

**TOWN OF TONAWANDA,
NEW YORK**

*Basic Financial Statements, Required Supplementary
Information, Supplementary Information and Federal
Awards Information for the Year Ended
December 31, 2017 and Independent Auditors' Reports*

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Honorable Town Board
Town of Tonawanda, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Tonawanda, New York (the "Town"), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town, as of December 31, 2017, 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.

Other Matters

Required Supplementary Information

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

Other Information

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

The Supplementary Information, as listed in the table of contents, and Schedule of Expenditures of Federal Awards 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. In our opinion, the Supplementary Information, as listed in the table of contents, and Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2018 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

 Duesch & Meloni LLP

August 30, 2018

TOWN OF TONAWANDA, NEW YORK
Management's Discussion and Analysis
Year Ended December 31, 2017

As management of the Town of Tonawanda, New York (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the year ended December 31, 2017. This document should be read in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

- The liabilities and deferred inflows of resources of the Town exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$25,662,177 (*net position*). This consists of \$76,653,833 net investment in capital assets, \$19,229,931 restricted for specific purposes, offset by an unrestricted net position of \$(121,545,941).
- The Town's governmental activities net position decreased \$24,856,564 during the year ended December 31, 2017.
- At the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$39,072,942, an increase of \$3,229,674 in comparison with the prior year. Excluding the Capital Projects Fund unassigned fund deficit of \$18,094,931, the Town had unrestricted fund balances of \$37,874,065; the remainder is subject to external restrictions (restricted) or is not available for spending (nonspendable).
- The General Fund reported a net increase in fund balance this year of \$633,039. At December 31, 2017, unassigned fund balance for the General Fund was \$6,117,963, or 23.4 percent of total General Fund expenditures and transfers out.
- During the year ended December 31, 2017, the Town's total serial bonds outstanding increased \$6,473,867 as a result of the conversion of long term EFC notes payable to serial bonds in the amount of \$8,762,867 and scheduled principal payments of \$2,289,000.

Overview of the Financial Statements

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

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

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

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

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

The government-wide financial statements can be found on pages 14-15 of this report.

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

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

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

The Town maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, General—Town Outside Village, Highway—Town Outside Village, Special Grants, Sewer District, Water District, and Capital Projects funds, all of which are considered to be major funds. Data from the other four funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the Supplementary Information section of this report.

The basic governmental fund financial statements can be found on pages 16-19 of this report.

The Town uses internal service funds to account for its self-insurance and workers compensation insurance programs. Because these insurance services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Self Insurance Fund and Workers Compensation Fund.

The basic proprietary funds financial statements can be found on pages 20-22.

Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the Town. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources are *not* available to support the Town’s own programs. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The Town maintains one fiduciary fund, the Agency Fund.

The fiduciary fund financial statement can be found on page 23 of this report.

Notes to the financial statements—The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24-56 of this report.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Town’s Schedule of Funding Progress for its other postemployment benefits plan, the Town’s net pension liability and the Town’s budgetary comparison schedules for each major fund with a legally adopted budget. Required Supplementary Information and a related note can be found on pages 57-67 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and the Capital Projects Fund are presented as other supplementary information immediately following the Required Supplementary Information in the Supplementary Information section of this report on pages 68-71.

The Federal Awards Information can be found on pages 72-80 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as useful indicator of a government’s financial position. In the case of the Town, liabilities and deferred inflows of resources have surpassed assets and deferred outflows of resources by \$26,662,177 at the close of the most recent year, as compared to the close of the fiscal year ended December 31, 2016 where the Town’s liabilities and deferred inflows of resources have surpassed assets and deferred outflows of resources by \$805,613. Net position decreased \$24,856,564 during the year ended December 31, 2017 largely due to increasing costs related to the Town’s other postemployment benefits liability.

Table 1, as presented below, shows the net position as of December 31, 2017 and December 31, 2016.

Table 1—Condensed Statements of Net Position—Primary Government

	<u>Governmental Activities</u>	
	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Current assets	\$ 75,596,346	\$ 72,394,895
Capital assets	<u>147,283,228</u>	<u>150,771,447</u>
Total assets	<u>222,879,574</u>	<u>223,166,342</u>
Deferred outflows of resources	<u>14,758,250</u>	<u>28,662,827</u>
Current liabilities	33,385,737	33,698,637
Noncurrent liabilities	<u>225,906,084</u>	<u>214,261,876</u>
Total liabilities	<u>259,291,821</u>	<u>247,960,513</u>
Deferred inflows of resources	<u>4,008,180</u>	<u>4,674,269</u>
Net position:		
Net investment in capital assets	76,653,833	75,854,963
Restricted	19,229,931	17,957,397
Unrestricted	<u>(121,545,941)</u>	<u>(94,617,973)</u>
Total net position	<u>\$ (25,662,177)</u>	<u>\$ (805,613)</u>

The largest portion of the Town's net position, \$76,653,833, reflects its investment in capital assets (such as land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position, \$19,229,931, represents resources that are subject to external restrictions on how they may be used. While the last portion of net position is considered to be an unrestricted net position of \$(121,545,941). This demonstrates that future funding will be necessary to liquidate long-term obligations.

Table 2, presented on the following page, shows the changes in net position for the years ended December 31, 2017 and December 31, 2016.

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

	Governmental Activities	
	Year Ended December 31,	
	2017	2016
Program revenues:		
Charges for services	\$ 29,921,958	\$ 29,805,866
Operating grants and contributions	5,077,884	2,607,320
Capital grants and contributions	25,000	-
General revenues	64,043,888	60,847,610
Total revenues	<u>99,068,730</u>	<u>93,260,796</u>
Program expenses	<u>123,925,294</u>	<u>121,412,044</u>
Change in net position	(24,856,564)	(28,151,248)
Net position—beginning	(805,613)	27,345,635
Net position—ending	<u><u>\$ (25,662,177)</u></u>	<u><u>\$ (805,613)</u></u>

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

Table 3 – Summary of Sources of Revenues—Primary Government

	Year Ended December 31,		Increase/(decrease)	
	2017	2016	Dollars	Percent (%)
Charges for services	\$ 29,921,958	\$ 29,805,866	\$ 116,092	0.4
Operating grants and contributions	5,077,884	2,607,320	2,470,564	94.8
Capital grants and contributions	25,000	-	25,000	100.0
Property taxes and tax items	46,877,308	48,131,737	(1,254,429)	(2.6)
Sales tax	8,030,945	7,597,435	433,510	5.7
Mortgage tax	1,237,215	1,222,740	14,475	1.2
Franchise tax	1,107,843	1,143,065	(35,222)	(3.1)
Use of money and property	647,176	628,821	18,355	2.9
Sale of property and compensation for loss	353,422	647,135	(293,713)	(45.4)
Miscellaneous	2,283,824	891,478	1,392,346	156.2
Unrestricted state aid	3,506,155	585,199	2,920,956	499.1
Total revenues	<u><u>\$ 99,068,730</u></u>	<u><u>\$ 93,260,796</u></u>	<u><u>\$ 5,807,934</u></u>	6.2

Overall revenues increased 6.2 percent from the prior year, primarily due to increases in unrestricted state aid and operating grants and contributions. Unrestricted state aid increased due to the forgiveness of EFC notes payable. Operating grants and contributions increased from the prior year as a result of cessation mitigation program funds related to the Huntley Plant closing.

The most significant source of revenues is property taxes and tax items, which accounts for \$46,877,308, or 47.3 percent of total revenues, for the year ended December 31, 2017, and \$48,131,737, or 51.6 percent of total revenues, for the year ended December 31, 2016. The next largest source of revenue is charges for services, which comprises 30.2 percent and 32.0 percent of total revenues for the years ended December 31, 2017 and 2016, respectively.

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

Table 4—Summary of Program Expenses—Governmental Activities

	Year Ended December 31,		Increase/(decrease)	
	2017	2016	Dollars	Percent (%)
General government support	\$ 10,113,991	\$ 11,110,362	\$ (996,371)	(9.0)
Public safety	34,473,227	33,691,915	781,312	2.3
Health	2,872,080	2,850,338	21,742	0.8
Transportation	13,166,599	13,109,490	57,109	0.4
Economic assistance and opportunity	621,658	91,440	530,218	579.9
Culture and recreation	16,900,878	17,249,305	(348,427)	(2.0)
Home and community services	44,360,658	41,962,633	2,398,025	5.7
Interest and fiscal charges	1,416,203	1,346,561	69,642	5.2
	<u>\$ 123,925,294</u>	<u>\$ 121,412,044</u>	<u>\$ 2,513,250</u>	2.1

Overall expenses increased 2.1 percent from the prior year, primarily due to increases of \$2,398,025 and \$781,312 in home and community services and public safety expenditures, respectively. These increases are due primarily to increases in the Town's other postemployment benefits liability as a result of the updated actuarial assumptions concerning turnover, retirement, and prescription drug short-term rate schedules. The increase in the other postemployment benefit liability is allocated across program expense categories of the Town. The increase in public safety expenditures during the fiscal year ended December 31, 2017 resulted from contractual salary increases.

The Town's significant program expense items for the year ended December 31, 2017 were home and community services of \$44,360,658 (primarily sewer, water, and sanitation services), or 35.8 percent of total expenses, public safety of \$34,473,227 (primarily police services), or 27.8 percent of total expenses, culture and recreation of \$16,900,878, or 13.6 percent of total expenses, and transportation of \$13,166,599, or 10.6 percent of total expenses. Similarly, for the year ended December 31, 2016 significant program expense items were home and community services of \$41,962,633 (primarily sewer, water, and sanitation services), or 34.6 percent of total expenses, public safety of \$33,691,915 (primarily police services), or 27.8 percent of total expenses, culture and recreation of \$17,249,305, or 14.2 percent of total expenses, and transportation of \$13,109,490, or 10.8 percent of total expenses.

Financial Analysis of the Town's Funds

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

At December 31, 2017, the Town’s governmental funds reported combined ending fund balances of \$39,072,942, an increase of \$3,229,674 in comparison with the prior year. Excluding the Capital Projects Fund unassigned fund deficit of \$18,094,931, the Town had unrestricted fund balances of \$37,874,065. Approximately 50.2 percent of the total fund balances net of the Capital Projects Fund deficit, \$28,712,432 constitutes *unassigned fund balance for the general fund or fund balance assigned to specific use for the special revenue funds* which is available for spending at the government’s discretion. The remainder of fund balance is *nonspendable, restricted, or assigned for subsequent years’ expenditures and encumbrances* to indicate that it is not available for new spending because it has already been committed to finance capital projects, for repairs, leachate, public safety, future retirement costs, special grants, and rehabilitation loans.

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

Table 5—Major Funds’ Fund Balance

	General	General— Town Outside Village	Highway— Town Outside Village	Sewer District	Water District
Net change in fund balances	\$ 633,039	\$ 41,005	\$ 679,264	\$ 1,500,240	\$ 39,848
Unassigned or assigned to the fund's specific use	6,117,963	2,676,671	2,060,091	8,231,035	6,503,495
Total fund balances	10,336,566	8,045,829	3,026,954	11,254,109	10,591,952
Percentage unassigned or assigned to specific use	59.2%	33.3%	68.1%	73.1%	61.4%

The General Fund is the chief operating fund of the Town. The Town’s General Fund ending fund balance was \$10,336,566. Approximately 59.2 percent, \$6,117,963, of this amount is *unassigned fund balance*. Total fund balance increased by \$633,039 from the prior fiscal year end, as compared to an anticipated decrease of \$2,656,471 with the final budget. The variance from the final budget was primarily the result of spending under appropriation limits for the functions of employee benefits, culture and recreation and general government support.

The Town’s General Fund—Town Outside Village ending fund balance was \$8,045,829. Approximately 33.3 percent, \$2,676,671, of this amount is *fund balance assigned to specific use*. The total fund balance increased by \$41,005 during 2017 as compared to an anticipated decrease of \$3,165,294 as per the final budget. The variance from the final budget was primarily the result of spending under appropriation limits for the functions of public safety and employee benefits and greater than anticipated non-property tax items.

The Town’s Highway Fund—Town Outside Village ending fund balance was \$3,026,954. Approximately 68.1 percent, \$2,060,091, of this amount is *fund balance assigned to specific use*. The fund balance increased by \$679,264 during 2017 as compared to an anticipated decrease of \$556,617 as per the final budget. The variance from the final budget was primarily the result of spending under appropriation limits for employee benefits coupled with an unanticipated surplus in interfund revenue.

The Town’s Special Grants Fund ending fund balance was \$9,396,995. The fund balance increased by \$57,333 during 2017. The appropriations of the Special Grants Fund are approved based on grants received and vary from year to year.

The Town’s Sewer District Fund ending fund balance was \$11,254,109. Approximately 73.1 percent, \$8,231,035, of this amount is *fund balance assigned to specific use*. The fund balance increased by \$1,500,240 during 2017 as compared to an anticipated decrease of \$2,045,574 as per the final budget. The variance from the final budget was primarily the result of spending under appropriation limits for the function of home and community services.

The Town’s Water District Fund ending fund balance was \$10,591,952. Approximately 61.4 percent, \$6,503,495, of this amount is *fund balance assigned to specific use*. The fund balance increased by \$39,848 during 2017 as compared to an anticipated decrease of \$887,752 as per the final budget. The variance from the final budget was primarily the result of spending under appropriation limits for the function of home and community services and employee benefits.

The Town’s Capital Project Fund reported an ending fund deficit of \$18,094,931. This deficit increased by \$924,625 during 2017 as a result of capital projects expenditures financed with issuance of bond anticipation notes (“BANS”) which do not qualify for treatment as an issuance of a long-term liability.

General Fund Budgetary Highlights

The Town’s General Fund budget generally contains budget amendments during the year. The budget is allowed to be amended upward, increased, for prior year’s encumbrances since the funds were allocated under the previous year’s budget, and the Town has appropriately assigned an equal amount of fund balance at year-end for this purpose. Furthermore, the budget is allowed to be amended upward, increased, for additional current year appropriations supported by an increase in budgeted revenues. A budgetary comparison schedule within the required supplementary information section of this report has been provided to demonstrate compliance with their budget. A summary of the General Fund results of operations for the year ended December 31, 2017 is presented below in Table 6.

Table 6—Summary of General Fund Results of Operations

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
Revenues and other financing sources	\$ 25,978,832	\$ 26,019,810	\$ 26,775,933	\$ 756,123
Expenditures and other financing uses	28,544,156	28,676,281	26,142,894	2,533,387
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ (2,565,324)</u>	<u>\$ (2,656,471)</u>	<u>\$ 633,039</u>	<u>\$ 3,289,510</u>

Original budget compared to final budget—During the year, there was a \$132,125 difference between the original and final amended budgeted appropriations of the General Fund. This increase was due primarily to an increase in transfers out.

