,236,222
EXPENSES					
Contractual expenses	64,268	1,957	86,864	1,033,561	1,186,650
Total expenses	64,268	1,957	86,864	1,033,561	1,186,650
OPERATING INCOME (LOSS)	(4,999)	75	-	54,496	49,572
NET POSITION - beginning of year	6,395	(75)	59,760	559,217	625,297
NET POSITION - end of year	\$ 1,396	\$ -	\$ 59,760	\$ 613,713	\$ 674,869

The accompanying notes are an integral part of these statements.

CITY OF NIAGARA FALLS, NEW YORK

COMBINING STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - INTERNAL SERVICE FUNDS FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Postage</u>	<u>Stationary</u>	<u>Telephone</u>	<u>Central Garage</u>	<u>Total</u>
CASH FLOW FROM OPERATING ACTIVITIES:					
Cash received from providing services	\$ 59,269	\$ 2,032	\$ 86,864	\$ 1,088,057	\$ 1,236,222
Cash payments for contractual expenses	<u>(60,000)</u>	<u>(2,032)</u>	<u>(86,864)</u>	<u>(1,059,191)</u>	<u>(1,208,087)</u>
Net cash flow from operating activities	<u>(731)</u>	<u>-</u>	<u>-</u>	<u>28,866</u>	<u>28,135</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(731)	-	-	28,866	28,135
CASH AND CASH EQUIVALENTS - beginning of year	<u>1,250</u>	<u>-</u>	<u>59,156</u>	<u>29,986</u>	<u>90,392</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 519</u>	<u>\$ -</u>	<u>\$ 59,156</u>	<u>\$ 58,852</u>	<u>\$ 118,527</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ (4,999)	\$ 75	\$ -	\$ 54,496	\$ 49,572
Adjustments to reconcile operating income to net cash used by operating activities:					
Changes in:					
Inventory	(732)	689	-	23,385	23,342
Accounts payable	5,000	(113)	-	(49,015)	(44,128)
Due to other funds	<u>-</u>	<u>(651)</u>	<u>-</u>	<u>-</u>	<u>(651)</u>
NET CASH FLOW FROM OPERATING ACTIVITIES	<u>\$ (731)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,866</u>	<u>\$ 28,135</u>

The accompanying notes are an integral part of these statements.

CITY OF NIAGARA FALLS, NEW YORK

**STATEMENT OF NET POSITION - FIDUCIARY FUNDS
DECEMBER 31, 2012**

	Private Purpose <u>Trust</u>	<u>Agency</u>
ASSETS:		
Cash and cash equivalents	\$ 92,680	\$ 3,118,686
Due from other funds	-	<u>901,621</u>
Total assets	<u>92,680</u>	<u>4,020,307</u>
LIABILITIES:		
Accounts payable	-	337,061
Agency liabilities	-	<u>3,683,246</u>
Total current liabilities	-	<u>\$ 4,020,307</u>
NET POSITION:		
Held in trust for private purposes	<u>92,680</u>	
Total net position	<u>\$ 92,680</u>	

The accompanying notes are an integral part of these statements.

CITY OF NIAGARA FALLS, NEW YORK

**STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Private Purpose Trust
ADDITIONS:	
Interest and earnings	\$ 2,795
DEDUCTIONS:	
Economic assistance and opportunity	5,434
CHANGE IN NET POSITION	(2,639)
NET POSITION - beginning of year	95,319
NET POSITION - end of year	\$ 92,680

The accompanying notes are an integral part of these statements.

CITY OF NIAGARA FALLS, NEW YORK

COMBINING STATEMENT OF NET POSITION - COMPONENT UNITS DECEMBER 31, 2012

	Bellevue Local Development Corporation	N.F.C. Development Corporation	Niagara Falls Public Library	Total
ASSETS				
Cash and cash equivalents	\$ -	\$ 1,455,210	\$ 615,154	\$ 2,070,364
Accounts receivable	-	-	4,333	4,333
Loans receivable, net	-	433,759	-	433,759
Due from other governments	-	-	74,263	74,263
Capital assets, net	<u>36,329,616</u>	<u>-</u>	<u>13,842</u>	<u>36,343,458</u>
Total assets	<u>36,329,616</u>	<u>1,888,969</u>	<u>707,592</u>	<u>38,926,177</u>
LIABILITIES				
Accounts payable	-	6,283	24,646	30,929
Accrued liabilities	-	-	23,866	23,866
Due to City of Niagara Falls	-	-	44,196	44,196
Unearned revenue	<u>-</u>	<u>-</u>	<u>7,492</u>	<u>7,492</u>
Total current liabilities	<u>-</u>	<u>6,283</u>	<u>100,200</u>	<u>106,483</u>
NET POSITION				
Net investment in capital assets	36,329,616	-	13,842	36,343,458
Unrestricted	<u>-</u>	<u>1,882,686</u>	<u>593,550</u>	<u>2,476,236</u>
Total net position	<u>\$ 36,329,616</u>	<u>\$ 1,882,686</u>	<u>\$ 607,392</u>	<u>\$ 38,819,694</u>

The accompanying notes are an integral part of these statements.

CITY OF NIAGARA FALLS, NEW YORK

COMBINING STATEMENT OF ACTIVITIES - COMPONENT UNITS FOR THE YEAR ENDED DECEMBER 31, 2012

	Bellevue Local Development Corporation	N.F.C. Development Corporation	Niagara Falls Public Library	Total
OPERATING REVENUE:				
Transfers from City of Niagara Falls	\$ -	\$ -	\$ 1,890,738	\$ 1,890,738
Charges for services	-	1,950	27,220	29,170
Grants and aid	-	25,000	178,775	203,775
Other operating revenue	-	15,743	69,664	85,407
Total operating revenue	-	42,693	2,166,397	2,209,090
OPERATING EXPENSES:				
Contractual expense	-	178,793	2,123,550	2,302,343
Grant expense	-	252,633	-	252,633
Depreciation	995,332	242	1,035	996,609
Total operating expenses	995,332	431,668	2,124,585	3,551,585
OPERATING INCOME (LOSS)	(995,332)	(388,975)	41,812	(1,342,495)
NON-OPERATING REVENUE:				
Interest income	-	4,097	-	4,097
CHANGE IN NET POSITION	(995,332)	(384,878)	41,812	(1,338,398)
NET POSITION - beginning of year	37,324,948	2,267,564	565,580	40,158,092
NET POSITION - end of year	\$ 36,329,616	\$ 1,882,686	\$ 607,392	\$ 38,819,694

The accompanying notes are an integral part of these statements.

CITY OF NIAGARA FALLS, NEW YORK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

The basic financial statements of the City of Niagara Falls, New York (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units, except as otherwise noted. 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 is a unit of local government created by the State of New York. The City operates under provisions of New York State law and with authority vested by those statutes and under the provisions of the City Charter adopted by the City Council. The City provides services and facilities in the areas of police, highway, sanitation, parks, recreation, storm sewers, library, community development, fire and general administration. The five-member City Council is the legislative body responsible for overall operations. The Mayor serves as Chief Executive and Officer of the City. The City Administrator serves as the Chief Administrative Officer. The City Controller serves as the Chief Financial Officer. Independently elected officials of the City include the Mayor and five council members.

The County of Niagara, New York, is a unit of local government, whose boundaries include the City. Public education is provided by an independent school district within the City, the Niagara Falls City School District.

The City reports related organizations under the guidance of the GASB. The Standards define the primary government, and redefine and establish the criteria for which potential component units are included in the reporting entity. The Standards also define financial accountability of the primary government as being determined on the basis of fiscal dependency, appointment of a voting majority of a governing board, ability to impose its will or potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. Based on the criteria under the Standards, there are three component units required to be included in the City's reporting entity including the N.F.C. Development Corporation, Bellevue Local Development Corporation, and the Niagara Falls Public Library.

Basis of Presentation

Component Units

In conformity with generally accepted accounting principles, the financial statements of three of the component units have been included in the financial reporting entity as discretely presented component units. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Component Units (Continued)

The N.F.C. Development Corporation's (NFC) purpose is to identify and develop business opportunities within the City, to package needed financing and to develop financial programs to support business development. The governing body of NFC is comprised of the Mayor, the five members of the City Council, four members appointed by the Mayor and nine at large members elected by the existing NFC Board. Additionally, NFC is managed by the City; therefore, the City is able to impose its will on NFC. Complete financial statements for NFC may be obtained at their offices located at 1022 Main Street, Niagara Falls, New York.

The Bellevue Local Development Corporation's (Bellevue) purpose is to develop and construct a new public safety facility, or other functions related to the administration of justice for the City. The governing body of Bellevue is comprised of the Mayor and additional Board members appointed by the Mayor. Additionally, Bellevue is managed by the City; therefore, the City is able to impose its will on Bellevue. Upon the completion of the facility the asset will be transferred to the City. The facility has been completed, but it is awaiting approval related to environmental matters before being transferred to the City. Bellevue does not issue stand-alone financial statements.

The Niagara Falls Public Library's (the Library) purpose is to provide the citizens of the City with quality library service, access to excellent collections, assistance in using emerging technologies and a pleasing, safe environment. The Library operates two city-owned buildings, one of which is commonly referred to as the Main Library or Earl W. Brydges Public Library and the other which is commonly known as the LaSalle Library. Complete financial statements for the Library can be obtained from their offices located at 1425 Main Street, Niagara Falls, New York.