Final budget compared to actual results—A review of actual expenditures and transfers out and revenues and transfers in compared to appropriations and estimated revenues in the final budget yields certain variances within the General Fund. Expenditures and transfers out were \$2,533,387 less than corresponding final budgeted appropriations, while revenues and transfers in were \$756,123 more than

corresponding final budgeted estimated revenues. On the following page are the main components of the variance of expenditures.

- Employee benefits expenditures were \$1,002,539 less than budgeted largely due to less retirements than anticipated and less than expected hospital and medical insurance expenditures.
- Culture and recreation expenditures were \$609,120 less than budgeted largely due to personal service and utility expenditures.
- General government support expenditures were \$462,099 less than budgeted due to personal service expenditures.

Capital Asset and Debt Administration

Capital Assets—The Town’s investment in capital assets for its governmental activities as of December 31, 2017, amounted to \$147,283,228 (net of accumulated depreciation). This investment in capital assets includes land and land improvements, construction in progress, infrastructure, buildings and improvements, vehicles and equipment.

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

Capital assets net of depreciation for the governmental activities at the years ended December 31, 2017 and 2016 are presented below in Table 7.

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

	December 31,	
	2017	2016
Governmental activities:		
Land	\$ 1,493,633	\$ 1,493,633
Construction in progress	4,557,211	5,169,545
Building and improvements	15,335,094	16,308,643
Transportation network	7,878,467	8,559,818
Sewer network	82,491,973	85,820,044
Water network	18,776,905	17,551,541
Drainage network	6,471,800	6,725,601
Improvements other than buildings	1,484,609	1,708,884
Machinery and equipment	8,793,536	7,433,738
Total governmental activities	<u>\$ 147,283,228</u>	<u>\$ 150,771,447</u>

The Town’s infrastructure assets are recorded at historical cost or estimated historical cost in the government-wide financial statements. The Town has elected to depreciate their infrastructure assets. Additional information on the Town’s capital assets can be found in Note 4 of this report.

Long-term liabilities—At December 31, 2017, the Town’s governmental activities had serial bonds outstanding of \$50,932,392 as compared to \$44,458,525 in the prior year. New York State statutes limit the amount of general obligation debt a governmental entity may issue up to 7% of its five year valuation.

The Town's outstanding general obligation debt as of December 31, 2017 is significantly lower than current debt limitations for the Town.

A summary of the Town's long-term liabilities at December 31, 2017 and 2016 is presented within Table 8 below.

Table 8—Summary of Long-Term Liabilities

	<u>December 31,</u>		<u>Increase/(Decrease)</u>	
	<u>2017</u>	<u>2016</u>	<u>Dollar</u>	<u>Percent (%)</u>
Serial bonds	\$ 50,932,392	\$ 44,458,525	\$ 6,473,867	14.6
EFC notes payable	-	11,683,824	(11,683,824)	(100.0)
Landfill closure and post closure liability	5,317,837	5,356,128	(38,291)	(0.7)
Compensated absences	460,459	414,093	46,366	11.2
Other postemployment benefits	152,179,595	124,258,552	27,921,043	22.5
Capital lease	1,602,072	1,740,374	(138,302)	(7.9)
Net pension liability	<u>15,413,729</u>	<u>26,350,380</u>	<u>(10,936,651)</u>	<u>(41.5)</u>
Total long-term liabilities	<u>\$ 225,906,084</u>	<u>\$ 214,261,876</u>	<u>\$ 11,644,208</u>	5.4

Additional information on the Town's long-term liabilities can be found in Note 11 to the financial statements.

Economic Factors and Next Year's Budget

The unemployment rate, not seasonally adjusted, for the Town during December 2017 was 4.4 percent. This is favorable to New York State's unemployment rate of 4.6 and unfavorable to the national unemployment rate of 4.1 percent. These factors are considered in preparing the Town's budget.

The Town considered current year operational expenses and estimated increases based on economic factors when establishing the 2018 budget. The Town's 2018 budget includes the appropriation of \$2,500,000 of fund balance in the General Fund and \$5,500,000 in other funds. Additional information on the Town's budgeted appropriations of fund balance can be found in Note 12 to the financial statements.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Supervisor's Office, Town of Tonawanda, 2919 Delaware Avenue, Kenmore, NY 14217.

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TOWN OF TONAWANDA, NEW YORK
Statement of Net Position
December 31, 2017

	Primary Government
	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 32,449,790
Restricted cash and cash equivalents	18,380,242
Receivables	7,643,317
Intergovernmental receivables	5,017,635
Due from agency fund	888,454
Inventories	634,607
Prepaid items	2,085,921
Rehabilitation loans receivable	8,496,380
Capital assets not being depreciated	6,050,844
Capital assets, net of accumulated depreciation	141,232,384
Total assets	222,879,574
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows—relating to pensions	14,758,250
Total deferred outflows of resources	14,758,250
LIABILITIES	
Accounts payable	2,544,494
Accrued liabilities	7,861,952
Intergovernmental payables	365,348
Due to agency fund	28,476
Bond anticipation notes payable	22,082,506
Unearned revenues	502,961
Noncurrent liabilities:	
Due within one year	2,507,743
Due within more than one year	223,398,341
Total liabilities	259,291,821
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows—relating to pensions	4,008,180
Total deferred inflows of resources	4,008,180
NET POSITION	
Net investment in capital assets	76,653,833
Restricted for:	
Equipment and capital improvements	3,829,880
Repairs	3,031,374
Leachate	97,687
Public safety	718,121
Retirement	8,871
Special grants	(430,277)
Rehabilitation loans	9,825,979
Workers compensation	2,148,296
Unrestricted	(121,545,941)
Total net position	\$ (25,662,177)

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

TOWN OF TONAWANDA, NEW YORK
Statement of Activities
Year Ended December 31, 2017

<u>Function/Program</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u> <u>Revenue and Changes</u> <u>in Net Position</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	<u>Primary</u> <u>Governmental</u> <u>Activities</u>
Primary government:					
Governmental activities:					
General government support	\$ 10,113,991	\$ 219,258	\$ 1,300	\$ -	\$ (9,893,433)
Public safety	34,473,227	1,811,341	48,613	-	(32,613,273)
Health	2,872,080	193,665	27,937	25,000	(2,625,478)
Transportation	13,166,599	162,369	558,633	-	(12,445,597)
Economic assistance and opportunity	621,658	-	-	-	(621,658)
Culture and recreation	16,900,878	4,130,634	40,668	-	(12,729,576)
Home and community services	44,360,658	23,404,691	4,400,733	-	(16,555,234)
Interest and fiscal charges	<u>1,416,203</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,416,203)</u>
Total primary government	<u>\$ 123,925,294</u>	<u>\$ 29,921,958</u>	<u>\$ 5,077,884</u>	<u>\$ 25,000</u>	<u>(88,900,452)</u>
General revenues:					
Real property taxes and tax items					46,877,308
Sales tax					8,030,945
Mortgage tax					1,237,215
Franchise tax					1,107,843
Use of money and property					647,176
Sale of property and compensation for loss					353,422
Miscellaneous					2,283,824
Unrestricted state aid					<u>3,506,155</u>
Total general revenues					<u>64,043,888</u>
Change in net position					(24,856,564)
Net position—beginning					<u>(805,613)</u>
Net position—ending					<u>\$ (25,662,177)</u>

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

TOWN OF TONAWANDA, NEW YORK
Balance Sheet—Governmental Funds
December 31, 2017

	<u>Special Revenue</u>							Total Nonmajor Funds	Total Governmental Funds
	<u>General</u>	<u>General— Town Outside Village</u>	<u>Highway— Town Outside Village</u>	<u>Special Grants</u>	<u>Sewer District</u>	<u>Water District</u>	<u>Capital Projects</u>		
ASSETS									
Cash and cash equivalents	\$ 9,613,668	\$ 3,121,422	\$ 2,290,762	\$ -	\$ 6,989,768	\$ 4,865,372	\$ -	\$ 4,323,566	\$ 31,204,558
Restricted cash and cash equivalents	1,355,142	1,283,957	410,884	1,329,599	1,471,981	2,933,975	4,026,209	435,914	13,247,661
Receivables	386,286	600,772	560,559	-	3,004,475	2,979,625	-	101,257	7,632,974
Intergovernmental receivables	28,501	2,885,060	404,949	355,856	735,973	3,208	-	-	4,413,547
Due from other funds	324,909	389,104	77,327	119,469	93,932	68,258	-	77,300	1,150,299
Inventories	-	-	-	-	-	634,607	-	-	634,607
Rehabilitation loans receivable	-	-	-	8,496,380	-	-	-	-	8,496,380
Prepaid items	346,094	767,190	109,682	-	136,450	99,861	-	118,289	1,577,566
Total assets	<u>\$ 12,054,600</u>	<u>\$ 9,047,505</u>	<u>\$ 3,854,163</u>	<u>\$ 10,301,304</u>	<u>\$ 12,432,579</u>	<u>\$ 11,584,906</u>	<u>\$ 4,026,209</u>	<u>\$ 5,056,326</u>	<u>\$ 68,357,592</u>
LIABILITIES									
Accounts payable	\$ 458,927	\$ 300,291	\$ 172,282	\$ 211,513	\$ 445,414	\$ 217,663	\$ 38,634	\$ 342,732	\$ 2,187,456
Accrued liabilities	915,992	688,754	229,647	8,612	341,849	234,241	-	197,810	2,616,905
Intergovernmental payables	142,565	3,629	5,280	142,966	51,539	19,292	-	77	365,348
Due to other funds	3,632	-	-	244,177	17,668	1,848	-	239	267,564
Bond anticipation notes payable	-	-	-	-	-	-	22,082,506	-	22,082,506
Unearned revenue	196,918	9,002	-	297,041	-	-	-	-	502,961
Total liabilities	<u>1,718,034</u>	<u>1,001,676</u>	<u>407,209</u>	<u>904,309</u>	<u>856,470</u>	<u>473,044</u>	<u>22,121,140</u>	<u>540,858</u>	<u>28,022,740</u>
DEFERRED INFLOWS OF RESOURCES									
Special assessments	-	-	420,000	-	322,000	519,910	-	-	1,261,910
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>420,000</u>	<u>-</u>	<u>322,000</u>	<u>519,910</u>	<u>-</u>	<u>-</u>	<u>1,261,910</u>
FUND BALANCES (DEFICIT)									
Nonspendable	346,094	767,190	109,682	-	136,450	734,468	-	118,289	2,212,173
Restricted	1,158,224	1,274,955	410,884	9,395,702	1,471,981	2,933,975	-	435,914	17,081,635
Assigned	2,714,285	6,003,684	2,506,388	1,293	9,645,678	6,923,509	-	3,961,265	31,756,102
Unassigned	6,117,963	-	-	-	-	-	(18,094,931)	-	(11,976,968)
Total fund balances (deficit)	<u>10,336,566</u>	<u>8,045,829</u>	<u>3,026,954</u>	<u>9,396,995</u>	<u>11,254,109</u>	<u>10,591,952</u>	<u>(18,094,931)</u>	<u>4,515,468</u>	<u>39,072,942</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 12,054,600</u>	<u>\$ 9,047,505</u>	<u>\$ 3,854,163</u>	<u>\$ 10,301,304</u>	<u>\$ 12,432,579</u>	<u>\$ 11,584,906</u>	<u>\$ 4,026,209</u>	<u>\$ 5,056,326</u>	<u>\$ 68,357,592</u>

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

TOWN OF TONAWANDA, NEW YORK
Reconciliation of the Balance Sheet—Governmental Funds
to the Government-wide Statement of Net Position
December 31, 2017

Amounts reported for governmental activities in the statement of net position (page 14) are different because:

Total fund balances (deficit)—governmental funds (page 16)		\$ 39,072,942
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund statements. The cost of the assets is \$336,732,031 and the accumulated depreciation is \$189,448,803.		147,283,228
Intergovernmental receivables used in governmental activities are not an available financial resource and, therefore, are not reported in the funds.		604,088
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:		
Deferred outflows related to employer contributions	\$ 4,730,828	
Deferred outflows related to experience, changes of assumptions, investment earnings, and changes in proportion	10,027,422	
Deferred inflows of resources related to pensions	<u>(4,008,180)</u>	10,750,070
To recognize interest accrual on long term debt, which, for fund reporting purposes, is not recognized as a liability until due.		(521,061)
Long-term liabilities are not due and payable in the current period and, therefore are not reported in the funds. The effect of these items are:		
Serial bonds	\$ (50,932,392)	
Landfill closure and post closure liability	(5,317,837)	
Compensated absences	(460,459)	
Other postemployment benefits	(152,179,595)	
Capital lease	(1,602,072)	
Net pension liability	<u>(15,413,729)</u>	(225,906,084)
Unavailable special assessments are reported as deferred inflows of resources in the governmental funds, as they are not current financial resources.		1,261,910
Internal service funds' net position which is related to governmental activities and associated charges for services provided.		<u>1,792,730</u>
Total net position—governmental activities		<u>\$ (25,662,177)</u>

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

TOWN OF TONAWANDA, NEW YORK
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)—Governmental Funds
Year Ended December 31, 2017

	<u>Special Revenue</u>							<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>General— Town Outside Village</u>	<u>Highway— Town Outside Village</u>	<u>Special Grants</u>	<u>Sewer District</u>	<u>Water District</u>	<u>Capital Projects</u>		
REVENUES									
Real property taxes	\$ 13,945,868	\$ 12,290,362	\$ 5,675,991	\$ -	\$ 2,954,229	\$ -	\$ -	\$ 11,182,443	\$ 46,048,893
Other property tax items	465,959	249,223	113,233	-	-	-	-	-	828,415
Non-property tax items	-	8,214,389	924,399	-	-	-	-	-	9,138,788
Departmental income	4,332,046	86,091	-	885,653	10,206,460	9,734,638	169,643	45,319	25,459,850
Intergovernmental charges	475	260,717	162,369	-	1,836,193	11,208	-	-	2,270,962
Use of money and property	268,600	207,289	3,228	251	19,850	137,620	-	5,380	642,218
Licenses and permits	136,088	774,654	-	-	-	-	-	-	910,742
Fines and forfeitures	1,333,534	70,351	-	-	-	-	-	-	1,403,885
Sale of property and compensation for loss	34,694	149,698	117,440	-	24,824	26,766	-	-	353,422
Miscellaneous	468,330	57,776	396,302	-	258,788	217,319	25,000	379,424	1,802,939
Interfund revenue	3,778,652	346,708	1,182,244	-	-	-	-	-	5,307,604
State aid	2,009,513	1,901,652	912,195	-	-	-	-	-	4,823,360
Federal aid	-	32,199	-	2,015,700	-	-	-	-	2,047,899
Total revenues	<u>26,773,759</u>	<u>24,641,109</u>	<u>9,487,401</u>	<u>2,901,604</u>	<u>15,300,344</u>	<u>10,127,551</u>	<u>194,643</u>	<u>11,612,566</u>	<u>101,038,977</u>
EXPENDITURES									
Current:									
General government support	4,602,734	1,408,666	-	-	-	-	-	-	6,011,400
Public safety	1,056,785	13,415,923	-	-	-	-	-	788,905	15,261,613
Health	1,286,896	8,970	-	-	-	-	-	-	1,295,866
Transportation	918,999	-	5,652,638	-	-	-	-	1,586,910	8,158,547
Economic assistance and opportunity	104,849	-	-	-	-	-	-	-	104,849
Culture and recreation	8,758,281	-	-	-	-	-	-	-	8,758,281
Home and community services	817,389	910,802	-	2,643,136	7,937,828	6,384,629	-	5,053,571	23,747,355
Employee benefits	7,110,400	7,910,756	2,330,207	201,135	2,488,154	1,930,761	-	2,328,074	24,299,487
Debt service:									
Principal	279,202	5,767	150,000	-	1,772,333	145,000	-	75,000	2,427,302
Interest	78,658	3,020	60,100	-	952,712	194,700	-	50,719	1,339,909
Capital outlay	-	-	-	-	-	-	3,420,986	-	3,420,986
Total expenditures	<u>25,014,193</u>	<u>23,663,904</u>	<u>8,192,945</u>	<u>2,844,271</u>	<u>13,151,027</u>	<u>8,655,090</u>	<u>3,420,986</u>	<u>9,883,179</u>	<u>94,825,595</u>
Excess (deficiency) of revenues over expenditures	<u>1,759,566</u>	<u>977,205</u>	<u>1,294,456</u>	<u>57,333</u>	<u>2,149,317</u>	<u>1,472,461</u>	<u>(3,226,343)</u>	<u>1,729,387</u>	<u>6,213,382</u>
OTHER FINANCING SOURCES (USES)									
Transfers in	2,174	-	29,808	-	391,287	207,123	2,635,001	20,183	3,285,576
Transfers out	(1,128,701)	(936,200)	(645,000)	-	(1,040,364)	(1,639,736)	(550,575)	(546,000)	(6,486,576)
Premiums on obligations	-	-	-	-	-	-	217,292	-	217,292
Total other financing sources (uses)	<u>(1,126,527)</u>	<u>(936,200)</u>	<u>(615,192)</u>	<u>-</u>	<u>(649,077)</u>	<u>(1,432,613)</u>	<u>2,301,718</u>	<u>(525,817)</u>	<u>(2,983,708)</u>
Net change in fund balances (deficit)	633,039	41,005	679,264	57,333	1,500,240	39,848	(924,625)	1,203,570	3,229,674
Fund balances (deficit)—beginning	<u>9,703,527</u>	<u>8,004,824</u>	<u>2,347,690</u>	<u>9,339,662</u>	<u>9,753,869</u>	<u>10,552,104</u>	<u>(17,170,306)</u>	<u>3,311,898</u>	<u>35,843,268</u>
Fund balances (deficit)—ending	<u>\$ 10,336,566</u>	<u>\$ 8,045,829</u>	<u>\$ 3,026,954</u>	<u>\$ 9,396,995</u>	<u>\$ 11,254,109</u>	<u>\$ 10,591,952</u>	<u>\$ (18,094,931)</u>	<u>\$ 4,515,468</u>	<u>\$ 39,072,942</u>

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

TOWN OF TONAWANDA, NEW YORK
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances (Deficit)—Governmental Funds to the Government-wide Statement of Activities
Year Ended December 31, 2017

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

Net change in fund balances (deficit)—total governmental funds (page 18) \$ 3,229,674

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

Capital asset additions	\$ 4,509,160	
Loss on disposal and reclassifications of capital assets	(150,696)	
Depreciation expense	<u>(7,846,683)</u>	(3,488,219)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (94,444)

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

Direct pension contributions	\$ 4,730,828	
Cost of benefits earned net of employee contributions	<u>(7,032,663)</u>	(2,301,835)

In the statement of activities, interest expense is recognized as it accrues, regardless of when it is paid. (76,294)

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

Principal payments on serial bonds	\$ 2,289,000	
Proceeds from serial bonds	(8,762,867)	
Principal payments on EFC notes payable	11,683,824	
Landfill closure and post closure	38,291	
Compensated absences	(46,366)	
Other postemployment benefits	(27,921,043)	
Principal payments on capital lease	<u>138,302</u>	(22,580,859)

Internal service funds are used by management to charge the cost of insurance, judgements, claims and related administrative expenses to individual funds. The net excess of charges for such services is reported within governmental activities. 455,413

Change in net position of governmental activities \$ (24,856,564)

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

TOWN OF TONAWANDA, NEW YORK
Statement of Net Position—Proprietary Funds
December 31, 2017

	Governmental Activities		
	Self Insurance Fund	Workers Compensation Fund	Total Internal Service Funds
ASSETS			
Current assets:			
Cash and cash equivalents	1,245,232	\$ -	\$ 1,245,232
Restricted cash and cash equivalents	-	5,132,581	5,132,581
Receivables	-	10,343	10,343
Prepaid items	393,355	115,000	508,355
Total current assets	1,638,587	5,257,924	6,896,511
LIABILITIES			
Current liabilities:			
Accounts payable	94,153	262,885	357,038
Accrued liabilities	1,900,000	2,823,986	4,723,986
Due to other funds	-	22,757	22,757
Total current liabilities	1,994,153	3,109,628	5,103,781
NET POSITION			
Restricted for judgments and claims	-	2,148,296	2,148,296
Unrestricted	(355,566)	-	(355,566)
Total net position	\$ (355,566)	\$ 2,148,296	\$ 1,792,730

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

TOWN OF TONAWANDA, NEW YORK
Statement of Revenues, Expenses and Changes in Net Position—Proprietary Funds
Year Ended December 31, 2017

	Governmental Activities		
	Self Insurance Fund	Workers Compensation Fund	Total Internal Service Funds
Operating revenues:			
Charges for services	\$ 801,000	\$ 2,400,000	\$ 3,201,000
Operating expenses:			
Administrative expenses	79,147	440,203	519,350
Judgments and claim expenses	531,341	1,310,953	1,842,294
Excess insurance	388,901	-	388,901
Total operating expenses	999,389	1,751,156	2,750,545
Operating (loss) income	(198,389)	648,844	450,455
Nonoperating revenues:			
Interest income	1,182	3,776	4,958
Total nonoperating revenues	1,182	3,776	4,958
Change in net position	(197,207)	652,620	455,413
Total net position—beginning	(158,359)	1,495,676	1,337,317
Total net position—ending	\$ (355,566)	\$ 2,148,296	\$ 1,792,730

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

TOWN OF TONAWANDA, NEW YORK
Statement of Cash Flows—Proprietary Funds
Year Ended December 31, 2017

	Governmental Activities		
	Self Insurance Fund	Workers Compensation Fund	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from participating funds and employees	\$ 81,587	\$ 2,412,414	\$ 2,494,001
Payments to suppliers	-	156,109	156,109
Payments for administrative and judgments and claims	(610,488)	(2,034,507)	(2,644,995)
Net cash (used for) provided by operating activities	(528,901)	534,016	5,115
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earnings	1,182	3,776	4,958
Net cash provided by investing activities	1,182	3,776	4,958
Net (decrease) increase in cash and cash equivalents	(527,719)	537,792	10,073
Cash and cash equivalents—beginning	1,772,951	4,594,789	6,367,740
Cash and cash equivalents—ending	\$ 1,245,232	\$ 5,132,581	\$ 6,377,813
Reconciliaton of operating income (loss) to net cash (used for) provided by operating activities:			
Operating (loss) income	\$ (198,389)	\$ 648,844	\$ 450,455
Adjustments to reconcile operating (loss) income to net cash (used for) provided by operating activities:			
Decrease (increase) in receivables	18,000	(10,343)	7,657
(Increase) in prepaid items	(32,682)	-	(32,682)
(Decrease) increase in accounts payable	(315,830)	156,109	(159,721)
(Decrease) in accrued liabilities	-	(283,351)	(283,351)
Increase in due to other funds	-	22,757	22,757
Net cash (used for) provided by operating activities	\$ (528,901)	\$ 534,016	\$ 5,115

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

TOWN OF TONAWANDA, NEW YORK
Statement of Net Position—Agency Fund
December 31, 2017

ASSETS

Cash	\$ 862,548
Accounts receivable	106,133
Due from other funds	<u>28,476</u>
Total assets	<u>\$ 997,157</u>

LIABILITIES

Agency liabilities	\$ 108,703
Due to other funds	<u>888,454</u>
Total liabilities	<u>\$ 997,157</u>

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

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TOWN OF TONAWANDA, NEW YORK
Notes to the Financial Statements
Year Ended December 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Description of Government-wide Financial Statements

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

Reporting Entity

The Town is a unit of local government created by the State of New York. The Town operates under provisions of New York State law and various local laws. The five-member Town Board is the legislative body responsible for overall operations. The Supervisor serves as Chief Executive Officer. The Town’s Comptroller serves as Chief Fiscal Officer.

Independently elected officials of the Town include:

Supervisor	Town Clerk
Councilmembers (4)	Superintendent of Highways
Town Justices (2)	

Units of local government which operate within the boundaries of the Town are the County of Erie and the Village of Kenmore. The following basic services are provided: police, highway, sanitation, recreation, sewer service, drainage, street lighting, water service, fire protection through contracts with local volunteer companies and general administration. Public education is provided by two independent school districts within the Town.

Basis of Presentation—Government-wide Financial Statements

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer and various other functions of the Town. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Basis of Presentation—Fund Financial Statements

The fund financial statements provide information about the Town's funds, including its proprietary funds and fiduciary fund. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Town reports the following major governmental funds:

- *General Fund*—The General Fund constitutes the primary operating fund of the Town and includes all operations not required to be recorded in other funds.
- *General Fund—Town Outside Village*—Located wholly within the Town is the Village of Kenmore, which is an independent governmental entity. The General Fund—Town Outside Village accounts for selected services which cannot be charged to taxable properties located in the Village by various New York State statutes.
- *Highway Fund—Town Outside Village*—The Highway Fund is used to record revenues and expenditures related to road maintenance and construction outside Village boundaries.
- *Special Grants Fund*—The Special Grants Fund is used to record all activity related to the Federal Housing and Urban Development Community Development program.
- *Sewer District Fund*—The Sewer Fund is used to record all revenues and expenditures related to operation and maintenance of the sewer district.
- *Water District Fund*—The Water District Fund is used to record all revenues and expenditures related to operation and maintenance of the water district.
- *Capital Projects Fund*—The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Additionally, the Town reports the following fund types:

- *Internal Service Funds*—The Internal Service Funds are used to account for the Town's insurance program. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Town's various functions.
- *Fiduciary Fund*—The Agency Fund is used to account for assets held by the Town as an agent for individuals, other governments, or other funds. The agency fund is custodial in nature and does not involve measurement of results of operations. The agency fund accounts, such as payroll withholdings, are reported as liabilities.

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

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

Measurement Focus and Basis of Accounting

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

The Internal Service Funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The Agency Fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

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

Cash, Cash Equivalents and Investments—The Town’s cash and cash equivalents consist of cash on hand, demand deposits, time deposits and short-term, highly liquid investments with original maturities of three months or less from the date of acquisition. The Town had no investments at December 31, 2017; however, when the Town does have investments they are recorded at fair value based on quoted market value.

Restricted Cash and Cash Equivalents—Restricted cash and cash equivalents represent amounts to support fund balance restrictions, unspent proceeds of debt, and cash received in advance for when the Town has not performed the related services.

Inventories—Inventories, comprised of water distribution materials and supplies, are valued at cost. Inventories of other governmental funds are recorded as expenditures when purchased.

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

Capital Assets—Capital assets, which include property, plant, equipment, roads and infrastructure assets, are reported in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost equal to or greater than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. The reported value excludes normal maintenance and repairs, which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at estimated fair market value of the item at the date of its donation.

Major outlays for capital assets and improvements are capitalized as projects are incurred. Expenditures reported in the Capital Project Fund are classified as capital outlays. Routine capital expenditures in other funds are included in the appropriate functional category (i.e. purchase of new highway equipment as part of current expenditures—transportation). Additionally, the amount reported as capital outlays in the Capital Projects Fund includes certain non-capitalized costs (i.e. furnishings below the capitalization threshold). Capital outlays in the Capital Projects Fund for the year ended December 31, 2017 were charged to the following functional areas:

Public Safety	\$ 129,898
Transportation	174,558
Culture and Recreation	141,408
Home and Community Services	<u>2,975,122</u>
Total	<u>\$ 3,420,986</u>

Land and construction in progress are not depreciated. The other capital assets of the Town are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings and building improvements	20-50
Transportation network	20
Sewer network	20-50
Water network	20-50
Drainage network	75
Improvements other than buildings	20
Machinery and equipment	5-15

Deferred Outflows/Inflows of Resources—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. At December 31, 2017, the Town has one item that qualifies for reporting in this category. This item is related to pensions reported in the government-wide financial statements. This represents the effect of the net change in the Town’s proportion of the collective net pension asset or liability, and the difference during the measurement period between the Town’s contributions and its proportionate share of the total contribution to the pension systems not included in the pension expense and any contributions to the pension systems made subsequent to the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. At December 31, 2017, the Town has two items which qualify for reporting in this category. The first item represents the effect of the net change in the Town’s proportion of the collective net pension liability and the difference during the measurement periods between the Town’s contributions and its proportionate share of total contributions to the pension systems not included in pension expense and it is reported on the government-wide statements. The second item reports unavailable revenue from special assessments, which arise only under a modified accrual basis of accounting. Accordingly, deferred inflows of resources for the special assessments are only reported on the governmental funds balance sheet.

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

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

the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

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

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

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

Revenues and Expenditures/Expenses

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

Proprietary Funds Operating and Nonoperating Revenues and Expenses—Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service funds include interfund revenues. Operating expenses for the internal service funds include administrative costs and expenses associated with judgments and claims. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Property Taxes—The Erie County Legislature prepares the levy in late December of each year and jointly bills the Town levy and Erie County real property taxes. Property taxes are levied and become a lien as of January 1 based on assessed property values as of that date.

In 2017, tax payments were due January 1 to February 15 without penalty; February 16 to 28 a 1.5% penalty; March 1 to 15 a 3% penalty; March 16 to 31 a 4.5% penalty; April 1 to 17 a 6% penalty; April 18 to May 1 a 7.5% penalty; and 1.5% added each month thereafter.

The tax roll is returned to the Erie County Commissioner of Finance after June 30th at which time all unpaid taxes and penalties are payable to that office. The Town retains their full tax levies and all unpaid items are returned to the County. Thus, the Town is assured of receiving 100% of its tax levy. The County enforces all liens.