Government-Wide Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds and aggregate non-major funds). The Statement of Net Position and the Statement of Activities present financial information about the reporting government as a whole. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, intergovernmental revenues, and other exchange and nonexchange transactions. Operating grants include operating-specific and discretionary (either operation or capital) grants while the capital grants column reflects capital-specific grants. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct expenses and direct revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Direct revenues include charges paid by the recipients of goods or services offered by the City, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues that are not classified as direct revenues, including all taxes, are presented as general revenues.

The government-wide focus is on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five (5) percent of the corresponding total for all governmental and enterprise funds combined.

Major Governmental Funds

The City reports the following major governmental funds:

- **General Fund** - the principal operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- **Community Development Fund** - this is used to account for the various programs of financial assistance (principally federal aid) for urban development. Community Development administers programs directly, as well as acting as a conduit to pass through funds to sub-recipients whose goal is also to benefit the community.
- **Capital Projects Fund** - used to account for and report financial resources to be used in the acquisition, construction or renovation of major capital facilities.
- **Miscellaneous Special Revenue Fund** - used to account for the receipts and disbursements of the Seneca Niagara Casino money received by the City.

Nonmajor Governmental Funds

The City reports the following non-major governmental funds:

- **Special Revenue Funds** (Debt Service, Golf Course, Public Library and Parking Ramp) - used to account for the proceeds of revenues that are legally restricted for specified purposes.

Proprietary Funds (Business-Type Activities)

- **Internal Service Funds** - used to account for postage, stationary, telephone and central garage services provided to other departments or agencies of the government on a cost reimbursement basis.

Fiduciary Funds (Trust and Agency Funds)

Fiduciary Fund Types include Private Purpose Trust Funds and Agency Funds. The Private Purpose Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and other governments.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Fiduciary Funds (Trust and Agency Funds) (Continued)

Private Purpose Trust Funds are accounted for on the accrual basis. Agency Funds are custodial in nature (assets equal liabilities) and generally are accounted for on the cash basis, which approximates the accrual basis of accounting.

Basis of Accounting/Measurement Focus

The Government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

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. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Property Taxes

The City property taxes are levied in December of each year, based on the assessed valuation as of the preceding July 1. On January 1 of each year, property taxes become a lien on property.

Tax payments are due and payable in equal installments on January 31 and May 31, after which it becomes delinquent and interest and penalties accrue. The City also bills for re-levied sewer and water user charges and for unpaid school taxes.

The State Constitution limits the amount that may be raised by the City tax levy on real estate in any fiscal year to two percent (2%) of the last five-year average full valuation of taxable real estate of the City plus (1) the amounts required for principal and interest on all capital indebtedness, and (2) current appropriations for certain capital purposes. The City is responsible for collection of delinquent City school taxes. In the event that school taxes are not collected from the City's re-levy, the City is obligated to remit taxes in full to the school district.

A provision for uncollectible taxes is estimated based on historical collection experience.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Seneca Niagara Casino Revenue

In accordance with State Finance Law Section 99-H (Section 99-H), the City is authorized to receive an allocation of casino revenue directly from New York State. This revenue is restricted for various purposes as determined by law. Amounts are recognized when received in the fund financial statements. Within the government-wide financial statements, revenues are recorded when earned. No allowance has been recorded, as the City is legally authorized to receive the allocation.

Encumbrances

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 as a control in preventing over-expenditure of established appropriations.

Open encumbrances are reported within the fund balance category from which their spending authorization has been recorded since they do not constitute expenditures or liabilities and will be honored through budget appropriations in the subsequent year.

Budgetary Basis of Accounting

The budgets are adopted annually on a cash basis, which is non-GAAP. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year. The City is not legally required to adopt a budget for the miscellaneous special revenue fund. Therefore, budget comparison information for this fund is not included in the City's financial statements. Budgetary controls are established for the capital projects fund through ordinances as adopted by the City Council authorizing individual contracts, which remain in effect for the life of the project.

Cash and Cash Equivalents

The City's cash and cash equivalents consists of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition.

Restricted Assets

Certain assets are classified on the balance sheet as restricted because their use is limited. The proceeds of bond sales can only be used for the stated purpose of the borrowing. The proceeds from the State for the City's share of the casino revenue are restricted for various purposes, primarily capital projects, per State Finance Law Section 99-H.

Inventory

All inventories are valued at cost using the first-in/first-out (FIFO) method for proprietary funds. Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed.

Accounts Receivable

Accounts receivable, with the exception of taxes receivable, are shown gross, with uncollectible amounts recognized under the direct write-off method. Generally accepted accounting principles require the establishment of an allowance for doubtful accounts; however, no allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

Taxes Receivable

The City accounts for taxes receivable at outstanding billed amounts, net of the allowance for uncollectible taxes. Accounts for which no payments have been received for one year are considered delinquent and further collection efforts are begun. After all collection efforts are exhausted, the account is written off. As of December 31, 2012, the allowance for uncollectible taxes is 4,461,540, which is estimated based on historical collection experience.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Expenditures

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Due to/from Other Funds

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds."

The amounts reported on the Statement of Net Position for due to and due from other funds represents amounts due between different fund types (governmental and business-type activities, and fiduciary funds). Eliminations have been made for amounts due to and due from within the same fund type.

Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual cost is unavailable, except for donated assets which are recorded at their estimated fair value at the date of donation. Prior to January 1, 1980, governmental funds' infrastructure assets were not capitalized. The City elected to retroactively report only major general infrastructure assets acquired, significantly reconstructed or that received significant improvements in fiscal years ending after December 31, 1979. Capital assets are reported at actual cost for acquisitions subsequent to January 1, 2003.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the Government-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and building improvements	\$ 100,000	Straight-line	25 - 50 years
Land improvements - exhaustible	\$ 100,000	Straight-line	20 - 100 years
Infrastructure	\$ 100,000	Straight-line	30 - 50 years
Furniture, office, and other equipment	\$ 5,000	Straight-line	3 - 10 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Insurance

The City is self-insured for general liability including, but not limited to, property damage and personal injury, workers' compensation and medical insurance.

The City has purchased reinsurance agreements to reduce exposure to large losses. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated.

Unearned Revenue

Unearned revenue arises when potential revenues do not meet both the measurable and available criteria for recognition in the current period. This occurs when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the City has legal claim to resources, the liability for revenue received in advance is removed and revenue is recognized.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

All long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of serial bonds payable, installment purchase debt, due to other governments, due to retirement system, workers' compensation, compensated absences and other postemployment benefits.

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. The proceeds from issuance of debt are reported as other financing sources and payment of principal, interest and other long-term obligations are reported as expenditures.

Compensated Absences

The City labor agreements and City Council rules and regulations provide for sick and vacation leave. Upon retirement certain eligible employees qualify for partially paid medical and dental insurance premiums and/or payment for fractional values of unused sick leave. These payments are budgeted annually without accrual.

Compensated absences for governmental fund type employees are reported as a liability and expenditure in the government-wide financial statements. Payment of compensated absences recorded in the government-wide financial statements is dependent upon many factors; therefore timing of future payment is not readily determinable. However, management believes that sufficient resources will be made available for the payment of compensated absences when such payments become due.

Postemployment Benefits

The City provides health insurance coverage for certain retired employees and their spouses who have met the minimum eligibility criteria as established under the respective collective bargaining agreement or City Council rules. The City made no provision for the recognizing the cost of postemployment benefits which may eventually be paid to employees who have not yet retired, on the governmental funds statements. On the government-wide statements, these amounts attributable to past service have been recorded as a liability.

Deferred Inflows and Outflows

GASB issued statements No. 63 "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*" and No. 65, "*Items Previously Reported as Assets and Liabilities*." These statements update and improve existing standards by providing users with information about how past transactions will continue to impact a government's financial statements in the future. The statements require that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities and identifies net position as the residual of all other elements presented. The City adopted the provisions of these statements for the year ended December 31, 2012. The portion of property taxes that is not received within sixty days of year-end is reported as a deferred inflow.

Interfund Transfers

The operations of the City give rise to certain transactions between funds, including transfers of expenditures and revenues to provide services and construct assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position - Government-Wide Financial Statements

The government-wide financial statements displays net position in three components as follows:

- **Net investment in capital assets**
Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bond anticipation notes, bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted net position**
Consists of net assets with constraints on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- **Unrestricted net position**
All other net assets that do not meet the definition of "restricted" or "net investment in capital assets."

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

Fund Balances - Fund Financial Statements

The governmental fund financial statements present fund balances according to classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable Fund Balances**
These are amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.
- **Restricted Fund Balances**
These are amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.
- **Committed Fund Balances**
These are amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council, prior to the end of the year. The City currently has no committed fund balance.
- **Assigned Fund Balances**
These are amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The City's policy is that the assignment of fund balances is at the discretion of the Mayor, subject to the majority vote of the City Council.
- **Unassigned Fund Balances**
These are all other spendable amounts.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balances - Fund Financial Statements (Continued)

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

The City has established a minimum fund balance policy for the General Fund whereby the unassigned fund balance should be equal to 5% of the City's total General Fund appropriations.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Labor Relations

Some City employees are represented by collective bargaining units with the balance of employees governed by City Council rules and regulations.

2. STEWARDSHIP

Budget Policies

The City adopts an annual formal budget for the General Fund on a basis consistent with generally accepted accounting principles; except that encumbrances are treated as budgeted expenditures in the year a commitment to purchase occurs. 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.