The Town also bills and collects taxes for various school districts within Town limits. Collections of the school district taxes and remittances of them are accounted for by the Town Clerk, independent of Town operations.

Unearned Revenue—Certain revenues have not met the revenue recognition criteria for government-wide or fund financial purposes. At December 31, 2017, the Town reported unearned revenues within the General Fund, General Fund—Town Outside Village, and Special Grant Fund. The Town has received grant, rent, and other funds in advance but has not performed the services, and therefore recognizes a liability.

Compensated Absences—Most Town employees are granted vacation and sick leave and earn compensatory absences in varying amounts. Vacations and compensatory absences not taken may be carried over at the end of the fiscal year in which they are earned. Employees are not entitled to receive payment for unused sick leave in the event of termination or upon retirement. Vacations and compensatory absences carried over at the end of the fiscal year accumulated by governmental fund type employees is recorded as long-term liability as expendable available financial resources will not be used to liquidate these amounts. Instead, such amounts will be paid from subsequent years appropriations for personal services.

Payment of compensated absences recorded in the government-wide financial statements is dependent on many factors; therefore, the timing of future payments is not readily determinable. However, management believes that sufficient resources will be available for the payment of compensated absences when such payments become due.

Pensions—The Town is mandated by New York State law to participate in the New York State Local Employees' Retirement System ("ERS") and the New York State Police and Fire Retirement System ("PFRS"). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit pension plans, and changes thereof, have been determined on the same basis as they are reported by the respective defined benefit pension plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. More information regarding pensions is included in Note 6.

Other Postemployment Benefits—In addition to providing pension benefits, the Town provides health insurance coverage and survivor benefits for retired employees and their survivors as discussed in Note 7.

Other

Estimates—the preparation of the financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncements— During the year ended December 31, 2017, the Town implemented GASB Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68*, No. 74, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, GASB Statement No. 80, *Blended Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, No. 81, *Irrevocable Split-Interest Agreements*; and No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for the year ended December 31, 2017. The objective of GASB Statement No. 73 establishes a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and nonemployer contributing entities. GASB statement No. 74 improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. GASB statement No. 80 improves financial reporting by clarifying the financial statement presentation requirements for certain component units. GASB statement No. 81 improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. GASB statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, and No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statements No. 73, 74, 80, 81, and 82 did not have a material impact on the Town’s financial position or results from operations.

Future Impacts of Accounting Pronouncements— The Town has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*; 85, *Omnibus 2017*; and No. 86, *Certain Debt Extinguishment Issues*, effective for the year ending December 31, 2018, and No. 83, *Certain Asset Retirement Obligations*; No. 84, *Fiduciary Activities*; and No. 88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, effective for the year ending December 31, 2019, and No. 87, *Leases* and No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for the year ending December 31, 2020. The Town is, therefore, unable to disclose the impact that adopting GASB Statements No. 75, 83, 84, 85, 86, 87, 88, and 89 will have on its financial position and results of operations.

Stewardship, Compliance and Accountability

Legal Compliance—Budgets—The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to September 30th, the Town Supervisor files a “tentative” budget with the Town Clerk for the following fiscal year to commence on January 1st. This budget, which includes appropriations and estimated revenues, is then presented to the full Town Board by October 5th.
- The full Town Board reviews the tentative budget and may adjust same before approving a “preliminary” budget and calling for a public hearing, which is generally held in November.
- Following the public hearing, revisions may again be made by the Town Board before filing an adopted budget with Erie County by November 20th.
- Formal annual budgetary accounts are employed as a management control device for the General and all Special Revenue Funds, except the Special Grants and Capital Projects Funds.

- During the fiscal year, the Town Board can legally amend the operating budgets and is empowered to implement supplemental appropriations. Budget amendments are required for the departmental budgetary control. All budget amendments and budget transfers require Town Board approval.
- Annual budgets for governmental funds, except the Special Grants Fund and Capital Projects Fund, are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A form of encumbrance accounting is employed as an extension of budgetary control in all governmental funds, under which certain contracts and other commitments outstanding at year-end for the expenditure of monies (encumbrances) are recorded as an assignment of fund balance. All unencumbered appropriations lapse at the end of the fiscal year. On January 1st, encumbrance assignments outstanding at year-end are reappropriated to the ensuing year's original budget.
- The Special Grants Fund and the Capital Projects Fund appropriations are not included in the Town's annual budget. Instead appropriations are approved through a Town Board resolution at the grant/project's inception and lapse upon completion/termination of the grant/project.
- Total expenditures for each object classification within a department may not legally exceed the total appropriations for that object classification.

Deficit Fund Balance—At December 31, 2017, the Capital Projects Fund, a major fund, has a deficit fund balance of \$18,094,931. The primary reason for the deficit in this case is that the Town issued bond anticipation notes (“BANs”), which do not qualify for treatment as a long-term liability. Accordingly, the BANs are reported as a fund liability in the Capital Projects Fund balance sheet (rather than an inflow on the statement of revenues, expenditures, and changes in fund balances). When the cash from the BANs is spent, expenditures are reported and fund balance is reduced. Since the BANs are the main source of resources for the fund, the result is an overall fund deficit. This deficit will be eliminated as resources are obtained (e.g., from revenues, long-term debt issuances, and transfers in) to make the scheduled debt service principal and interest payments on the BANs or retire the BANs.

The Self Insurance Fund, reported in internal service funds, had a deficit net position of \$355,566 at December 31, 2017. This deficit was caused primarily by claims exceeding charges for services. The Town anticipates that this deficit will be remedied through future premiums reimbursed by appropriate Town funds.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

The Town's investment policies are governed by State statutes. In addition, the Town has its own written investment policy. Town monies must be deposited in FDIC-insured commercial banks or trust companies located within New York State. The Supervisor is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State or its localities.

Collateral is required for demand deposit accounts, time deposit accounts and certificates of deposit at 100% of all deposits not covered by Federal deposit insurance. The Town has entered into custodial agreements with the various banks which hold their deposits. These agreements authorize the

obligation that may be pledged as collateral. Obligations that may be pledged as collateral are outlined in Chapter 623 of the laws of the State of New York.

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

	Governmental Funds	Proprietary Fund	Fiduciary Fund	Total
Petty cash (uncollateralized)	\$ 6,944	\$ -	\$ -	\$ 6,944
Deposits	44,445,275	6,377,813	862,548	51,685,636
Total	<u>\$ 44,452,219</u>	<u>\$ 6,377,813</u>	<u>\$ 862,548</u>	<u>\$ 51,692,580</u>

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

	Bank Balance	Carrying Amount
FDIC Insured	\$ 1,219,598	\$ 1,218,514
Uninsured:		
Collateral held by pledging bank's agent in the Town's name	<u>51,622,550</u>	<u>50,467,122</u>
Total	<u>\$ 52,842,148</u>	<u>\$ 51,685,636</u>

Custodial Credit Risk—Deposits—Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. As noted above, by New York State statute all deposits in excess of FDIC insurance coverage must be collateralized. At December 31, 2017 the Town's deposits were either FDIC insured or collateralized with securities held by the pledging bank's agent in the Town's name.

Restricted Cash and Cash Equivalents—The Town reports restricted cash from unearned revenues and unspent proceeds of debt as restricted cash and cash equivalents. At December 31, 2017, the Town reported \$18,380,242 of restricted cash and cash equivalents within its governmental activities.

Investments—Investments are carried at fair value, as determined by quoted market prices. At December 31, 2017, the Town had no investments.

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of deposits and investments. The Town's investment policy minimizes the risk by structuring the investment portfolio so that the deposits and investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell deposits and investments on the open market prior to maturity.

3. RECEIVABLES

Major revenues accrued by the Town at December 31, 2017 consisted of the following:

Receivables—Represents amounts due from various sources. Also included are special assessment receivables from individual property owners. These amounts have been reported as deferred inflows of resources in the balance sheet of the governmental funds and are recognized as revenue when the amounts are both measurable and available. The Town’s accounts receivable at December 31, 2017 are presented as follows:

Governmental Funds:		
General Fund:		
Various fees and charges		\$ 386,286
General Fund - Town Outside Village:		
Various fees and charges		600,772
Highway Fund:		
Special assessments	420,000	
Various fees and charges	<u>140,559</u>	560,559
Sewer Fund:		
Sewer rents	2,643,210	
Various fees and charges	356,265	
Special assessments	<u>5,000</u>	3,004,475
Water District Fund:		
Water rents	2,898,742	
Various fees and charges	<u>80,883</u>	2,979,625
Nonmajor Governmental Funds:		
Garbage and Refuse District Fund	93,883	
Drainage District Fund	<u>7,374</u>	<u>101,257</u>
Total governmental funds:		<u>\$ 7,632,974</u>
Proprietary Fund		<u>\$ 10,343</u>

Intergovernmental Receivables—Represents amounts due from other units of government, such as Federal, New York State, County of Erie or other local governments. Amounts due the Town at December 31, 2017 are shown on the following page.

Governmental Funds:		
General Fund:		
Due from Erie County	\$ 550	
Due from local sources	<u>27,951</u>	\$ 28,501
General Fund - Town Outside Village:		
Due from Federal	3,595	
Due from Erie County	<u>2,881,465</u>	2,885,060
Highway Fund:		
Due from Erie County		404,949
Special Grants Fund:		
Due from Federal	355,719	
Due from local sources	<u>137</u>	355,856
Sewer District Fund:		
Due from local sources		735,973
Water District Fund:		
Due from local sources		<u>3,208</u>
Total governmental funds:		<u>\$ 4,413,547</u>

Rehabilitation Loans Receivable—The Town established a home repair program to provide 0% interest, deferred payment loans to low and moderate-income persons for necessary rehabilitation improvements to housing units. Upon completion of a loan project, the disbursement of loan proceeds is recognized with a corresponding rehabilitation loans receivable within the Special Grants Fund. The loans are secured with a note and mortgage. Repayment is due upon the sale of the house, a change in ownership, the death of the mortgagor, a change in primary residence, or use of income property. The rehabilitation loans receivable is reduced upon repayment. Undisbursed funds associated with rehabilitation loans are maintained in a separate interest bearing bank account and reported as restricted cash within the Special Grants Fund.

Rehabilitation loans receivable are offset by restricted fund balance as they represent funds which are legally or contractually required to be maintained intact. The restricted cash balance of undisbursed rehabilitation loans is offset by restricted fund balance as it represents funds which are subject to externally enforceable legal restrictions.

At December 31, 2017 the Town reported rehabilitation loans receivable of \$8,496,380 and restricted cash of \$650,264 related to the home repair program.

4. CAPITAL ASSETS

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

	Balance 1/1/2017	Increases	Decreases	Balance 12/31/2017
Capital assets, not being depreciated:				
Land	\$ 1,493,633	\$ -	\$ -	\$ 1,493,633
Construction in progress	5,169,545	2,838,991	(3,451,325)	4,557,211
Total capital assets, not being depreciated	<u>6,663,178</u>	<u>2,838,991</u>	<u>(3,451,325)</u>	<u>6,050,844</u>
Capital assets, being depreciated:				
Buildings and improvements	38,502,475	95,115	-	38,597,590
Transportation network	28,464,255	-	-	28,464,255
Sewer network	158,203,119	-	-	158,203,119
Water network	47,326,675	2,012,589	-	49,339,264
Drainage network	19,713,737	-	-	19,713,737
Improvements other than buildings	7,139,932	-	-	7,139,932
Machinery and equipment	27,171,762	3,013,790	(962,262)	29,223,290
Total capital assets, being depreciated	<u>326,521,955</u>	<u>5,121,494</u>	<u>(962,262)</u>	<u>330,681,187</u>
Less accumulated depreciation for:				
Buildings and improvements	(22,193,832)	(1,068,664)	-	(23,262,496)
Transportation network	(19,904,437)	(681,351)	-	(20,585,788)
Sewer network	(72,383,075)	(3,328,071)	-	(75,711,146)
Water network	(29,775,134)	(787,225)	-	(30,562,359)
Drainage network	(12,988,136)	(253,801)	-	(13,241,937)
Improvements other than buildings	(5,431,048)	(224,275)	-	(5,655,323)
Machinery and equipment	(19,738,024)	(1,503,296)	811,566	(20,429,754)
Total accumulated depreciation	<u>(182,413,686)</u>	<u>(7,846,683)</u>	<u>811,566</u>	<u>(189,448,803)</u>
Total capital assets, being depreciated, net	<u>144,108,269</u>	<u>(2,725,189)</u>	<u>(150,696)</u>	<u>141,232,384</u>
Total capital assets, net	<u>\$ 150,771,447</u>	<u>\$ 113,802</u>	<u>\$ (3,602,021)</u>	<u>\$ 147,283,228</u>

Depreciation expense was charged to functions of the governmental activities for the year ended December 31, 2017 as follows:

General government support	\$ 121,455
Public safety	192,126
Health	5,664
Transportation	1,008,314
Economic Assistance & Opportunity	804,436
Culture and recreation	3,876
Home and community services	<u>5,710,812</u>
Total	<u>\$ 7,846,683</u>

5. ACCRUED LIABILITIES

Accrued liabilities reported by governmental funds of the Town as of December 31, 2017, were as follows:

	<u>Salary and Employee Benefits</u>
Governmental Funds:	
General Fund	\$ 915,992
General Fund—Town Outside Village	688,754
Highway Fund—Town Outside Village	229,647
Special Grants Fund	8,612
Sewer District Fund	341,849
Water District Fund	234,241
Nonmajor funds	<u>197,810</u>
Total governmental funds	<u>\$ 2,616,905</u>

6. PENSION OBLIGATIONS

Plan Description and Benefits Provided

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

The Systems are noncontributory, except for employees who joined the ERS after July 27, 1976 who contribute three percent (3%) of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 (ERS) or January 9, 2010 (PFRS), who generally contribute three percent (3%) to three and one half percent (3.5%) of their salary for their entire length of service. In addition, employee contribution rates under ERS Tier VI vary based on a sliding salary scale. The Comptroller annually certifies the actuarially determined rates expressly used in computing the employers’ contributions based on salaries paid during the System’s fiscal year ending March 31.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—At December 31, 2017, the Town reported the following liabilities for its proportionate share of the net pension liabilities for PFRS and ERS. The net pension

liabilities were measured as of March 31, 2017. The total pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of April 1, 2016, with update procedures used to roll forward the total net pension liabilities to the measurement date. The Town's proportion of the net pension liabilities were based on projections of the Town's long-term share of contributions to the System relative to the projected contributions of all participating members, actuarially determined. This information was provided by the System in reports provided to the Town.

	<u>PFRS</u>	<u>ERS</u>
Measurement date	March 31, 2017	March 31, 2017
Net pension liability	\$ 6,270,903	\$ 9,142,826
Town's portion of the Plan's total net pension liability	0.3025546%	0.0973032%

For the year ended December 31, 2017, the Town recognized pension expenses of \$3,535,559 and \$4,908,308, respectively, for PFRS and ERS. At December 31, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources shown below.

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>PFRS</u>	<u>ERS</u>	<u>PFRS</u>	<u>ERS</u>
Differences between expected and actual experiences	\$ 822,634	\$ 229,111	\$ 1,083,473	\$ 1,388,390
Changes of assumptions	3,089,410	3,123,524	-	-
Net difference between projected and actual earnings on pension plan investments	936,550	1,826,193	-	-
Changes in proportion and differences between the Town's contributions and proportionate share of contributions	-	-	579,499	956,818
Town contributions subsequent to the measurement date	<u>2,123,492</u>	<u>2,607,336</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 6,972,086</u>	<u>\$ 7,786,164</u>	<u>\$ 1,662,972</u>	<u>\$ 2,345,208</u>

The Town's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>PFRS</u>	<u>ERS</u>
2018	\$ 1,090,418	\$ 1,401,642
2019	1,090,418	1,401,642
2020	1,020,517	1,371,098
2021	(130,938)	(1,340,762)
2022	115,207	-

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

	PFRS	ERS
Measurement date	March 31, 2017	March 31, 2017
Actuarial valuation date	April 1, 2016	April 1, 2016
Interest rate	7.00%	7.00%
Salary scale	4.50%	3.80%
Decrement tables	April 1, 2010- March 31, 2015	April 1, 2010- March 31, 2015
Inflation rate	2.5%	2.5%

Annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System’s experience with adjustments for mortality improvements based on Society of Actuaries’ Scale MP-2014. The actuarial assumptions used in the April 1, 2015 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

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

	PFRS and ERS	
	March 31, 2017	
Asset class:	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equities	36.0 %	4.6 %
International equities	14.0	6.4
Private equity	10.0	7.8
Real estate	10.0	5.8
Absolute return strategies	2.00	4.0
Opportunistic portfolio	3.0	5.9
Real assets	3.0	5.5
Bonds and mortgages	17.0	1.3
Cash	1.00	(0.3)
Inflation-indexed bonds	4.00	1.5
Total	<u>100.0 %</u>	

Discount Rate—The discount rate used to calculate the total pension liabilities was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be

made at statutorily required rates, actuarially. Based upon the assumptions, the Systems' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Employer's proportionate share of the net pension liability/(asset)—PFRS	\$ 17,777,646	\$ 6,270,903	\$ (3,380,438)
Employer's proportionate share of the net pension liability/(asset)—ERS	29,200,374	9,142,826	(7,815,794)

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

	(Dollars in Thousands)		
	PFRS	ERS	Total
Valuation date	March 31, 2017	March 31, 2017	
Employers' total pension liability	\$ 31,670,483	\$ 177,400,586	\$ 209,071,069
Plan fiduciary net position	<u>29,597,830</u>	<u>168,004,363</u>	<u>197,602,193</u>
Employers' net pension liability	<u>\$ 2,072,653</u>	<u>\$ 9,396,223</u>	<u>\$ 11,468,876</u>
System fiduciary net position as a percentage of total pension liability	93.46%	94.70%	94.51%

7. OTHER POSTEMPLOYMENT BENEFITS (“OPEB”) OBLIGATION

Plan Description—In addition to providing pension benefits, the Town provides health insurance coverage and/or payment for fractional values to eligible retired employees. Substantially all of the Town's full-time employees may become eligible for these benefits upon retirement. The Town is obligated to pay such benefits as a result of union contracts and Town Board rules and regulation for nonunion employees. Health care benefits are provided through insurance companies whose premiums are based on the benefits paid during the year. The Town recognizes the cost of providing benefits by recording its share of insurance premiums as an expenditure in the year paid. During the year ended December 31, 2017, \$7,864,576 was paid on behalf of approximately 455 retirees and was recorded as an expenditure in the respective funds.

Funding Policy—Authorization for the Town to pay retiree health insurance premiums was enacted through union contracts, which are approved by the Town Board. Except for participants hired on or after April 1, 2004, salaried employees who retired prior to January 1, 1982 and police retirees hired on or after December 14, 1993, retirees that meet the age and years of service requirements are not

required to contribute to postretirement healthcare benefits. Medical benefits are provided for the life of the retiree and their spouse.

The Town's annual OPEB cost is calculated based on the annual required contributions ("ARC") of the employer, an amount actuarially determined in accordance with the parameters of GASB. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liability over a period not to exceed five years. The table presented below shows the components of the Town's annual OPEB cost for the past three years, the amount actually contributed to the plan, and the changes in the Town's net OPEB obligation.

	Year Ended December 31,		
	2017	2016	2015
Annual required contribution ("ARC")	\$ 39,413,798	\$ 36,018,956	\$ 27,789,835
Interest on net OPEB obligation	4,970,342	3,906,366	3,149,705
Adjustment to ARC	<u>(8,598,521)</u>	<u>(6,573,353)</u>	<u>(5,164,479)</u>
Annual OPEB costs (expense)	35,785,619	33,351,969	25,775,061
Contributions made	<u>(7,864,576)</u>	<u>(6,752,579)</u>	<u>(6,858,524)</u>
Increase in net OPEB obligation	27,921,043	26,599,390	18,916,537
Net OPEB obligation—beginning	<u>124,258,552</u>	<u>97,659,162</u>	<u>78,742,625</u>
Net OPEB obligation—ending	<u>\$ 152,179,595</u>	<u>\$ 124,258,552</u>	<u>\$ 97,659,162</u>
Percentage of ARC contributed	20.0%	18.7%	24.7%

Funding Status and Funding Progress—As of January 1, 2017, the most recent actuarial valuation date, the plan was not funded. Since there were no assets, the unfunded actuarial liability was \$352,039,767.

Actuarial valuations of an ongoing plan involve 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.

The Town's schedule of contributions for the most recent three years is shown below.

Year Ended December 31,	Annual OPEB Cost	Contributions Made	Percentage Contributed	Net OPEB Obligation
2017	\$ 35,785,619	\$ 7,864,576	22.0%	\$ 152,179,595
2016	33,351,969	6,752,579	20.2%	124,258,552
2015	25,775,061	6,858,524	26.6%	97,659,162

Actuarial Methods and Assumptions— Calculations are based on the types of benefits provided under the terms of the substantive plan, the plan as understood by the employer and the plan members, at the time of the valuation and on the pattern of cost sharing between the employee and plan members. The projection of benefits does not incorporate the potential effect of a change in the pattern of cost sharing between the employer and plan members in the future. Calculations reflect a long-term perspective, so methods and assumptions used include techniques that are designed to reduce short-term volatility.

In the January 1, 2017 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a valuation and measurement date of January 1, 2017. The expected investment rate of return on employer's assets is 4.0 percent. The rate is based on the projected long-term earning rate of the assets expected to be available to pay benefits. Since the Town does not currently segregate funding for these benefits, the appropriate rate is the expected return on the employer's assets. Rates of decrement due to disability are assumed to be 0.0 percent. Rates of retirement and turnover are those used by the State of New York for the retirement valuations of the ERS and PFRS. It was assumed that 100 percent of future retirees eligible for coverage will elect post-employment health care benefits and 75 percent of those retirees will elect spousal coverage. Administrative fees are assumed to increase at 3.25 percent per year and the annual rate of increase in the Consumer Price Index ("CPI") is assumed to be 2.25 percent per year. The unfunded actuarial accrued liability is being amortized over 22 years on a level dollar closed basis.

As of January 1, 2017, the methodology for calculating post-65 per capita claims costs was updated to conform to recently revised Actuarial Standards of Practice ("ASOP") 6, "Measuring Retiree Group Benefits Obligations and Determining Group Benefits Program Periodic Costs or Actuarially Determined Contributions." The revised ASOP 6 requires that the cost of the plan be age-specific and no longer allows the use of unadjusted premiums as the underlying claims cost (with limited exceptions). This revised method resulted in an increase in liabilities. The expected per capital costs of claims was based upon the Traditional Blue POS 229, Traditional Blue 901, and Traditional Blue PPO 811 plans.

As of December 31, 2017, mortality rates were applied using the sex-distinct RP-2014 Mortality Tables for employees and healthy annuitants, adjusted backward to 2006 with scale MP-2014, and then adjusted for mortality improvements with scale MP-2017 mortality improvement scale on a fully generational basis. The mortality assumption has been revised as of December 31, 2017 to the sex-distinct RP-2014 Mortality Tables for employees and healthy annuitants, adjusted backward to 2006 with scale MP-2014, and then adjusted for mortality improvements with scale MP-2017 mortality improvement scale on a generational basis in order to reflect the most recent experience available. The revised assumption resulted in a decrease in liabilities.

The annual rate of increase in healthcare costs was revised as of December 31, 2017 to better reflect future expectations, including updating long-term rates based on the SOA Long Term Healthcare Cost Trends Model (the "Getzen model"). A review of published National trend survey data in relation to the retiree health plan offerings was the basis for this change. The revised assumption resulted in an decrease in liabilities. The assumed rates of increase in health care vary from 3.89 percent to 10.00 percent.

8. RISK MANAGEMENT

The Town assumes the liability for most risk including, but not limited to workers' compensation, property damage, and personal injury liability. The insurance policies obtained at this time include: excess liability; building, contents and property; crime coverage; boiler and machinery; and liquor liability. For these insurance policies, no amount of settlements exceeded the insurance coverage during the past three years. The Town carries commercial excess liability insurance of \$10,000,000 per occurrence. The Town's building, contents and property policy is limited to \$280,000,000 per occurrence. The Town is insured with commercial crime coverage limited to various amounts dependent on the type of claim.

Judgments and claims—The Town is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The Town reports all of its risk management activities in its Internal Service Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

At December 31, 2017, the judgments and claims liability and the workers' compensation liability are recorded within the Town's Internal Service Fund. The workers compensation liability at December 31, 2017 reflects the actuarial analysis of the projected liability. Changes in the reported liabilities since January 1, 2016 are presented below.

	Liability at 1/1/2017	Adjustments and Claims	Adjustments and Payments	Liability at 12/31/2017
Judgments and claims	\$ 1,900,000	\$ 531,341	\$ 531,341	\$ 1,900,000
Workers' compensation	3,107,337	27,966	311,317	2,823,986

	Liability at 1/1/2016	Adjustments and Claims	Adjustments and Payments	Liability at 12/31/2016
Judgments and claims	\$ 800,000	\$ 2,457,876	\$ 1,357,846	\$ 1,900,000
Workers' compensation	3,477,902	24,813	395,378	3,107,337

9. LEASE OBLIGATIONS

Capital Leases—The Town has entered into a lease agreement as a lessee to finance an energy performance project. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The assets acquired through the capital lease are as follows:

	<u>Governmental Activities</u>
Assets:	
Aquatic & Fitness Center improvements	\$ 2,555,953
Less: accumulated depreciation	<u>(894,584)</u>
Total	<u>\$ 1,661,369</u>

Payments on the original lease commenced June 1, 2009 and are due every three months thereafter (payment dates are March 1, June 1, September 1, and December 1). Payments are each \$52,681 with final payment due March 1, 2027. Nominal annual rate is 4.29 percent. The obligation under the lease is summarized as follows:

<u>Fiscal Year Ending December 31,</u>	<u>Governmental Activities</u>
2018	210,725
2019	210,725
2020	210,725
2021	210,725
2022	210,725
2023-2027	<u>895,581</u>
Total minimum lease payments	1,949,206
Less: amount representing interest	<u>(347,134)</u>
Present value of minimum lease payments	<u>\$ 1,602,072</u>

10. SHORT-TERM DEBT

Liabilities for bond anticipation notes (“BANs”) are generally accounted for in the Capital Projects Fund. Principal payments on BANs must be made annually. State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. However, BANs used for assessable improvement projects may be renewed for periods equivalent to the life of the permanent financing provided that annual reductions of principal are made. The Town’s short-term debt for the year ended December 31, 2017 is summarized as follows:

Description	Issue/ Maturity Date	Interest Rate	Balance 1/1/2017	Issues	Redemptions	Balance 12/31/2017
Recorded in the Capital Projects Fund for:						
General Fund:						
Townwide Telephone System	2016/2017	2.00%	175,000	-	175,000	-
Townwide Telephone System	2017/2018	2.00%	-	125,000	-	125,000
General—Town Outside Village Fund:						
Police Detective Vehicles	2017/2018	2.00%	-	150,000	-	150,000
Highway Fund:						
Cold Miling Machine	2016/2017	2.00%	100,000	-	100,000	-
North Youngman Commerce Center	2016/2017	2.00%	50,000	-	50,000	-
North Youngman Commerce Center	2016/2017	2.00%	2,250,000	-	2,250,000	-
North Youngman Commerce Center	2017/2018	2.00%	-	2,125,000	-	2,125,000
Sanitary Sewer District:						
Creekside Station and Sanitary Sewer	2016/2017	2.00%	900,000	-	900,000	-
WWTF Sludge Management Improvement	2016/2017	2.00%	3,050,000	-	3,050,000	-
I&I Demonstration Project Construction	2016/2017	2.00%	2,800,000	-	2,800,000	-
High Voltage Substation Retrofit-WWTF	2016/2017	2.00%	600,000	-	600,000	-
Creekside Station and Sanitary Sewer	2017/2018	2.00%	-	825,000	-	825,000
WWTF Sludge Management Improvement	2017/2018	2.00%	-	2,895,189	-	2,895,189
I&I Demonstration Project Construction	2017/2018	2.00%	-	2,600,000	-	2,600,000
High Voltage Substation Retrofit-WWTF	2017/2018	2.00%	-	575,000	-	575,000
Water District:						
Parker Blvd and Water Treatment Plant	2016/2017	2.00%	1,475,000	-	1,475,000	-
Kenmore, Chelsea and Green Acres	2016/2017	2.00%	1,300,000	-	1,300,000	-
Delaware Road from Deerhurst Blvd to Brighton Rd.	2016/2017	2.00%	3,450,000	-	3,450,000	-
North Youngman Commerce Center	2016/2017	2.00%	550,000	-	550,000	-
Orchard and Cleveland Lines, Sheridan Tank	2016/2017	2.00%	1,850,000	-	1,850,000	-
Parker Blvd and Water Treatment Plant	2017/2018	2.00%	-	940,278	-	940,278
Kenmore, Chelsea and Green Acres	2017/2018	2.00%	-	981,539	-	981,539
Delaware Road from Deerhurst Blvd to Brighton Rd.	2017/2018	2.00%	-	3,275,000	-	3,275,000
North Youngman Commerce Center	2017/2018	2.00%	-	500,000	-	500,000
Oakridge and Lowell Lines, Lincoln Tank	2017/2018	2.00%	-	1,750,000	-	1,750,000
Oakridge and Lowell and painting of Lincoln Tank	2017/2018	2.00%	-	2,500,000	-	2,500,000
Drainage District:						
Dupont/Desmond Drainage Line	2016/2017	2.00%	1,025,000	-	1,025,000	-
Two Mile Creek Bank Stabilization Improvements	2016/2017	2.00%	600,000	-	600,000	-
Dupont/Desmond Drainage Line	2017/2018	2.00%	-	925,000	-	925,000
Two Mile Creek Bank Stabilization Improvements	2017/2018	2.00%	-	550,000	-	550,000
Garbage and Refuse District Fund:						
Recycling Totes	2017/2018	2.00%	-	1,365,500	-	1,365,500
Total			<u>\$ 20,175,000</u>	<u>\$ 22,082,506</u>	<u>\$ 20,175,000</u>	<u>\$ 22,082,506</u>

11. LONG-TERM LIABILITIES

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

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

The Town's outstanding long-term liabilities include serial bonds, landfill closure and post closure liability, compensated absences, other postemployment benefits, capital lease, and net pension liability. The serial bonds of the Town are secured by its general credit and revenue raising powers, as per State statute.