Capital Projects Fund appropriations are not included in the City's annual budget. Instead appropriations are approved through a City Council resolution at the project's inception and lapse upon termination of the project.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. On October 1, for the subsequent fiscal year beginning January 1, the Mayor submits to the Common Council a complete operating plan of proposed expenditures and estimated revenues for the City.
- b. The Council has the power to delete, reduce or add expenditure items to the budget except for debt service and other items required by law and an appropriation for a reserve for uncollected taxes, capital equipment and estimated deficit. The Council must act by December 1.
- c. The Mayor has a line item veto power which must be exercised within 10 days of Council action. The Council then has 5 days to override such vetoes.
- d. Reallocation of the budget among municipal service categories must be approved by the Council.
- e. Appropriations generally expire at the end of the fiscal year except amounts administratively approved for reappropriation. These reappropriations are included in assigned fund balance for encumbrances in the fund financial statements.
- f. Expenditures for each department may not legally exceed the total appropriations for that department. During the year, several supplemental appropriations were necessary.

2. STEWARDSHIP (Continued)

The City reports its budgetary status with the actual data including outstanding encumbrances as charges against budget appropriations. This data does not include revenues and expenditures in the Risk Retention fund or the Grant fund, as these are combined into the General Fund on the financial statements, but is not included in the City's budgeted amounts. This results in the following reconciliation of fund balance is computed on a GAAP basis and budgetary basis.

	<u>General Fund</u>
GAAP Basis Fund Balance - December 31, 2012	\$ 5,399,336
Deduct Risk Retention fund balance - December 31, 2012	(2,950,074)
Deduct Grant fund balance - December 31, 2012	(9,099)
Deduct outstanding encumbrances	<u>(31,822)</u>
 BUDGETARY BASIS - Fund balance - December 31, 2012	 <u>\$ 2,408,341</u>

Revenue Restrictions

The City has various restrictions placed over certain revenues from sources subject to state or local requirements. The primary restricted revenues sources are those revenues raised for the special revenue funds.

Miscellaneous Special Revenue Fund

The Miscellaneous Special Revenue Fund had a deficit fund balance of \$4,253,737 at December 31, 2012. This deficit is a result of the City not receiving their share of the casino revenue related to State Finance Law Section 99-H. Modified accrual accounting does not provide for the recording of revenue unless it is measurable and available as of year-end. It is expected that the fund balance will be positive when the City receives its share of the casino revenue. The City has recorded this as revenue on the government-wide financial statements.

Overdrawn Appropriations

Expenditures for the year ended December 31, 2012 exceeded appropriations in the General Fund for public safety by \$122,742, economic assistance and opportunity by \$590,419 and home and community services by \$352,571.

3. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents and Investments

The City's investment policies are governed by State statutes. In addition, the City has its own written investment policy. City monies must be deposited in FDIC insured commercial banks or trust companies located within the State. Permissible investments include demand accounts and certificates of deposit, 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 and time deposits and certificates of deposit 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 municipalities and school districts.

Investment and Deposit Policy

The City follows an investment and deposit policy, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conformance with federal, state and other legal requirements; and provide sufficient liquidity of invested funds in order to meet obligations as they become due. Oversight of investment activity is the responsibility of the Controller of the City.

3. CASH AND CASH EQUIVALENTS (Continued)

Investment and Deposit Policy (Continued)

Investments (included in cash equivalents) consist of the following at December 31, 2012:

Money market funds	<u>\$ 9,869,931</u>
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The following deposits held with one financial institution represent five percent or more of the City's total cash and cash equivalents at December 31, 2012:

First Niagara Bank	\$ 10,090,447
M&T Bank	5,785,125
Key Bank	<u>2,726,248</u>
Total	<u>\$ 18,601,820</u>

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. The City's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The City's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations. The City's investment and deposit policy authorizes the reporting entity to purchase the following types of investments:

- Interest bearing demand accounts.
- Certificates of deposit.
- Obligations of the United States Treasury and United States agencies.
- Obligations of the New York State and its localities.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the City's investment and deposit policy, all deposits of the City including interest bearing demand accounts and certificates of deposit, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIA) shall be secured by a pledge of securities with an aggregate value equal to 102% of the aggregate amount of deposits. The City restricts the securities to the following eligible items:

- Obligations issued, fully insured or guaranteed as to the payment of principal and interest, by the United States Treasury and United States agencies.
- Obligations issued or fully insured or guaranteed by the New York State and its localities.

3. CASH AND CASH EQUIVALENTS (Continued)

Custodial Credit Risk (Continued)

At December 31, 2012, the bank balance of the City's cash and cash equivalents of its primary government, including Internal Service Funds and Fiduciary Funds, was exposed to custodial credit risk as follows:

<u>Description</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash and cash equivalents	\$ 20,236,044	\$ 18,606,946
Category 1: Covered by FDIC insurance	\$ 6,264,116	
Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name	14,499,184	
	<u>\$ 20,763,300</u>	

4. RECEIVABLES

Major revenues accrued by the City at December 31, 2012 include the following:

Accounts Receivable

General Fund:	
Demolitions, debris pickup, and weed cutting	\$ 894,595
Tourism - 4th quarter occupancy tax & hotel trolley service	420,630
Franchise fees	299,993
Gross utilities taxes	46,912
Other miscellaneous receivables	<u>216,806</u>
	1,878,936
Community Development	4,379
Capital Projects	63,793
Nonmajor Governmental Funds	<u>85,814</u>
	<u>\$ 2,032,922</u>

4. RECEIVABLES (Continued)

State and Federal Receivables

Represents amounts due primarily from New York State and the federal government. Amounts accrued at December 31, 2012, consist of:

General Fund:

U.S. Department of Justice	\$ 689,526
NYS sales tax	344,112
U.S. Department of Homeland Security (via NYS)	55,592
NYS Court System	159,551
NYS arterial maintenance	200,812
Medicare Part D	160,386
NYS Public Service Commission	49,500
NYS DCJS Project Impact	65,767
Other miscellaneous state and federal receivables	<u>210,449</u>

1,935,695

Capital Projects Fund:

Buffalo Ave	2,394,470
Lewiston Road Reconstruction	1,497,641
Culinary Institute	678,209
City Hall Roof	563,127
CSX Bridge	423,592
Niagara Falls Signals	296,972
Transportation Center	212,524
Bridge JT Repl	200,695
Century Club	157,615
Other miscellaneous state and federal receivables	<u>256,082</u>

6,680,927

Total state and federal receivables

\$ 8,616,622

Due from Other Governments

Represents amounts due primarily from the County of Niagara, New York, and other governmental entities. Amounts accrued at December 31, 2012 consist of:

General Fund:

Niagara Falls Water Board	\$ 732,419
NFBOE/School tax fees	62,450
NFBOE - Miscellaneous	103,645
Niagara County - Sales tax	958,827
Other miscellaneous due from other governments	<u>11,818</u>

1,869,159

Capital Projects Fund:

Niagara Falls Water Board	714,661
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Community Development Fund

957,400

Total due from other governments

\$ 3,541,220

4. RECEIVABLES (Continued)

Note Receivable

During 1987, Nitec Paper Corporation filed for bankruptcy with several years of outstanding taxes and water and sewer charges due to the City, the County of Niagara (County), and the Niagara Falls Board of Education. The City obtained the deed in lieu of foreclosure and sold the plant to Cascades Company for outstanding taxes and charges totaling \$5,400,000. Upon closing, \$100,000 was paid to the City with the remaining \$5,300,000 to be paid over 30 years as follows: Commencing November 1, 1988 through October 1, 1997 monthly payments of interest only at 3% and beginning on November 1, 1997 through October 1, 2017 monthly payments of interest and principal of \$29,394. Under the terms of the agreement, the Niagara Falls Water Board and the City receive 59.4% and 40.6% respectively. Upon receipt of its portion of the funds, the City retains 16.2% and distributes 17.6% to Niagara Falls Board of Education and 6.8% to the County. At December 31, 2012, the City's outstanding balance was \$643,573.

Loans Receivable

The loans receivable recorded in the Community Development Fund represent amounts owed to the City relating to the U.S. Department of Housing and Urban Development Community Development loan program. Loans outstanding as of December 31, 2012 were as follows:

Community Development Fund:

Loans receivable - Community Development Block Grant	\$ 2,450,080
Loan receivable - Miscellaneous	1,212,148
Loan receivable - HOME	<u>381,573</u>

Total loans receivable	<u>\$ 4,043,801</u>
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Taxes Receivable, net

The taxes receivable, net recorded in the General Fund represents amounts owed to the City relating to real property taxes were as follows at December 31, 2012:

City taxes receivable - current	\$ 3,148,417
City taxes receivable - overdue	9,509,310
School taxes receivable	<u>7,152,704</u>

Total taxes receivable	19,810,431
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Less: Allowance for uncollectible taxes	<u>(4,461,540)</u>
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Total taxes receivable, net	<u>\$ 15,348,891</u>
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4. RECEIVABLES (Continued)

Interfund Receivables, Payables, Revenues and Expenses

To improve cash management, all City disbursements are made from a consolidated account in the general fund. Also, the cash balances of certain capital funds are consolidated to maximize investment return. Both these cash management practices, as well as normal delays in processing interfund transfers and reimbursements, are the main reason why interfund receivables and payables exist. These receivables and payables are short term in nature and are typically repaid in less than one year.

Transfers among funds are provided for as part of the annual budget process. They facilitate annual contributions from the operating budget to capital projects funds and debt service fund. They also facilitate contributions from the special revenue fund to capital projects funds.

Interfund receivables, payables and transfers as of and for the year ended December 31, 2012 are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Operating Transfers-in</u>	<u>Operating Transfers-out</u>
General Fund	\$ 5,816,151	\$ 6,109,293	\$ 10,604,293	\$ 9,175,894
Community Development Fund	-	574,964	-	-
Capital Projects Fund	5,261,631	-	794,385	8,559,454
Miscellaneous Special Revenue Fund	-	5,261,631	131,839	32,848
Debt Service Fund	-	1,860	6,700,819	2,350,000
Golf Course Fund	-	4,383	237,891	11,888
Public Library Fund	-	21,866	1,872,818	-
Parking Ramp Fund	-	4,617	-	211,961
Internal Service Funds	-	789	-	-
Agency Fund	<u>901,621</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$11,979,403</u>	<u>\$11,979,403</u>	<u>\$ 20,342,045</u>	<u>\$ 20,342,045</u>

5. CAPITAL ASSETS

Capital asset activity for the City for the year ended December 31, 2012 was as follows:

	Balance 1/1/12	Additions	Disposals	Transfers	Balance 12/31/12
Capital assets, not being depreciated:					
Land	\$ 2,891,293	\$ -	\$ -	\$ -	\$ 2,891,293
Land improvement - inexhaustible	256,620	-	-	-	256,620
Construction work in progress	39,760,907	10,498,134	-	(9,071,964)	41,187,077
Works of art/historical	17,378	-	-	-	17,378
Total capital assets, not being depreciated	42,926,198	10,498,134	-	(9,071,964)	44,352,368
Capital assets, being depreciated:					
Infrastructure	103,501,604	-	-	1,353,069	104,854,673
Land improvement - exhaustible	2,049,879	-	-	1,496,108	3,545,987
Building and building improvements	22,003,443	-	-	6,222,787	28,226,230
Furniture, office, and other equipment	8,522,092	125,344	(21,540)	-	8,625,896
Library/museum resources	9,072,896	-	-	-	9,072,896
Vehicles	16,044,829	744,004	(413,121)	-	16,375,712
Total capital assets, being depreciated	161,194,743	869,348	(434,661)	9,071,964	170,701,394
Less accumulated depreciation:					
Infrastructure	(58,053,961)	(1,700,181)	-	-	(59,754,142)
Land improvement - exhaustible	(1,380,031)	(96,741)	-	-	(1,476,772)
Building and building improvements	(17,392,902)	(657,565)	-	-	(18,050,467)
Furniture, office, and other equipment	(7,249,774)	(230,801)	21,540	-	(7,459,035)
Library/museum resources	(9,072,896)	-	-	-	(9,072,896)
Vehicles	(8,898,134)	(1,353,451)	413,121	-	(9,838,464)
Total accumulated depreciated	(102,047,698)	(4,038,739)	434,661	-	(105,651,776)
Total capital assets, being depreciated, net	59,147,045	(3,169,391)	-	9,071,964	65,049,618
Governmental activities capital assets, net	\$ 102,073,243	\$ 7,328,743	\$ -	\$ -	\$ 109,401,986

5. CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions as follows:

Governmental activities:

General government	\$ 75,140
Public safety	656,745
Transportation	2,360,995
Culture and recreation	945,805
Home and community service	<u>54</u>

Total	<u>\$ 4,038,739</u>
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6. PENSION PLAN

Plan Description

The City 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 (collectively, the Systems). These are cost-sharing multiple-employer, public employee retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction 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 Retirement Systems, 110 State Street, Albany, NY 12244.

Funding Policies

Membership, benefits, and employer and employee obligations to contribute are described in the NYSRSSL using the tier concept. Pension legislation established tier membership by the date a member last joined the Retirement System. They are as follows:

- Tier 1 - Those persons who last became members of the System before July 1, 1973.
- Tier 2 - Those persons who last became members on or after July 1, 1973, but before July 27, 1976.
- Tier 3 - Generally those persons who are State correction officers who last became members on or after July 27, 1976, and all others who last became members on or after July 27, 1976, but before September 1, 1983.
- Tier 4 - Generally, except for correction officers, those persons who last became members on or after September 1, 1983.
- Tier 5 - Those persons who last became members of the System on or after January 1, 2010.
- Tier 6 - Those persons who last became members of the System on or after April 1, 2012.

6. PENSION PLAN (Continued)

Funding Policies (Continued)

The System is noncontributory for the employee who joined prior to July 27, 1976. For employees who joined the System after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary, except that employees in the System more than ten years are no longer required to contribute. For employees who joined after January 1, 2010, employees in the System contribute 3% of their salary throughout their active membership. The Comptroller certifies the rates expressed as proportions of members' payroll annually which are used in computing the contributions required to be made by employers to the pension accumulation fund. Employees who join on or after April 1, 2012 will contribute 3% of their reportable salary. Beginning April 1, 2013, the contribution rate for Tier 6 members will vary based on each member's annual compensation varying between 3-6%.

The City is required to contribute at an actuarially determined rate. The City's ERS contributions for the years 2011 and 2010 were equal to the required contributions for the plan fiscal year. For 2012, the City elected to amortize \$1,133,819 over ten years as allowed under the NYSRSSL. The City's PFRS contributions for the years ended 2012 and 2010 were equal to the required contributions for the plan's fiscal year. For 2011, the City elected to amortize \$1,337,410 over ten years as allowed under the NYSRSSL. The required contributions for the current year and two preceding years were:

	<u>ERS</u>	<u>PFRS</u>
2012	\$ 2,915,532	\$ 5,268,533
2011	\$ 1,970,747	\$ 6,179,985
2010	\$ 1,488,373	\$ 3,913,855

\$1,762,561 of the cash paid represents amounts owed for the period of January 1 - March 31, 2013 and is shown as prepaid expenses on the accompanying balance sheet.

Chapter 49 of the Laws of 2003 of the State of New York was enacted which made the following changes to the Systems:

- Requires minimum contributions by employers of 4.5% of payroll every year, including years in which the investment performance would make a lower contribution possible.
- Changes the cycle of annual billing such that the contribution for a given fiscal year will be based on the value of the pension fund on the prior April 1st (e.g. billings due February 2012 would be based on the pension value as of March 31, 2011).

Chapter 260 of the Laws of 2004 of the State of New York was enacted that allows local employers to bond or amortize a portion of their retirement bill for up to 10 years in accordance with this schedule:

- For State fiscal year (SFY) 2004-05, the amount in excess of 7.0% of employees' covered pensionable salaries, with the first payment of those pension costs not due until the fiscal year succeeding that fiscal year in which the bonding/amortization was instituted.
- For SFY 2005-06, the amount in excess of 9.5% of employees' covered pensionable salaries.
- For SFY 2006-07, the amount in excess of 10.5% of employees' covered pensionable salaries.

6. PENSION PLAN (Continued)

Funding Policies (Continued)

The law requires participating employers to make payments on a current basis, while bonding or amortizing existing unpaid amounts relating to the Systems' fiscal years ending March 31, 2005 through 2007.

Chapter 260 of the Laws of New York State changed the annual payment due date for employers who participate in the ERS and the PFRS. The December 15 payment due date changed to February 1. The covered salary period (April 1 - March 31) did not change for the calculation.

7. OTHER POSTEMPLOYMENT BENEFIT PLANS

Plan Description

The City administers the City of Niagara Falls Retiree Medical, Dental and Life Insurance Plan (the Plan) as a single-employer defined benefit Other Postemployment Benefit plan (OPEB). The Plan provides for continuation of medical, dental and life insurance benefits for certain retirees and their spouses and can be amended by action of the City subject to applicable collective bargaining and employment agreements. The City currently has 541 retirees eligible to receive benefits under the Plan at December 31, 2012. The Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy

The obligations of the plan members, employers and other entities are established by action of the City pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement. The City currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The amount paid by the City during 2012 was \$7,115,741. The costs of administering the Plan is paid by the City.

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost is calculated based on the Annual Required Contribution (ARC) of the employer, an amount actuarially determined in accordance with generally accepted accounting principles. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

7. OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and the City's net OPEB obligation to the Plan at December 31, 2012:

Annual OPEB Cost and New OPEB Obligation

Normal Cost	\$ 4,926,794
Amortization of unfunded actuarial liability	11,357,295
Interest	<u>651,364</u>
Annual Required Contribution (ARC)	16,935,453
Interest on OPEB Obligation	1,309,964
Adjustment to ARC	<u>(1,893,888)</u>
Annual OPEB Cost	16,351,529
OPEB contributions made during the fiscal year	<u>(7,115,741)</u>
OPEB obligation for the current fiscal year	9,235,788
OPEB obligation at beginning of year	<u>32,749,112</u>
OPEB obligation at end of year	<u>\$ 41,984,900</u>
Percentage of expense contributed	<u>43.5%</u>

Funded Status and Funding Progress

As of the January 1, 2012 actuarial valuation date, the following represents the schedule of funding progress:

Current retired liability	\$ 106,339,791
Actives eligible to retire	55,099,857
Actives not yet eligible	<u>42,806,535</u>
Actuarial accrued liability	<u>\$ 204,246,183</u>
Funded ratio	<u>0.0%</u>
Annual covered payroll	<u>\$ 37,239,363</u>
Ratio of unfunded actuarial accrued liability as a percentage of covered payroll	<u>548.5%</u>

Schedule of Funding Progress for the City's Plan

Actuarial Valuation Date	Year Ended	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/(c)
1/1/2012	12/31/12	\$ -	<u>\$204,246,183</u>	<u>\$204,246,183</u>	<u>0.0%</u>	<u>\$ 37,239,363</u>	<u>548.5%</u>
1/1/2011	12/31/11	\$ -	<u>\$198,463,506</u>	<u>\$198,463,506</u>	<u>0.0%</u>	<u>\$ 38,141,762</u>	<u>520.3%</u>
1/1/2010	12/31/10	\$ -	<u>\$195,003,497</u>	<u>\$195,003,497</u>	<u>0.0%</u>	<u>\$ 34,768,855</u>	<u>560.9%</u>

7. OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)

The following table provides trend information for the Plan:

	Annual OPEB <u>Cost</u>	Annual <u>Contributions</u>	Percent of Annual OPEB Cost <u>Contributed</u>	Net OPEB Obligation at <u>December 31</u>
2012	\$ 16,351,529	\$ 7,115,741	43.5%	\$ 41,984,900
2011	\$ 14,361,166	\$ 7,958,000	55.4%	\$ 32,749,112
2010	\$ 14,152,174	\$ 7,417,000	52.4%	\$ 26,345,946

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following assumptions were made:

Actuarial cost method	Projected unit credit
Discount rate*	4.0%
Medical care cost trend rate	10.0% or 7.5% annually, based on age of retirees. The rate is reduced by decrements to an ultimate rate of 5.0% in five years.
Dental care cost trend rate	Dental care costs are assumed to increase 4.0% each year.
Unfunded actuarial accrued liability:	
Amortization period	30 years
Amortization method	Level dollar
Amortization basis	Open

*As the Plan is unfunded, the assumed discount rate considers that the City's investment assets are low risk in nature, such as money market funds or certificates of deposit.