A summary of changes in long-term debt for the year ended December 31, 2017 follows:

	Balance 1/1/2017	Additions	Reductions	Balance 12/31/2017	Due Within One Year
Serial bonds	\$ 44,458,525	\$ 8,762,867	\$ 2,289,000	\$ 50,932,392	\$ 2,340,392
EFC notes payable	11,683,824	-	11,683,824	-	-
Landfill closure and post closure liability	5,356,128	-	38,291	5,317,837	-
Compensated absences	414,093	51,826	5,460	460,459	23,023
Other postemployment benefits	124,258,552	35,785,619	7,864,576	152,179,595	-
Capital lease	1,740,374	-	138,302	1,602,072	144,328
Net pension liability*	26,350,380	-	10,936,651	15,413,729	-
Totals	<u>\$ 214,261,876</u>	<u>\$ 44,600,312</u>	<u>\$ 32,956,104</u>	<u>\$ 225,906,084</u>	<u>\$ 2,507,743</u>

(*reductions to the net pension liability are shown net of additions)

Serial Bonds—The Town 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. The bonds are full faith and credit debt of the Town.

A summary of bonded indebtedness transactions for the year ended December 31, 2017 follows:

Description	Year of Issue/ Maturity	Interest Rate (%)	Balance 1/1/2017	Additions	Reductions	Balance 12/31/2017
General Fund:						
General public improvements	2004/2018	3.47%	\$ 150,000	\$ -	\$ 75,000	\$ 75,000
General public improvements	2010/2025	2.00-3.00%	150,000	-	75,000	75,000
Highway Fund - Town Outside Village:						
Various highway projects	2010/2025	2.00-3.00%	590,000	-	150,000	440,000
Sewer District:						
Increase and improvements	2010/2025	2.00-3.00%	3,085,000	-	330,000	2,755,000
Increase and improvements	2012/2042	0.24-4.10%	18,745,000	-	605,000	18,140,000
Increase and improvements	2013/2042	0.36-4.76%	9,350,000	-	300,000	9,050,000
Increase and improvements	2015/2045	0.20-4.27%	10,738,525	-	300,000	10,438,525
Increase and improvements	2017/2046	0.00%	-	8,762,867	234,000	8,528,867
Water District:						
Increase and improvements	2004/2018	3.47%	150,000	-	75,000	75,000
Improvements	2010/2025	2.00-3.00%	750,000	-	70,000	680,000
Drainage District:						
Improvements	2010/2025	2.00-3.00%	750,000	-	75,000	675,000
Grand Total			<u>\$ 44,458,525</u>	<u>\$ 8,762,867</u>	<u>\$ 2,289,000</u>	<u>\$ 50,932,392</u>

EFC Notes Payable—EFC Notes Payable represents proceeds from Environmental Facilities Corporation (“EFC”) loan agreements. The proceeds are used for the Parker-Fries Interceptor sewer replacement project, a four-phase construction project, which began in 2010. Upon completion of each phase of the project, the notes are subsequently converted to serial bonds. Between 2010 and 2012 the Town released \$25,422,439 of phase I funds, made principal payments of \$4,400,000, deposited \$38,926 to a construction fund, and converted the phase I liability of \$21,061,366 to serial bonds. Between 2012 and 2013 the Town released \$7,371,127 of phase II funds, deposited \$2,768,849 to a construction fund, incurred \$76,380 of delivery date expenses, and converted the phase II liability of \$10,216,356 to serial bonds. Between 2014 and 2015 the Town released \$7,036,270 of phase III funds, deposited \$3,914,765 to a construction fund, incurred \$82,490 of delivery date expenses, and converted the phase III liability of \$11,033,525 to serial bonds. Between 2015 and 2016 the Town released \$11,683,824 of phase IV funds, \$6,451,599 of which was released during 2016. Phase IV is estimated to cost a total of \$14,500,000. In 2016 the Town released \$11,683,824 of phase IV funds. In 2017, \$8,762,867 of the notes payable were converted to serial bonds and \$2,920,957 of the notes were reduced by the EFC through State funding.

A summary of the changes in notes payable for the year ended December 31, 2017 follows:

	Balance 1/1/2017	Additions	Reductions	Balance 12/31/2017
Capital Projects Fund	\$ 11,683,824	\$ -	\$ 11,683,824	\$ -

Landfill Closure and Post Closure Liability—State and federal laws and regulations require the Town to place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the site for 30 years after closure. Both closure and post-closure care costs will be paid in the future. However, accounting rules and regulations require the Town to report a portion of these closure and post-closure care costs as a long-term liability in each period based on landfill capacity used as of each balance sheet date. The \$5,317,837 reported as landfill closure and post-closure care liability at December 31, 2017 represents the cumulative amount reported to date based on 100% capacity of the landfill as the Town is not accepting additional solid waste. This amount is estimated based on what it would cost to perform all closure and post-closure care in 2017. The Town expended \$38,291 in the current year relating to closure and post-closure activities. As of December 31, 2017, the Town is still awaiting a decision from the Army Corps of Engineers to determine final closure procedures. Actual cost may vary due to inflation, changes in technology, or changes in regulations.

Compensated Absences—As explained in Note 1, the Town records the value of compensated absences. The annual budgets of the general and special revenue funds provide funding for these benefits as they become payable. The value recorded in the government-wide financial statements at December 31, 2017, for governmental activities is \$460,459. This amount has been recorded as a noncurrent liability since payment of compensated absences is dependent upon many factors, therefore, timing of future payments is not readily determinable.

Other Postemployment Benefits (“OPEB”) Obligation—As explained in Note 7, the Town provides health insurance coverage for retirees. The Town’s annual OPEB cost is calculated based in the annual required contributions of the employer, an amount actuarially determined in accordance with the parameters of GASB. The estimated long-term OPEB liability is estimated to be \$152,179,595 at December 31, 2017.

Capital Lease—The Town entered into a long-term capital lease to finance an energy performance project. The outstanding balance at December 31, 2017 was \$1,602,072. Refer to Note 9 for additional information related to the Town’s capital lease.

Net Pension Liability—the Town reports a liability for its proportionate share of the net pension liability for the Police and Fire Retirement System and Employee’s Retirement System. The net pension liability is estimated to be \$15,413,729 in the governmental activities. Refer to Note 6 additional information related to the Town’s net pension liability.

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

	Serial Bonds	Landfill Closure and Post Closure Liability	Compensated Absences	Other Post- employment Benefits	Capital lease	Net Pension Liability	Total
2018	\$ 2,340,392	\$ -	\$ 23,023	\$ -	\$ 144,328	\$ -	\$ 2,507,743
2019	2,152,000	-	-	-	150,617	-	2,302,617
2020	2,150,000	-	-	-	157,180	-	2,307,180
2021	2,025,000	-	-	-	164,029	-	2,189,029
2022	2,048,000	-	-	-	171,177	-	2,219,177
2023-2027	9,683,000	-	-	-	814,741	-	10,497,741
2028-2032	8,681,000	-	-	-	-	-	8,681,000
2033-2037	9,283,000	-	-	-	-	-	9,283,000
2038-2042	9,887,000	-	-	-	-	-	9,887,000
2043-2046	2,683,000	-	-	-	-	-	2,683,000
Various	-	5,317,837	437,436	152,179,595	-	15,413,729	173,348,597
	<u>\$ 50,932,392</u>	<u>\$ 5,317,837</u>	<u>\$ 460,459</u>	<u>\$ 152,179,595</u>	<u>\$ 1,602,072</u>	<u>\$ 15,413,729</u>	<u>\$ 225,906,084</u>

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

Year	Amount
2018	1,349,765
2019	1,341,331
2020	1,285,871
2021	1,249,381
2022	1,211,853
2023-2027	5,349,239
2028-2032	4,111,902
2033-2037	2,726,038
2038-2042	1,174,401
2043-2046	83,948
	<u>\$ 19,883,728</u>

12. NET POSITION AND FUND BALANCE

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

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

Capital assets, net of accumulated depreciation		\$ 147,283,228
Related debt:		
Serial bonds issued	(50,932,392)	
Capital lease	(1,602,072)	
Bond anticipation notes issued for capital assets	(20,717,006)	
Unspent proceeds from bond anticipation notes	<u>2,622,075</u>	
Debt issued and used for capital assets		<u>(70,629,395)</u>
Net investment in capital assets		<u>\$ 76,653,833</u>

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

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

- **Inventory**—Represents the portion of fund balance composed of inventory. This balance is nonspendable as the inventory does not represent an available resource. At December 31, 2017 the Water District Fund reported inventory amounts of \$634,607.
- **Prepaid Items**— Represents amounts prepaid to the retirement systems and vendors that are applicable to future accounting periods. At December 31, 2017 the General Fund, General Fund—Town Outside Village, Highway Fund—Town Outside Village, Sewer District Fund, Water District Fund, and nonmajor funds reported prepaid item amounts of \$346,094, \$767,190, \$109,682, \$136,450, \$99,861, and \$118,289, respectively.

In the fund financial statements, restricted fund balances are amounts with external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions and enabling legislation. Restricted fund balances maintained by the Town at December 31, 2017 are as follows:

	Equipment and Capital Improvements	Repairs	Leachate	Public Safety	Retirement	Special Grants	Rehabilitation Loans	Total
General Fund	\$ 1,153,786	\$ -	\$ -	\$ -	\$ 4,438	\$ -	\$ -	\$ 1,158,224
General—Town Outside								
Village Fund	553,394	-	-	718,121	3,440	-	-	1,274,955
Highway—Town Outside								
Village Fund	409,891	-	-	-	993	-	-	410,884
Special Grants Fund	-	-	-	-	-	249,058	9,146,644	9,395,702
Sewer District Fund	854,042	520,252	97,687	-	-	-	-	1,471,981
Water District Fund	422,853	2,511,122	-	-	-	-	-	2,933,975
Total Nonmajor Funds	435,914	-	-	-	-	-	-	435,914
Total restricted fund balance	<u>\$ 3,829,880</u>	<u>\$ 3,031,374</u>	<u>\$ 97,687</u>	<u>\$ 718,121</u>	<u>\$ 8,871</u>	<u>\$ 249,058</u>	<u>\$ 9,146,644</u>	<u>\$ 17,081,635</u>

- **Equipment and Capital Improvements**—Represents funds accumulated to finance all or part of the cost of construction, reconstruction or acquisition of specific items or types of capital improvements or acquisition of specific items or types of equipment.
- **Repairs**—Represents funds accumulated to pay the cost of certain repairs of capital improvements or equipment. The repairs must be of a type not recurring annually or at shorter intervals.
- **Leachate**—Represents funds to be used for payment of unexpected sewer problems at the landfill.
- **Public Safety**—Represents funds to be used for police and public safety expenditures.
- **Retirement**—Represents funds to be used for the payment of retirement contributions.
- **Special Grants**—Represents funds to be used for community development.
- **Rehabilitation Loans**—Represents funds to be used for the home repair program.

In the fund financial statements, commitments are amounts that are subject to a purpose constraint imposed by a formal action of the Town’s highest level of decision-making authority. As of December 31, 2017, the Town has no committed fund balance.

In the fund financial statements, assigned amounts are subject to a purpose constraint that represents an intended use established by the Town Board, or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the General Fund, and in funds other than the General Fund, assigned fund balance represents the residual amount of fund balance. Assigned fund balances maintained by the Town at December 31, 2017 are shown as follows:

	Subsequent Years'		Specific	Total
	Expenditures	Encumbrances	Use	
General Fund	\$ 2,500,000	\$ 214,285	\$ -	\$ 2,714,285
General—Town Outside Village Fund	3,000,000	327,013	2,676,671	6,003,684
Highway—Town Outside Village Fund	400,000	46,297	2,060,091	2,506,388
Special Grants Fund	-	1,293	-	1,293
Sewer District Fund	1,175,000	239,643	8,231,035	9,645,678
Water District Fund	300,000	120,014	6,503,495	6,923,509
Total Nonmajor Funds	<u>625,000</u>	<u>213,088</u>	<u>3,123,177</u>	<u>3,961,265</u>
Total assigned fund balance	<u>\$ 8,000,000</u>	<u>\$ 1,161,633</u>	<u>\$ 22,594,469</u>	<u>\$ 31,756,102</u>

- ◆ **Assigned to Subsequent Year Expenditures**—Represents funds to be used to assist in supporting the subsequent year authorized appropriations.
- **Assigned to Encumbrances**—Represents funds accumulated for commitments related to unperformed contracts or purchase orders for goods or services.
- **Assigned to Specific Use**—Represents remaining fund balance of the special revenue funds.

Unassigned fund balance represents the residual classification of the government's General Fund surplus and Capital Projects Fund deficit. As of December 31, 2017, the unassigned General Fund balance is \$6,117,963 and the unassigned Capital Projects Fund deficit is \$18,094,931.

If the Town must use funds for emergency expenditures the Town Board shall authorize the Supervisor to expend funds first from funds classified as nonspendable (if funds become available) then restricted funds. The use of committed and assigned funds will occur after the exhaustion of available restricted funds. Finally, if no other fund balances are available the Town will use unassigned fund balance.

13. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables are short-term in nature and exist because of temporary advances or payments made on behalf of other funds. The composition of interfund balances as of December 31, 2017 is as follows:

Fund	Interfund	
	Receivables	Payables
Governmental Funds:		
General Fund	\$ 324,909	\$ 3,632
General - Town Outside Village Fund	389,104	-
Highway - Town Outside Village Fund	77,327	-
Special Grants Fund	119,469	244,177
Sewer District Fund	93,932	17,668
Water District Fund	68,258	1,848
Total Nonmajor Governmental Funds	77,300	239
Proprietary Funds:		
Workers Compensation Fund	-	22,757
Fiduciary Funds:		
Agency Fund	28,476	888,454
Total	<u>\$ 1,178,775</u>	<u>\$ 1,178,775</u>

The outstanding balances between funds result from payments made on behalf of other funds or temporary advances. All of these balances are expected to be collected/paid within the subsequent year.