8. LONG-TERM LIABILITIES

Serial Bonds

The City borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These long-term liabilities are full faith and credit debt of the City. The provision to be made in the future budgets for capital indebtedness represents the amount, exclusive of interest, authorized to be collected in future years from taxpayers and others for liquidation of the long-term liabilities. During the current year, the City recognized \$3,170,428 of expense for long-term serial bond interest.

Other Long Term Liabilities

In addition to the above long-term debt, the City had a non-current liability for compensated absences, which represents the value of the earned and unused sick days. The City has a non-current liability for installment purchase debt for the acquisition of various capital assets and an energy performance contract for the installation of equipment to improve energy efficiency. The interest expense from the installment purchase debt totaled \$9,801 in the current year. The City also has non-current long-term liabilities for estimated workers' compensation claims incurred and due to retirement system for the current and long-term obligation of amortized payments for the remaining amounts owed by the City to the State for the 2005 and 2006 ERS and PFRS.

The following is a summary of changes in long-term liabilities for the year ended December 31, 2012:

	Balance 1/1/12	Additions	Deletions	Balance 12/31/12	Due Within One Year
Serial bonds	\$ 72,552,939	\$ -	\$ (3,422,055)	\$ 69,130,884	\$ 3,356,051
Installment purchase debt	1,276,703	-	(134,726)	1,141,977	135,663
Due to retirement system	2,750,866	1,133,819	(516,081)	3,368,604	636,006
Compensated absences (A)	11,692,457	-	(259,831)	11,432,626	500,000
Workers' compensation	10,390,135	-	(171,089)	10,219,046	-
Other postemployment benefits	<u>32,749,112</u>	<u>16,351,529</u>	<u>(7,115,741)</u>	<u>41,984,900</u>	<u>-</u>
	<u>\$ 131,412,212</u>	<u>\$ 17,485,348</u>	<u>\$ (11,619,523)</u>	<u>\$ 137,278,037</u>	<u>\$ 4,627,720</u>

(A) Increases and decreases in compensated absences are shown net, since it is impractical to determine these amounts separately.

8. LONG-TERM LIABILITIES (Continued)

The City had the following bonds and installment purchase debt payable obligations changes during the year and outstanding as of December 31, 2012:

Fund and Purpose	Year of Issue	Year of Maturity	Interest Rate	Original Amount	Principal Outstanding 1/01/2012	Issued	Paid With Appropriations	Principal Outstanding 12/31/2012	Amounts Due in one year
General:									
Serial Bonds:									
General Improvements - 1994	1994	2024	6.125% - 7.500%	\$ 7,662,000	\$ 2,269,766	\$ -	\$ 254,010	\$ 2,015,756	\$ 273,918
Refunding Serial Bonds - 1992-1994	2003	2024	2.500% - 4.750%	4,123,400	3,335,000	-	95,000	3,240,000	30,000
General Improvements - 2004	2004	2018	3.750% - 5.000%	13,035,250	6,318,121	-	801,364	5,516,757	830,867
General Improvements - 2006	2006	2028	4.375% - 4.500%	9,364,000	8,130,000	-	340,000	7,790,000	350,000
General Improvements - 2007	2007	2037	4.500% - 4.625%	39,400,000	36,480,000	-	755,000	35,725,000	785,000
General Improvements - 2009	2009	2024	3.000% - 5.500%	8,190,000	7,285,000	-	480,000	6,805,000	495,000
General Improvements - 2011	2011	2026	3.000% - 4.000%	7,437,000	7,437,000	-	432,000	7,005,000	435,000
Installment Purchase Debt:									
NYPAA Loan	2010	2021	0.84%	1,390,120	1,276,703	-	3,157,374	68,097,513	3,199,805
Total General Fund									
					72,531,590	-	3,292,100	69,239,490	3,335,468
Golf Course:									
General Improvements - 2004	2004	2018	3.750% - 5.000%	124,750	71,002	-	9,006	61,996	9,338
Total Golf Course									
					71,002	-	9,006	61,996	9,338
Sewer Fund:									
Sewer Lines	1994	2024	5.300% - 7.500%	2,988,000	11,173	-	1,045	10,128	2,133
Total Sewer Fund									
					11,173	-	1,045	10,128	2,133
Parking Ramp I:									
Refunding Serial Bonds - 1992	2003	2012	2.500% - 4.000%	100,600	5,000	-	5,000	-	-
General Improvements - 2004	2004	2018	3.750% - 5.000%	1,600,000	910,638	-	115,501	795,137	119,757
Parking Ramp II:									
Refunding Serial Bonds - 1992	2003	2012	2.500% - 4.000%	1,006,000	110,000	-	110,000	-	-
Total Parking Ramp									
					110,000	-	110,000	-	-
Public Library:									
General Improvements - 2004	2004	2018	3.750% - 5.000%	334,250	190,239	-	24,129	166,110	25,018
Total Public Library									
					190,239	-	24,129	166,100	25,018
Total Serial Bonds and Installment Purchase Debt					\$ 73,829,642	\$ -	\$ 3,556,781	\$ 70,272,861	\$ 3,491,714

8. LONG-TERM LIABILITIES (Continued)

The following is a summary of maturing debt service requirements for the City's serial bonds and installment purchase debt:

	<u>Serial Bonds</u>		<u>Installment Purchase</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 3,356,051	\$ 2,992,753	\$ 135,663	\$ 9,071
2014	3,481,612	2,845,088	136,807	7,927
2015	3,610,890	2,691,147	137,960	6,774
2016	3,764,738	2,531,133	139,124	5,610
2017	3,907,730	2,368,325	140,297	4,437
2018 - 2022	16,689,863	9,504,665	452,126	6,198
2023 - 2027	14,220,000	6,141,061	-	-
2028 - 2032	9,220,000	3,686,775	-	-
2033 - 2037	10,880,000	1,538,456	-	-
Total	<u>\$ 69,130,884</u>	<u>\$ 34,299,403</u>	<u>\$ 1,141,977</u>	<u>\$ 40,017</u>

Interest

Interest expense on long-term debt was \$3,180,229 in 2012. In 2012, cash paid for interest was \$3,138,091. The installment purchase debt has a variable interest rate, determined annually based on interest rates paid by the lender on its outstanding debt. The interest rate was 0.84% for the year ended December 31, 2012.

Defeasance of Debt

In prior years, the City defeased certain general obligations and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At December 31, 2012, a total amount of \$2,331,771 of bonds outstanding is considered defeased.

9. RISK FINANCING ACTIVITIES

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has determined that it was not economically justifiable to carry insurance for risks or loss related to torts and other general liability claims except for amounts in excess of \$750,000. The City's insurance provides coverage of up to \$5,000,000 per occurrence and \$15,000,000 in the aggregate. The City is self-insured for unemployment insurance and certain employee health plans. Amounts paid for unemployment and general liability claims were not material to the City's financial statements. Claims settlements over the past four years have not exceeded the available insurance coverage. The City reports all of its risk management activities in its General Fund. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

The City's Corporation Counsel assesses liability for unpaid claims on a case-by-case basis. Resolution of outstanding unpaid claims is not expected to be material to the financial statements.

Total expenditures for claims and judgments recorded in the City's governmental funds for the year ended December 31, 2012 was \$1,097,206.

9. RISK FINANCING ACTIVITIES (Continued)

At December 31, 2012, the City has no liabilities relating to claims and judgments.

The workers' compensation plan maintains excess insurance, which insures against catastrophic claim losses for amounts over \$500,000, per occurrence, up to the limitations provided under the contract. The plan establishes reserve liabilities based on the estimated cost of individual claims incurred. Those estimates are determined based on many factors, one of the most significant being past experience. Since the reserve liability is an estimate it may not reflect the plan's ultimate liability.

	<u>Workers'</u> <u>Compensation</u>
Estimated claims December 31, 2011	\$ 10,390,135
Change in liability	<u>(171,089)</u>
Estimated claims December 31, 2012	<u>\$ 10,219,046</u>

The City provides hospitalization, medical and dental through various insurance programs to its employees. The claim liability is included in agency liabilities. These are paid as the claims are incurred by the employees and are based on invoices received from a third-party administrator. The City sets aside funds for current and future claims in the event that the insurance is terminated.

10. COMMITMENTS AND CONTINGENCIES

Landfill Closure Costs

In 1994, the City was identified by the United States Environmental Protection Agency (EPA) as a responsible party that could be held liable for a portion of the long-term maintenance and operation of a landfill site in Niagara County.