The Town made the following interfund transfers during 2017:

Fund	Transfers	Transfers
	In	Out
Governmental Funds:		
General Fund	\$ 2,174	\$ 1,128,701
General - Town Outside Village Fund	-	936,200
Highway - Town Outside Village Fund	29,808	645,000
Sewer District Fund	391,287	1,040,364
Water District Fund	207,123	1,639,736
Capital Projects Fund	2,635,001	550,575
Other Governmental Funds	20,183	546,000
Proprietary Funds:		
Self Insurance Fund	801,000	-
Workers Compensation Fund	2,400,000	-
Total	<u>\$ 6,486,576</u>	<u>\$ 6,486,576</u>

Transfers are used to move various fund revenues among funds in accordance with budgetary authorizations. Interfund transfers are used primarily to support capital project expenditures, the Self

Insurance Fund and the Workers Compensation Fund. They are classified as charges for services within the Self Insurance Fund and the Workers Compensation Fund.

14. AGENCY FUND

An agency fund exists for employee withholding and temporary deposit funds. The following is a summary of the Agency Fund for the year ended December 31, 2017:

	<u>Balance</u> <u>1/1/2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>12/31/2017</u>
ASSETS				
Cash	\$ 646,203	\$ 154,831,453	\$ 154,615,108	\$ 862,548
Accounts receivable	212,869	32,389,562	32,496,298	106,133
Due from other funds	-	116,554,277	116,525,801	28,476
Total assets	<u>\$ 859,072</u>	<u>\$ 303,775,292</u>	<u>\$ 303,637,207</u>	<u>\$ 997,157</u>
LIABILITIES				
Agency liabilities	\$ 196,945	\$ 24,441,632	\$ 24,529,874	\$ 108,703
Due to other funds	662,127	22,618,146	22,391,819	888,454
Total liabilities	<u>\$ 859,072</u>	<u>\$ 47,059,778</u>	<u>\$ 46,921,693</u>	<u>\$ 997,157</u>

15. LABOR RELATIONS

The majority of Town employees are represented by three bargaining units. The Salaried Workers Association (“SWA”) and the Hourly Employees’ Association (“HEA”) had contracts in place through December 31, 2011. The Tonawanda Police Club has a contract in place until December 31, 2019. During 2017, the Board approved salaries and rates of pay for employees temporarily not covered by a collective bargaining agreement. The remaining employees are governed by Town Board policies. On May 21, 2018, the Town settled the Hourly Employees Association union agreement through 2024.

16. COMMITMENTS

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

The Town considers encumbrances to be significant for amounts that are encumbered in excess of \$100,000. Significant encumbrances as of December 31, 2017, are as listed below:

<u>Fund</u>	<u>Purpose</u>	<u>Amount</u> <u>Encumbered</u>
General—Town Outside Village Fund	Lincoln Park Green Initiative	\$ 247,767
Nonmajor Funds	Fleet maintenance	173,753

Additionally, the Capital Projects Fund has commitments of \$775,320 for various projects.

17. TAX ABATEMENTS

The Town is subject to tax abatements granted by the Erie County Industrial Development Agency (“ECIDA”) and the Town of Tonawanda under New York State private housing finance law. These programs have the stated purpose of increasing business activity and employment in the region and providing housing for senior citizens and disabled citizens with low to moderate income. Economic development agreements entered into by the ECIDA includes the abatement of state, county, local and school district taxes, in addition to other assistance. In the case of the Town the abatements have resulted in reduction in the assessed value of the property involved. The abatement agreements stipulate a percentage reduction of property taxes, which can be as much as 100 percent. Under the agreements entered into by the ECIDA and the Town, the Town collected \$602,230 during 2017 in payments in lieu of taxes (“PILOT”); these collections were made in lieu of \$1,553,239 in property taxes.

18. CONTINGENCIES

Litigation—The Town is involved in litigation in the ordinary course of its operations. Various legal actions are pending against the Town. The outcome of these matters is not presently determinable, but in the opinion of management, the ultimate liability will not have a material adverse effect on the financial condition or results of operation of the Town.

Assessments—The Town 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 Town vigorously defends assessments, the likelihood of success is on a case-by-case basis, and is dependent upon many factors including market values and appraised amounts. No potential amount or potential range of loss is determinable. Management believes that level of such potential loss, if any, would be immaterial and no provisions have been made within the financial statements.

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

Pollution Remediation Obligations—On July 3, 2000, the Town was issued notice of intent to modify State pollutant discharge elimination system permit, Town of Tonawanda WWTP (T) Tonawanda, Erie County DEC No. 9-1464-00116/00004 SPDES No. NY-002 6395 by the New York State Department of Environmental Conservation (“NYSDEC”). As part of the notice the Town submitted a plan for the abatement of the overflow of sanitary sewer discharge and received a response from the NYSDEC in November 2010. The NYSDEC has restarted the process, requiring additional information from the Town. The Town has therefore submitted a four year plan. During 2011, the NYSDEC issued an order on consent whereby the Town shall continue to implement a demonstration project. As of December 31, 2017 the Town is unable to determine the range or the likelihood of any potential liability.

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

19. SUBSEQUENT EVENTS

On August 29, 2018, the Town issued \$19,312,705 of bond anticipation notes (“BANs”) with an interest rate of 3.5 percent. These BANs mature on August 29, 2019.

Management has evaluated subsequent events through August 30, 2018, which is the date the financial statements are available for issuance, and have determined, except as disclosed above and within Note 15, there are no subsequent events that require disclosure under generally accepted accounting principles.

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REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF TONAWANDA, NEW YORK
Schedule of Funding Progress—Other Postemployment Benefits Plan
Year Ended December 31, 2017

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a percentage of Covered Payroll
December 31, 2017	\$ -	\$ 352,039,767	\$ 352,039,767	0.0%	\$ 32,492,581	1083.4%
December 31, 2016	-	381,623,055	381,623,055	0.0%	32,323,465	1180.6%
December 31, 2015	-	310,057,543	310,057,543	0.0%	31,479,007	985.0%

TOWN OF TONAWANDA, NEW YORK
Schedule of the Town's Proportionate Share of the Net Pension Liability—
Police and Fire Retirement System
Last Four Fiscal Years*

	Year Ended December 31,			
	2017	2016	2015	2014
Measurement date	March 31, 2017	March 31, 2016	March 31, 2015	March 31, 2014
Town's proportion of the net pension liability (asset)	0.3025546%	0.3342019%	0.3370935%	0.3370935%
Town's proportionate share of the net pension liability (asset)	<u>\$ 6,270,903</u>	<u>\$ 9,895,006</u>	<u>\$ 927,882</u>	<u>\$ 1,403,352</u>
Town's covered-employee payroll	\$ 10,254,625	\$ 9,026,602	\$ 9,065,423	\$ 9,257,908
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	61.2%	109.6%	10.2%	15.2%
Plan fiduciary net position as a percentage of the total pension liability	93.5%	90.2%	99.0%	98.5%

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

TOWN OF TONAWANDA, NEW YORK
Schedule of the Town's Contributions—
Police and Fire Retirement System
Last Four Fiscal Years*

	Year Ended December 31,			
	2017	2016	2015	2014
Contractually required contribution	\$ 2,831,322	\$ 2,451,139	\$ 2,457,639	\$ 2,622,915
Contributions in relation to the contractually required contribution	<u>(2,831,322)</u>	<u>(2,457,639)</u>	<u>(2,696,301)</u>	<u>(2,892,155)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 10,090,271	\$ 10,028,356	\$ 9,065,423	\$ 9,257,908
Contributions as a percentage of covered-employee payroll	28.1%	24.5%	29.7%	31.2%

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

TOWN OF TONAWANDA, NEW YORK
Schedule of the Town's Proportionate Share of the Net Pension Liability—
Employees' Retirement System
Last Four Fiscal Years*

	Year Ended December 31,			
	2017	2016	2015	2014
Measurement date	March 31, 2017	March 31, 2016	March 31, 2015	March 31, 2014
Town's proportion of the net pension liability (asset)	0.0973032%	0.1025239%	0.1039606%	0.1039606%
Town's proportionate share of the net pension liability (asset)	<u>\$ 9,142,826</u>	<u>\$ 16,455,374</u>	<u>\$ 3,512,044</u>	<u>\$ 4,697,835</u>
Town's covered-employee payroll	\$ 22,741,388	\$ 22,584,704	\$ 22,775,802	\$ 24,054,578
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	40.2%	72.9%	15.4%	19.5%
Plan fiduciary net position as a percentage of the total pension liability	94.7%	90.7%	97.9%	97.2%

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

TOWN OF TONAWANDA, NEW YORK
Schedule of the Town's Contributions—
Employees' Retirement System
Last Four Fiscal Years*

	Year Ended December 31,			
	2017	2016	2015	2014
Contractually required contribution	\$ 3,476,448	\$ 3,489,345	\$ 4,117,163	\$ 4,394,165
Contributions in relation to the contractually required contribution	(3,476,448)	(4,117,163)	(4,394,165)	(4,675,506)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Town's covered-employee payroll	\$ 22,684,149	\$ 22,728,406	\$ 22,775,802	\$ 24,054,578
Contributions as a percentage of covered-employee payroll	15.3%	18.1%	19.3%	19.4%

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

TOWN OF TONAWANDA, NEW YORK
Schedule of Revenues, Expenditures and Changes in Fund Balances—
Budget and Actual—General Fund
Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Real property taxes	\$ 13,903,903	\$ 13,903,903	\$ 13,945,868	\$ 41,965
Other property tax items	408,000	408,000	465,959	57,959
Departmental income	4,499,274	4,538,952	4,332,046	(206,906)
Intergovernmental charges	-	-	475	475
Use of money and property	262,100	262,100	268,600	6,500
Licenses and permits	122,200	122,200	136,088	13,888
Fines and forfeitures	1,490,500	1,490,500	1,333,534	(156,966)
Sale of property and compensation for loss	-	-	34,694	34,694
Miscellaneous	20,377	20,377	468,330	447,953
Interfund revenue	3,729,350	3,729,350	3,778,652	49,302
State aid	1,543,128	1,544,428	2,009,513	465,085
Total revenues	<u>25,978,832</u>	<u>26,019,810</u>	<u>26,773,759</u>	<u>753,949</u>
EXPENDITURES				
Current:				
General government support	5,062,908	5,064,833	4,602,734	462,099
Public safety	1,156,737	1,152,958	1,056,785	96,173
Health	1,259,042	1,294,275	1,286,896	7,379
Transportation	1,106,429	1,106,429	918,999	187,430
Economic assistance and opportunity	69,590	126,835	104,849	21,986
Culture and recreation	9,378,193	9,367,401	8,758,281	609,120
Home and community services	859,559	875,431	817,389	58,042
Employee benefits	8,241,338	8,112,759	7,110,400	1,002,359
Debt service:				
Principal	304,202	304,202	279,202	25,000
Interest	83,158	83,158	78,658	4,500
Total expenditures	<u>27,521,156</u>	<u>27,488,281</u>	<u>25,014,193</u>	<u>2,474,088</u>
Excess (deficiency) of revenues over expenditures	<u>(1,542,324)</u>	<u>(1,468,471)</u>	<u>1,759,566</u>	<u>3,228,037</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	2,174	2,174
Transfers out	(1,023,000)	(1,188,000)	(1,128,701)	59,299
Total other financing sources (uses)	<u>(1,023,000)</u>	<u>(1,188,000)</u>	<u>(1,126,527)</u>	<u>61,473</u>
Net change in fund balances*	(2,565,324)	(2,656,471)	633,039	3,289,510
Fund balances—beginning	9,703,527	9,703,527	9,703,527	-
Fund balances—ending	<u>\$ 7,138,203</u>	<u>\$ 7,047,056</u>	<u>\$ 10,336,566</u>	<u>\$ 3,289,510</u>

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

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

TOWN OF TONAWANDA, NEW YORK
Schedule of Revenues, Expenditures and Changes in Fund Balances—
Budget and Actual—General Fund—Town Outside Village
Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Real property taxes	\$ 12,246,743	\$ 12,246,743	\$ 12,290,362	\$ 43,619
Other property tax items	243,000	243,000	249,223	6,223
Non-property tax items	7,700,000	7,700,000	8,214,389	514,389
Departmental income	64,050	124,405	86,091	(38,314)
Intergovernmental charges	244,500	265,000	260,717	(4,283)
Use of money and property	185,400	185,400	207,289	21,889
Licenses and permits	535,100	535,100	774,654	239,554
Fines and forfeitures	-	75,265	70,351	(4,914)
Sale of property and compensation for loss	-	149,654	149,698	44
Miscellaneous	-	12,593	57,776	45,183
Interfund revenue	222,000	222,000	346,708	124,708
State aid	1,192,454	1,236,221	1,901,652	665,431
Federal aid	-	44,366	32,199	(12,167)
Total revenues	<u>22,633,247</u>	<u>23,039,747</u>	<u>24,641,109</u>	<u>1,601,362</u>
EXPENDITURES				
Current:				
General government support	1,593,333	1,603,370	1,408,666	194,704
Public safety	13,814,860	14,259,313	13,415,923	843,390
Health	8,884	9,099	8,970	129
Home and community services	50,807	928,540	910,802	17,738
Employee benefits	9,485,667	8,472,932	7,910,756	562,176
Debt service:				
Principal	5,767	5,767	5,767	-
Interest	3,020	3,020	3,020	-
Total expenditures	<u>24,962,338</u>	<u>25,282,041</u>	<u>23,663,904</u>	<u>1,618,137</u>
Excess (deficiency) of revenues over expenditures	<u>(2,329,091)</u>	<u>(2,242,294)</u>	<u>977,205</u>	<u>3,219,499</u>
OTHER FINANCING USES				
Transfers out	<u>(898,000)</u>	<u>(923,000)</u>	<u>(936,200)</u>	<u>(13,200)</u>
Total other financing uses	<u>(898,000)</u>	<u>(923,000)</u>	<u>(936,200)</u>	<u>(13,200)</u>
Net change in fund balances*	(3,227,091)	(3,165,294)	41,005	3,206,299
Fund balances—beginning	8,004,824	8,004,824	8,004,824	-
Fund balances—ending	<u>\$ 4,777,733</u>	<u>\$ 4,839,530</u>	<u>\$ 8,045,829</u>	<u>\$ 3,206,299</u>