The City's portion for the long-term maintenance and operation of the landfill was estimated to be approximately \$630,000. All parties designated as potentially responsible parties by the EPA participated in a Pilot Allocation Program. As a result of the Pilot Allocation Program, the City is required to make annual payments of \$21,000 for the long-term operation and maintenance of the landfill through 2024. As of December 31, 2012, a liability, Niagara County Refuse Trust, has been recorded in the Government-wide financial statements for future operation and maintenance costs. Since 2004, the Trust administration has not requested payment from the City under this program. The liability recorded as Due to Other Governments at December 31, 2012 was \$258,899.

Assessments

The City is a defendant in various litigation under Article 7 of the Real Property Tax Law of the State of New York to review tax assessments. While the City vigorously defends assessments, the likelihood of success is on a case by case basis, and is dependent upon various factors including market values and appraised amounts. Management believes that the level of potential losses on these cases, if any, would be immaterial and no provisions have been made within the financial statements.

Convention Center

The City entered into an agreement dated March 15, 1971 with New York State Urban Development Corporation (UDC), d/b/a Empire State Development Corporation (ESDC), for the purpose of financing and constructing a Convention Center. Under the terms of the agreement (as subsequently amended) the UDC leased the Convention Center back to the City for the period January 1, 1974 through December 21, 2013.

10. COMMITMENTS AND CONTINGENCIES (Continued)

Convention Center (Continued)

Since 1979, the State of New York has provided the City with an annual subsidy of \$3,341,661 for the Convention Center lease payments. The continuation of the subsidy is subject to annual appropriation by the New York State Legislature. In turn, the City makes a payment to USA Niagara Development Corporation (a subsidiary of ESDC) in the amount of approximately \$3,100,000 for economic development activities. The City elected not to renew this contract for 2013.

Other

The City is also involved in litigation arising in the ordinary course of its operations. The City believes that its ultimate liability, if any, in connection with these matters will not have a material effect on the City's financial condition or results of operations.

11. FUND BALANCE

As of December 31, 2012, fund balances were composed of the following:

	General Fund	Community Development Fund	Capital Projects Fund	Miscellaneous Special Revenue Fund	Nonmajor Governmental Funds
Nonspendable -					
Prepaid expenditures	\$ 1,762,561	\$ -	\$ -	\$ -	\$ -
Long term receivables	<u>206,672</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total nonspendable	1,969,233	-	-	-	-
Restricted -					
Risk retention	2,950,074	-	-	-	-
Trolley services	442,920	-	-	-	-
Tourism	<u>214,939</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total restricted	3,607,933	-	-	-	-
Assigned -					
General government	-	-	29,869	-	9,320
Public Safety	-	-	4,102	-	-
Transportation	-	-	14,891,051	-	-
Economic assistance and opportunity	-	-	293,329	-	-
Culture and recreation	-	-	705,439	-	575
Other spendable amounts	<u>-</u>	<u>1,573,906</u>	<u>-</u>	<u>-</u>	<u>38,824</u>
Total assigned	-	1,573,906	15,923,790	-	48,719
Unassigned	<u>(177,830)</u>	<u>-</u>	<u>-</u>	<u>(4,253,737)</u>	<u>-</u>
Total	<u>\$ 5,399,336</u>	<u>\$ 1,573,906</u>	<u>\$ 15,923,790</u>	<u>\$ (4,253,737)</u>	<u>\$ 48,719</u>

12. FUTURE GASB PRONOUNCEMENTS

In December 2010, the GASB issued Statement No. 61, "The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34". This standard modifies requirements for inclusion of component units in the City's financial statements. This standard provides additional guidance on blending component units. The City is required to adopt the provisions of Statement No. 61 for the year ending December 31, 2013. The City's management has not yet assessed the impact of this statement on its future financial statements.

12. FUTURE GASB PRONOUNCEMENTS (Continued)

In June 2012, the GASB issued Statement No. 67, "Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25." This statement replaces the requirements of Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The City is required to adopt the provisions of Statement No. 67 for the year ending December 31, 2014. The City's management has not yet assessed the impact of this statement on its future financial statements.

In June 2012, the GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27." This statement replaces the requirements of Statements No. 27, Accounting for Pensions by State and Local Governmental Employers, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The City is required to adopt the provisions of Statement No. 68 for the year ending December 31, 2015. The City's management has not yet assessed the impact of this statement on its future financial statements.

In January 2013, the GASB issued Statement No. 69, "Government Combinations and Disposals of Government Operations." This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The City is required to adopt the provisions of Statement No. 69 for the year ending December 31, 2014. The City's management has not yet assessed the impact of this statement on its future financial statements.

CITY OF NIAGARA FALLS, NEW YORK

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED DECEMBER 31, 2012

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES:				
Real property taxes and tax items	\$ 30,906,422	\$ 30,906,422	\$ 30,300,909	\$ (605,513)
Nonproperty tax items	16,900,000	16,900,000	19,268,713	2,368,713
Departmental income	1,093,628	1,115,093	1,362,552	247,459
Use of money and property	722,963	722,963	623,504	(99,459)
Licenses and permits	735,410	735,410	1,001,626	266,216
Fines and forfeitures	1,015,800	1,015,800	609,984	(405,816)
Interfund revenue	141,000	153,881	37,699	(116,182)
Sale of property and compensation for loss	147,948	147,948	125,884	(22,064)
Miscellaneous	442,700	653,708	403,563	(250,145)
State aid	25,322,515	25,327,646	19,137,638	(6,190,008)
Federal aid	474,490	474,490	363,254	(111,236)
Total revenues	77,902,876	78,153,361	73,235,326	(4,918,035)
EXPENDITURES:				
General governmental support	12,208,383	11,525,712	10,063,935	1,461,777
Public safety	34,623,251	35,113,007	35,235,749	(122,742)
Transportation	3,943,342	3,961,927	3,801,485	160,442
Economic assistance and opportunity	4,767,000	5,002,167	5,592,586	(590,419)
Culture and recreation	2,429,821	2,442,559	2,338,558	104,001
Home and community services	4,976,304	5,029,976	5,382,547	(352,571)
Employee benefits	15,636,703	15,636,703	14,344,795	1,291,908
Total expenditures	78,584,804	78,712,051	76,759,655	1,952,396
EXCESS OF REVENUES OVER EXPENDITURES	(681,928)	(558,690)	(3,524,329)	(2,965,639)
OTHER FINANCING SOURCES (USES):				
Appropriated fund balance	3,245,169	3,494,003	-	(3,494,003)
Operating transfers - in	6,359,283	6,389,283	10,374,293	3,985,010
Operating transfers - out	(8,922,524)	(9,324,596)	(9,175,894)	148,702
Total other financing sources and uses	681,928	558,690	1,198,399	639,709
CHANGE IN FUND BALANCE	-	-	(2,325,930)	(2,325,930)
FUND BALANCE - beginning of year	-	-	4,734,271	4,734,271
FUND BALANCE - end of year	\$ -	\$ -	\$ 2,408,341	\$ 2,408,341

Note: This schedule does not include the Risk Retention Fund or Grant Fund which do not have legally adopted budgets.

CITY OF NIAGARA FALLS, NEW YORK

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	<u>Debt Service</u>	<u>Golf Course</u>	<u>Public Library</u>	<u>Parking Ramp</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ -	\$ 47,188	\$ 16,728	\$ 10,492	\$ 74,408
Accounts receivable	<u>1,860</u>	<u>-</u>	<u>83,954</u>	<u>-</u>	<u>85,814</u>
Total assets	<u>\$ 1,860</u>	<u>\$ 47,188</u>	<u>\$ 100,682</u>	<u>\$ 10,492</u>	<u>\$ 160,222</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ -	\$ 32,711	\$ 30,097	\$ 4,905	\$ 67,713
Accrued liabilities	-	10,094	-	970	11,064
Due to other funds	<u>1,860</u>	<u>4,383</u>	<u>21,866</u>	<u>4,617</u>	<u>32,726</u>
Total liabilities	<u>1,860</u>	<u>47,188</u>	<u>51,963</u>	<u>10,492</u>	<u>111,503</u>
FUND BALANCES:					
Assigned	<u>-</u>	<u>-</u>	<u>48,719</u>	<u>-</u>	<u>48,719</u>
Total fund balances	<u>-</u>	<u>-</u>	<u>48,719</u>	<u>-</u>	<u>48,719</u>
Total liabilities fund balances	<u>\$ 1,860</u>	<u>\$ 47,188</u>	<u>\$ 100,682</u>	<u>\$ 10,492</u>	<u>\$ 160,222</u>

The accompanying notes are an integral part of this supplementary information.

CITY OF NIAGARA FALLS, NEW YORK

COMBINING STATEMENT OF CHANGES IN REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2012

	Debt Service	Golf Course	Public Library	Parking Ramp	Total Nonmajor Governmental Funds
REVENUES:					
Departmental income	\$ -	\$ 751,731	\$ -	\$ 588,701	\$ 1,340,432
Use of money and property	-	3,335	-	72	3,407
Miscellaneous local sources	<u>844,054</u>	<u>-</u>	<u>166,113</u>	<u>-</u>	<u>1,010,167</u>
Total revenues	<u>844,054</u>	<u>755,066</u>	<u>166,113</u>	<u>588,773</u>	<u>2,354,006</u>
EXPENDITURES:					
General governmental support	-	-	-	376,812	376,812
Culture and recreation	-	981,069	1,999,173	-	2,980,242
Debt service -					
Principal	3,556,781	-	-	-	3,556,781
Interest	<u>3,138,091</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,138,091</u>
Total expenditures	<u>6,694,872</u>	<u>981,069</u>	<u>1,999,173</u>	<u>376,812</u>	<u>10,051,926</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(5,850,818)</u>	<u>(226,003)</u>	<u>(1,833,060)</u>	<u>211,961</u>	<u>(7,697,920)</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers - in	6,700,819	237,891	1,872,818	-	8,811,528
Operating transfers - out	<u>(2,350,000)</u>	<u>(11,888)</u>	<u>-</u>	<u>(211,961)</u>	<u>(2,573,849)</u>
Total other financing sources and uses	<u>4,350,819</u>	<u>226,003</u>	<u>1,872,818</u>	<u>(211,961)</u>	<u>6,237,679</u>
CHANGE IN FUND BALANCE	(1,499,999)	-	39,758	-	(1,460,241)
FUND BALANCE - beginning of year	<u>1,499,999</u>	<u>-</u>	<u>8,961</u>	<u>-</u>	<u>1,508,960</u>
FUND BALANCE - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,719</u>	<u>\$ -</u>	<u>\$ 48,719</u>

The accompanying notes are an integral part of this supplementary information.

SECTION B

OMB CIRCULAR A-133

**INDEPENDENT AUDITOR'S 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**

June 28, 2013

To the City Council of the
City of Niagara Falls, New York:

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Niagara Falls, New York, (the City), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 28, 2013. Our report includes a reference to other auditors, who audited the Niagara Falls Public Library, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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(Continued)

INDEPENDENT AUDITOR'S 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

(Continued)

Compliance and Other Matters

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

Purpose of this Report

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

Bonadio & Co., LLP

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE**

June 28, 2013

To the City Council of the
City of Niagara Falls, New York:

Report on Compliance for Each Major Federal Program

We have audited the City of Niagara Falls, New York's (the City's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal program for the year ended December 31, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

(Continued)

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Bonadio & Co., LLP

CITY OF NIAGARA FALLS, NEW YORK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2012

Federal Grantor/Pass Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Community Development Block Grants/Entitlement Grants	14.218	N/A	\$ 2,354,986
Emergency Shelter Grants Program	14.231	N/A	91,558
Home Investment Partnerships Program	14.239	N/A	546,122
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	N/A	55,709
Section 8 Housing Choice Vouchers	14.871	N/A	3,245,319
ARRA - Homelessness Prevention and Rapid Re-Housing Program	14.257	N/A	1,494
Passed through NYS Division of Housing and Community Renewal Section 8 Housing Choice Vouchers	14.871	NY904	148,843
<i>Total U.S. Department of Housing and Urban Development</i>			<u>6,444,031</u>
U.S. Department of Justice:			
Equitable Sharing Program	16.922	N/A	37,194
Foreign-Trade Zones in the United States	11.111	N/A	64,551
ARRA - Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	2,452
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	54,456
			158,653
ARRA - Public Safety Partnership and Community Policing Grants	16.710	N/A	363,254
Passed through NYS Division of Criminal Justice Services Legal Assistance for Victims	16.524	VW091168E00	38,673
<i>Total U.S. Department of Justice</i>			<u>560,580</u>
U.S. Department of Homeland Security:			
Passed through NYS Office of Homeland Security Homeland Security Grant Program	97.067	N/A	55,592
<i>Total U.S. Department of Homeland Security</i>			<u>55,592</u>
U.S. Department of Transportation:			
Passed through NYS Department of Transportation			
Highway Planning and Construction	20.205	D031554	94,089
Highway Planning and Construction	20.205	D017307	317,764
Highway Planning and Construction	20.205	D013786	1,447,258
Highway Planning and Construction	20.205	D032572	1,576,826
Highway Planning and Construction	20.205	D022276	1,980,423
Highway Planning and Construction	20.205	D017179	263,262
Highway Planning and Construction	20.205	D024729	247,489
Highway Planning and Construction	20.205	D024782	35,842
Highway Planning and Construction	20.205	D032547	206,445
Highway Planning and Construction	20.205	D032548	94,446
<i>Total U.S. Department of Transportation</i>			<u>6,263,844</u>
U.S. Department of Energy:			
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	N/A	87,816
<i>Total U.S. Department of Energy</i>			<u>87,816</u>
Total Expenditures of Federal Awards			<u>\$ 13,411,863</u>

Note: Bold items denote major programs.

The accompanying notes are an integral part of this schedule.

CITY OF NIAGARA FALLS, NEW YORK

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS DECEMBER 31, 2012

1. REPORTING ENTITY

The accompanying schedule of expenditures of federal awards presents the activity of federal financial assistance programs administered by the City of Niagara Falls, New York (the City), an entity as defined in the basic financial statements.

2. PASS-THROUGH PROGRAMS

Where the City receives funds from a government entity other than the federal government (pass-through), the funds are accumulated based upon the Catalog of Federal Domestic Assistance (CFDA) number advised by the pass-through grantor.

Identifying numbers, other than the CFDA numbers, which could be assigned by pass-through grantors are not maintained in the City's financial management system. The City has identified certain pass-through identifying numbers and included them in the schedule of expenditures of federal awards, as available.

3. BASIS OF ACCOUNTING

The schedule of expenditures of federal awards is presented in conformity with accounting principles generally accepted in the United States and the amounts presented are derived from the City's general ledger.

4. INDIRECT COSTS

Indirect costs are included in the reported expenditures to the extent such costs are included in the federal financial reports used as the source for the data presented.

5. MATCHING COSTS

Matching costs, i.e., the City's or State's share of certain program costs, are not included in the schedule of expenditures of federal awards.

6. SUBRECIPIENTS

The following programs provided federal awards to subrecipients during the year ended December 31, 2012:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Community Development Block Grants/Entitlement Grants		
Niagara Falls Memorial Medical Center Entrance Project	14.218	\$ 250,000
Niagara Falls Neighborhood Housing Services	14.218	210,000
Center City Neighborhood Development Corp.	14.218	210,000
Highland Avenue Revitalization Committee	14.218	50,000
Niagara Arts & Cultural Center	14.218	20,000
Youth Motivation - Early Detection & Correction	14.218	20,000
New Jerusalem Boys Reporting Center	14.218	50,000
NFHA - Summer Enrichment Program	14.218	30,000
NIACAP - Building Renovations	14.218	20,000
HOME Investment Partnerships Program		
Center City Neighborhood Dev. Corp.	14.239	114,924
Niagara Falls Neighborhood Housing Services	14.239	97,914
Emergency Shelter Grants Program		
YWCA - Carolyn's House - operating costs	14.231	62,184
Community Missions - operating costs	14.231	62,184
Family & Children's Service - operating costs	14.231	34,834
YMCA - Buffalo/Niagara	14.231	<u>24,000</u>
		<u>\$ 1,256,040</u>

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

1. The independent auditor's report expresses an unqualified opinion on the basic financial statements of the City of Niagara Falls, New York (the City).
2. No material weaknesses or significant deficiencies relating to the audit of the basic financial statements is reported in the Independent Auditor's 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*.
3. No instances of noncompliance material to the basic financial statements of the City were disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Federal Program; and Report on Internal Control over Compliance.
5. The auditor's report on compliance for the City's major federal award programs expresses an unqualified opinion.
6. There are no audit findings relative to the major federal award programs for the City.
7. The programs tested as major programs were:
 - CFDA No. 14.218 Community Development Block Grants/
Entitlement Grants
 - CFDA No. 20.205 Highway Planning and Construction
8. The threshold for distinguishing Types A and B programs was \$402,356.
8. The City was not determined to be a low-risk auditee.

None.

None.

SECTION C

NEW YORK STATE SINGLE AUDIT

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS OF THE STATE TRANSPORTATION ASSISTANCE
PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

June 28, 2013

To the City Council of the
City of Niagara Falls, New York:

Report on Compliance of the State Transportation Assistance Program

We have audited the City of Niagara Falls, New York's compliance with the types of compliance requirements described in the Draft Part 43 of the New York State Codification of Rules and Regulations (NYSCRR) that could have a direct and material effect on the City's state transportation assistance programs tested for the year ended December 31, 2012. The City's State Transportation Assistance programs tested are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs for state transportation assistance expended.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state transportation assistance program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's state transportation assistance program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Draft Part 43 of NYSCRR. Those standards and Draft Part 43 of NYSCRR require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state transportation assistance program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on State Transportation Assistance Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its state transportation assistance program for the year ended December 31, 2012.

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS OF THE
STATE TRANSPORTATION ASSISTANCE PROGRAM; AND REPORT ON INTERNAL
CONTROL OVER COMPLIANCE**
(Continued)

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the state transportation assistance programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the state transportation assistance programs and to test and report on internal control over compliance in accordance with Draft Part 43 of NYSCRR, but not for the purpose of expressing an opinion over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Draft Part 43 of NYSCRR. Accordingly, this report is not suitable for any other purpose.

Bonadio & Co., LLP

CITY OF NIAGARA FALLS, NEW YORK

**SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED
FOR THE YEAR ENDED DECEMBER 31, 2012**

<u>Program Title</u>	<u>NYS DOT Contract Reference Number</u>	<u>Expenditures</u>
Consolidated Local Street and Highway Improvement Program (CHIPS)	001-01/001-02	\$ 1,356,404
Arterial Maintenance	N/A	401,625
Marchiselli Program - Bond Match for Federal Aid Highway Projects:		
Lewiston Road/Route 104	D013786	271,361
Buffalo Avenue Reconstruction - Tenth Street to I-190	D022276	371,329
Traffic Signals Project	D017179	49,362
10th Street - Niagara Street to Cedar Avenue	D024729	46,404
Buffalo Avenue - I-190 to Cayuga Drive	D024782	6,720
		<u>\$ 2,503,205</u>

Note: Bolded item denotes major programs.

CITY OF NIAGARA FALLS, NEW YORK

NOTES TO THE SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED DECEMBER 31, 2012

1. GENERAL

The accompanying Schedule of State Transportation Assistance Expended of the City of Niagara Falls, New York (the City) presents the expenditures of all financial assistance programs provided by the New York State Department of Transportation.

2. BASIS OF ACCOUNTING

The accompanying Schedule of State Transportation Assistance Expended is presented in conformity with accounting principles generally accepted in the United States.

3. INDIRECT COSTS

Indirect costs are included in the reported expenditures to the extent they are included in the New York State financial reports used as the source for the data presented.

4. MATCHING COSTS

Amounts identified as Marchiselli Program - Bond Match for Federal Aid Highway Projects represent matching costs for the federally aided program.

CITY OF NIAGARA FALLS, NEW YORK

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR STATE TRANSPORTATION
ASSISTANCE EXPENDED
FOR THE YEAR ENDED DECEMBER 31, 2012**

A. SUMMARY OF AUDIT RESULTS

1. Internal control over state transportation assistance expended:
 - No significant deficiencies or material weaknesses were identified.
2. The independent auditor's report on compliance with requirements of the state transportation assistance program; report on internal control over compliance; and report on the schedule of state transportation assistance expended in accordance with *Government Auditing Standards* expressed an unqualified opinion and did not disclose any material noncompliance with state transportation programs.
3. The programs tested were:
 - Consolidated Local Street and Highway Improvement Program (CHIPS)
 - Marchiselli Program - Bond Match for Federal Aid Highway Projects

**B. FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

There were no current year findings and there were no prior year findings.

C. COMPLIANCE FINDINGS AND QUESTIONED COSTS

There were no current year findings.

CITY OF NIAGARA FALLS, NEW YORK

**Communication of Matters Related to Internal Control
Over Financial Reporting and Other Matters
July 5, 2012**

Bonadio & Co., LLP
Certified Public Accountants

July 5, 2012

To the Honorable Members of City Council of the
City of Niagara Falls, New York:

In planning and performing our audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Niagara Falls, New York (the City) as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified one deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be deficiencies in internal control.

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

This communication is intended solely for the information and use of management, the City Council, and others within the City, and is not intended to be and should not be used by anyone other than these specified parties.

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CITY OF NIAGARA FALLS, NEW YORK

COMMUNICATION OF MATTERS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS

JULY 5, 2012

INTERNAL CONTROL RELATED MATTERS

We consider the following deficiency in the City's internal control to be a *material weakness*:

1. PRIOR PERIOD ADJUSTMENTS

Observation

During our audit and in cooperation with management it was determined that certain transactions were recorded incorrectly in previous years. Historically in the Capital Projects Fund, the City had been recording grant income at the full contract amount at the time of the award was made by the funding source, regardless of how much had been expended on that project through the reporting date. It was determined that the more appropriate measure of revenue for these contracts was to report revenue only to the extent that eligible project costs had been incurred.

Additionally, during 2010, the City was receiving funding from the Power Authority of New York State (the Power Authority) Energy Services Program. Under the specifics of this program, the City agrees to repay the Power Authority for the costs to complete the project based on a Customer Installment Commitment (CIC) which is not fully identified until the project is completed. During the construction period, installment payments are made to the City at various amounts. The final borrowing is not known until the project is completed, and in this case, the City was not informed until fiscal 2011 as to the final loan amount. As such, the City was not able to properly record the debt at December 31, 2010 on their government-wide financial statements.

Both of these adjustments resulted in the recording of a prior period adjustment to the City's opening fund balance/net asset amount as of January 1, 2011 as required under Generally Accepted Auditing Standards.

Recommendation

During 2011, all of the Capital Fund grant activity was properly reflected in the fund results of the City. The City has instituted the appropriate procedures to ensure the consistency of this accounting going forward and that grant revenues related to cost-reimbursement grants are recorded only when the eligible costs are incurred. Because of the nuances of the Power Authority's Energy Services Program, we recommend that the City consider requesting estimated information relative to the loan obligation that can be recorded as a liability instead of revenue as the payments are made. We understand that the City must work within the constraints of the Power Authority and the extent that this information is made available to the City on a timely basis.

We consider the following to be *deficiencies in internal control*:

2. CONTROLS OVER INFORMATION TECHNOLOGY

Observation

In connection with our audit, we reviewed the information technology process and controls to determine the risks, if any, related to the financial reporting process of the City. In connection with our assessment, we identified areas where deficiencies in controls existed however, due to the sensitive nature of the findings and their significance to the City, we have communicated them to management separately and we will not repeat them in this letter. We understand that during 2011, steps had been taken to address certain items, but further action was necessary.

Recommendation

We continue to recommend that the City review our observations and develop a process by which to begin addressing those areas that are deemed to be the most critical or time sensitive. When dealing with information technology related controls, it is important to remember that it is an ever-changing environment both from the perspective of the threats that exist, and from the tools available to combat those threats. Furthermore, the costs to implement every control will typically outweigh benefits derived from implementation and; therefore, it is important to consider the entirety of the information technology and manual controls that may be in existence and develop appropriate procedures to best put them in place to protect the City.

3. CENTRAL GARAGE INVENTORY PROCEDURES

Observation

Through discussions with management and the Department of Public Works, we identified certain deficiencies in the City's central garage inventory procedures. We were informed that the City uses a "rolling inventory" process performed by one or two individuals without direct oversight. A rolling inventory process means that all items are not counted on the same day, but instead are counted over multiple weeks near year end. We noted that using this process, the inventory counts are primarily unsupervised and that employees counting the inventory have access to the inventory listing before they count. We also noted that there is no policy requiring that discrepancies between the inventory listing and the count be reported to an individual independent of the count process and there is no means to track and report the discrepancies found. This process also relies heavily on the whether the existing inventory management system is operating effectively and is being used properly.

Recommendation

We recommend that the City evaluate the inventory control processes currently being utilized at the Central Garage and should consider modifying the procedures in place to safeguard the inventory. This would include an evaluation of the current inventory control system to ensure that it is appropriate for the City's use. Proper controls are imperative to ensure that inventory is being used only for City purposes and that appropriate inventory levels are being maintained. Proper inventory levels will allow for better inventory management, improved purchasing power, and possible reductions in overall costs to the department. The City should consider performing the entire inventory count on one day, which will ensure a better means of identifying and investigating discrepancies in the inventory count and the inventory listing, which could be indicative of a misappropriation of assets. We recommend that the inventory counts be supervised and that the person counting not have access to the inventory listing. This will ensure more accurate and reliable counts and ensure that discrepancies are identified and investigated. The City may also consider obtaining a third party service provider to assist with the inventory count. The City should also require that all discrepancies between the count and inventory listing be reported and investigated to ensure the proper actions are being taken to account for the differences.

4. PARKING CONTROLS

Observation

Through discussions with management and based on our review of an independent study completed in February 2012, the City's current controls relating to the parking operations are not operating effectively. Much of the controls are manual in nature and subject to circumvention by those operating the various parking location. When controls are either not effective or not designed appropriately, the City is at risk for loss due to theft or simply through the inherent limitations of the existing controls.

Recommendation

We recommend the City explore the recommendations made from the independent analysis and determine the best course of action from a cost-benefit perspective. Although upfront costs may be high for any automated parking control system, the rate of return related to the installation often is worth the investment. Installing automated systems would allow the City to eliminate ineffective or non-value added parking positions and provides for more control over ingress and egress to the parking facilities thereby maximizing the revenue potential. At a minimum the City should evaluate the existing controls using the Controller's office or an outside group to implement any immediately identified weaknesses that may exist. We applaud the City's efforts in taking the first step towards identifying the opportunities for improving controls in this area, but encourage you to continue to explore the most cost-effective approach to minimizing risk and maximizing revenue.

June 28, 2013

To the Honorable Members of the City Council of the
City of Niagara Falls, New York:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Niagara Falls, New York (the City) for the year ended December 31, 2012, and the related notes to the financial statements. Professional standards require that we provide you with information about our responsibilities under generally accepted accounting standards, Government Auditing Standards and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated January 4, 2013. Professional standards also require that we communicate to you the following related to our audit.

SIGNIFICANT AUDIT FINDINGS

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements.

The City adopted GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," and No. 65, "Items Previously Reported as Assets and Liabilities," during 2012. Accordingly, the effect of the accounting change is reported in the balance sheet - governmental funds. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimate affecting the City's government-wide activities financial statements was the annual required contribution for Other Postemployment Benefits (OPEB) for the year. Management's estimate of the annual required OPEB cost is based on an actuarially determined amount in accordance with generally accepted accounting principles. We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

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SIGNIFICANT AUDIT FINDINGS (Continued)

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

Management has corrected all such misstatements. The schedule of adjustments as corrected by management is displayed in Exhibit A.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 28, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors.

However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Supplementary Information

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Bonadio & Co., LLP

CITY OF NIAGARA FALLS, NEW YORK**DECEMBER 31, 2012****SCHEDULE OF ADJUSTMENTS**

Community Development

Change in fund balance - unadjusted (per AUD)	\$ (592,241)
Client entries made after AUD was complete	320,222
To adjust beginning fund balance	<u>3,876</u>
Change in fund balance - adjusted	<u>\$ (268,143)</u>

Capital Projects

Change in fund balance - unadjusted (per AUD)	\$ (10,160,269)
To adjust beginning fund balance	(542,459)
To adjust federal and state aid receivable	<u>(416,625)</u>
Change in fund balance - adjusted	<u>\$ (11,119,353)</u>