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

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

TOWN OF TONAWANDA, NEW YORK
Schedule of Revenues, Expenditures and Changes in Fund Balances—
Budget and Actual—Highway Fund—Town Outside Village
Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Real property taxes	\$ 5,656,173	\$ 5,656,173	\$ 5,675,991	\$ 19,818
Other property tax items	120,000	120,000	113,233	(6,767)
Non-property tax items	800,000	800,000	924,399	124,399
Intergovernmental charges	115,000	150,305	162,369	12,064
Use of money and property	600	600	3,228	2,628
Sale of property and compensation for loss	5,000	90,388	117,440	27,052
Miscellaneous	-	-	396,302	396,302
Interfund revenue	889,000	889,000	1,182,244	293,244
State aid	685,137	685,137	912,195	227,058
Total revenues	<u>8,270,910</u>	<u>8,391,603</u>	<u>9,487,401</u>	<u>1,095,798</u>
EXPENDITURES				
Current:				
Transportation	4,950,231	5,491,788	5,652,638	(160,850)
Employee benefits	2,946,958	2,518,332	2,330,207	188,125
Debt service:				
Principal	150,000	150,000	150,000	-
Interest	108,100	108,100	60,100	48,000
Total expenditures	<u>8,155,289</u>	<u>8,268,220</u>	<u>8,192,945</u>	<u>75,275</u>
Excess of revenues over expenditures	<u>115,621</u>	<u>123,383</u>	<u>1,294,456</u>	<u>1,171,073</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	29,808	29,808
Transfers out	(645,000)	(680,000)	(645,000)	35,000
Total other financing sources (uses)	<u>(645,000)</u>	<u>(680,000)</u>	<u>(615,192)</u>	<u>64,808</u>
Net change in fund balances*	(529,379)	(556,617)	679,264	1,235,881
Fund balances—beginning	<u>2,347,690</u>	<u>2,347,690</u>	<u>2,347,690</u>	<u>-</u>
Fund balances—ending	<u>\$ 1,818,311</u>	<u>\$ 1,791,073</u>	<u>\$ 3,026,954</u>	<u>\$ 1,235,881</u>

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

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

TOWN OF TONAWANDA, NEW YORK
Schedule of Revenues, Expenditures and Changes in Fund Balances—
Budget and Actual—Sewer District Fund
Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Real property taxes	\$ 2,954,229	\$ 2,954,229	\$ 2,954,229	\$ -
Departmental income	9,560,000	9,560,000	10,206,460	646,460
Intergovernmental charges	1,750,000	1,750,000	1,836,193	86,193
Use of money and property	14,500	14,500	19,850	5,350
Sale of property and compensation for loss	-	-	24,824	24,824
Miscellaneous	-	-	258,788	258,788
Total revenues	<u>14,278,729</u>	<u>14,278,729</u>	<u>15,300,344</u>	<u>1,021,615</u>
EXPENDITURES				
Current:				
Home and community services	8,558,563	8,957,314	7,937,828	1,019,486
Employee benefits	3,070,424	3,066,343	2,488,154	578,189
Debt service:				
Principal	1,858,522	1,858,522	1,772,333	86,189
Interest	1,248,227	1,248,227	952,712	295,515
Total expenditures	<u>14,735,736</u>	<u>15,130,406</u>	<u>13,151,027</u>	<u>1,979,379</u>
Excess (deficiency) of revenues over expenditures	<u>(457,007)</u>	<u>(851,677)</u>	<u>2,149,317</u>	<u>3,000,994</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	391,287	391,287
Transfers out	(908,811)	(1,193,897)	(1,040,364)	153,533
Total other financing sources (uses)	<u>(908,811)</u>	<u>(1,193,897)</u>	<u>(649,077)</u>	<u>544,820</u>
Net change in fund balances*	(1,365,818)	(2,045,574)	1,500,240	3,545,814
Fund balances—beginning	9,753,869	9,753,869	9,753,869	-
Fund balances—ending	<u>\$ 8,388,051</u>	<u>\$ 7,708,295</u>	<u>\$ 11,254,109</u>	<u>\$ 3,545,814</u>

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

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

TOWN OF TONAWANDA, NEW YORK
Schedule of Revenues, Expenditures and Changes in Fund Balances—
Budget and Actual—Water District Fund
Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Departmental income	\$ 10,522,723	\$ 10,522,723	\$ 9,734,638	\$ (788,085)
Intergovernmental charges	-	-	11,208	11,208
Use of money and property	89,200	89,200	137,620	48,420
Sale of property and compensation for loss	-	-	26,766	26,766
Miscellaneous	-	-	217,319	217,319
Total revenues	<u>10,611,923</u>	<u>10,611,923</u>	<u>10,127,551</u>	<u>(484,372)</u>
EXPENDITURES				
Current:				
Home and community services	6,868,381	6,920,437	6,384,629	535,808
Employee benefits	2,482,765	2,027,082	1,930,761	96,321
Debt service:				
Principal	(483,183)	145,000	145,000	-
Interest	367,200	194,700	194,700	-
Total expenditures	<u>9,235,163</u>	<u>9,287,219</u>	<u>8,655,090</u>	<u>632,129</u>
Excess of revenues over expenditures	<u>1,376,760</u>	<u>1,324,704</u>	<u>1,472,461</u>	<u>147,757</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	100,000	100,000	207,123	107,123
Transfers out	(1,948,183)	(2,312,456)	(1,639,736)	672,720
Total other financing sources (uses)	<u>(1,848,183)</u>	<u>(2,212,456)</u>	<u>(1,432,613)</u>	<u>779,843</u>
Net change in fund balances*	(471,423)	(887,752)	39,848	927,600
Fund balances—beginning	<u>10,552,104</u>	<u>10,552,104</u>	<u>10,552,104</u>	<u>-</u>
Fund balances—ending	<u>\$ 10,080,681</u>	<u>\$ 9,664,352</u>	<u>\$ 10,591,952</u>	<u>\$ 927,600</u>

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

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

TOWN OF TONAWANDA, NEW YORK
Note to the Required Supplementary Information
Year Ended December 31, 2017

1. BUDGETARY INFORMATION

Budgetary Basis of Accounting—Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Special Grants Fund and the Capital Projects Fund, are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The Special Grants Fund and the Capital Projects Fund appropriations are not included in the Town’s annual budget. Instead appropriations are approved through a Town Board resolution at the grant/project’s inception and lapse upon completion/termination of the grant/project.

The appropriated budget is prepared by fund, function, and department. The Town’s department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Town Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

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

Excess of Expenditures over Appropriations—For the year ended December 31, 2017, the General Fund Town Outside Village transfers out line exceeded the final budgeted amounts by \$13,200, due to unanticipated transfers. Additionally, the Highway Fund—Town Outside Village transportation line exceeded the final budgeted amounts by \$160,850, due to unanticipated maintenance costs of fleet vehicles.

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SUPPLEMENTARY INFORMATION

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TOWN OF TONAWANDA, NEW YORK
Combining Balance Sheet—Nonmajor Governmental Funds
December 31, 2017

	Special Revenue				Total Nonmajor Governmental Funds
	Garbage and Refuse District	Street Lighting District	Fire Protection	Drainage District	
ASSETS					
Cash and cash equivalents	\$ 3,074,904	\$ 543,443	\$ 23,589	\$ 681,630	\$ 4,323,566
Restricted cash and cash equivalents	435,914	-	-	-	435,914
Receivables	93,883	-	-	7,374	101,257
Due from other funds	72,028	-	-	5,272	77,300
Prepaid items	109,683	-	-	8,606	118,289
Total assets	<u>3,786,412</u>	<u>543,443</u>	<u>23,589</u>	<u>702,882</u>	<u>5,056,326</u>
LIABILITIES					
Accounts payable	102,867	137,105	-	102,760	342,732
Accrued liabilities	180,348	-	-	17,462	197,810
Due to other funds	239	-	-	-	239
Intergovernmental payables	77	-	-	-	77
Total liabilities	<u>283,531</u>	<u>137,105</u>	<u>-</u>	<u>120,222</u>	<u>540,858</u>
FUND BALANCES					
Nonspendable	109,683	-	-	8,606	118,289
Restricted	435,914	-	-	-	435,914
Assigned	2,957,284	406,338	23,589	574,054	3,961,265
Total fund balances	<u>3,502,881</u>	<u>406,338</u>	<u>23,589</u>	<u>582,660</u>	<u>4,515,468</u>
Total liabilities and fund balances	<u>\$ 3,786,412</u>	<u>\$ 543,443</u>	<u>\$ 23,589</u>	<u>\$ 702,882</u>	<u>\$ 5,056,326</u>

TOWN OF TONAWANDA, NEW YORK
Combining Statement of Revenues, Expenditures and Changes in Fund Balances—
Nonmajor Governmental Funds
Year Ended December 31, 2017

	<u>Special Revenue</u>				Total Nonmajor Governmental Funds
	Garbage and Refuse District	Street Lighting District	Fire Protection	Drainage District	
REVENUES					
Real property taxes	\$ 7,829,083	\$ 1,795,000	\$ 793,444	\$ 764,916	\$ 11,182,443
Departmental income	45,319	-	-	-	45,319
Use of money and property	3,949	679	133	619	5,380
Miscellaneous	354,940	-	-	24,484	379,424
Total revenues	<u>8,233,291</u>	<u>1,795,679</u>	<u>793,577</u>	<u>790,019</u>	<u>11,612,566</u>
EXPENDITURES					
Current:					
Public safety	-	-	788,905	-	788,905
Transportation	-	1,586,910	-	-	1,586,910
Home and community services	4,683,690	-	-	369,881	5,053,571
Employee benefits	2,155,954	-	-	172,120	2,328,074
Debt service:					
Principal	-	-	-	75,000	75,000
Interest	-	-	-	50,719	50,719
Total expenditures	<u>6,839,644</u>	<u>1,586,910</u>	<u>788,905</u>	<u>667,720</u>	<u>9,883,179</u>
Excess of revenues over expenditures	<u>1,393,647</u>	<u>208,769</u>	<u>4,672</u>	<u>122,299</u>	<u>1,729,387</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	20,183	20,183
Transfers out	(375,000)	-	-	(171,000)	(546,000)
Total other financing sources and (uses)	<u>(375,000)</u>	<u>-</u>	<u>-</u>	<u>(150,817)</u>	<u>(525,817)</u>
Net change in fund balances	1,018,647	208,769	4,672	(28,518)	1,203,570
Fund balances—beginning	2,484,234	197,569	18,917	611,178	3,311,898
Fund balances—ending	<u>\$ 3,502,881</u>	<u>\$ 406,338</u>	<u>\$ 23,589</u>	<u>\$ 582,660</u>	<u>\$ 4,515,468</u>

TOWN OF TONAWANDA, NEW YORK
Combining Balance Sheet—
Capital Projects Fund
December 31, 2017

	<u>Assets</u>		<u>Liabilities</u>			Fund Balance (Deficit)
	<u>Restricted Cash</u>	<u>Due from Other Funds</u>	<u>Accounts Payable</u>	<u>Due to Other Funds</u>	<u>BAN Payable</u>	
303 303 Libraries improvements	\$ -	\$ -	\$ -	\$ 47,283	\$ -	\$ (47,283)
311 311 Police building	38,200	-	-	-	-	38,200
362 362 Landfill closure	254,444	47,596	12,196	-	-	289,844
410 410 Energy project	-	-	-	313	125,000	(125,313)
440 440 Police vehicles	21,578	-	-	-	150,000	(128,422)
450 450 Highway cold milling machine	2	-	-	-	-	2
451 451 NYCC Road design	-	-	-	621	-	(621)
452 452 NYCC Road construction	-	-	-	154,027	2,125,000	(2,279,027)
501 501 Water improvements	525,655	-	-	-	940,279	(414,624)
502 502 Water line/storage improvements	311,974	-	-	-	981,539	(669,565)
503 503 Water line Delaware Road	109,645	1	-	-	3,275,000	(3,165,354)
504 504 Water line NYCC Road	-	-	-	1,911	500,000	(501,911)
505 505 Lines & Sheridan Tank	-	-	-	5,757	1,750,000	(1,755,757)
506 506 Waterlines	530,782	7,667	26,438	-	2,500,000	(1,987,989)
553 553 Inflow/infiltration demo project	184,305	-	-	-	-	184,305
554 554 Creekside/cleve/orch sewer line	-	-	-	3,060	825,000	(828,060)
555 555 Parker/fries interceptor phase 2	55,157	-	-	-	-	55,157
556 556 WWTF sludge management	145,418	-	-	-	2,895,188	(2,749,770)
557 557 WWTF high voltage substation	-	-	-	1,794	575,000	(576,794)
558 558 Inflow/infiltration demo project	134,891	287,854	-	-	2,600,000	(2,177,255)
559 559 Parker/Fries interceptor phase 3	1,667,183	-	-	-	-	1,667,183
560 560 Parker/Fries interceptor phase 4	31,778	-	-	-	-	31,778
561 561 SPDES permit	-	-	-	122,683	-	(122,683)
602 602 Dupont/Desmond line	-	-	-	3,629	925,000	(928,629)
603 603 Two Mile Creek bank stabilization	-	-	-	2,040	550,000	(552,040)
650 650 WWTF solids handling	15,197	-	-	-	1,365,500	(1,350,303)
Total	<u>\$ 4,026,209</u>	<u>\$ 343,118</u>	<u>\$ 38,634</u>	<u>\$ 343,118</u>	<u>\$ 22,082,506</u>	<u>\$ (18,094,931)</u>

TOWN OF TONAWANDA, NEW YORK
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)—
Capital Projects Fund
Year Ended December 31, 2017

Project	Fund Balances (Deficits) Beginning	Revenues		Other Financing Sources		Expenditures Capital Outlay	Other Financing Uses Transfers Out	Fund Balances (Deficits) Ending
		Departmental Income	Misc.	Transfers In	Premium on Obligations			
301 General equipment	\$ -	\$ -	\$ -	\$ 30,701	\$ -	\$ 30,701	\$ -	\$ -
302 Res rec facilities impr	-	-	-	75,000	-	75,000	-	-
303 Libraries improvements	19,125	-	-	-	-	66,408	-	(47,283)
311 Police building	-	-	-	38,200	-	-	-	38,200
331 Water and sewer equipment	-	-	-	383,106	-	383,106	-	-
362 Landfill closure	158,491	169,643	-	-	-	38,290	-	289,844
409 Paramedic equipment	(25,000)	-	25,000	-	-	-	-	-
410 Energy project	(174,369)	-	-	50,000	1,230	-	2,174	(125,313)
440 Police vehicles	-	-	-	-	1,476	129,898	-	(128,422)
450 Highway cold milling machine	(98,756)	-	-	100,000	-	-	1,242	2
451 NYCC Road design	(50,000)	-	-	50,000	-	-	621	(621)
452 NYCC Road construction	(2,222,434)	-	-	125,000	20,910	174,558	27,945	(2,279,027)
501 Water improvements	(940,278)	-	-	534,722	9,252	-	18,320	(414,624)
502 Water line/storage improvements	(981,538)	-	-	318,461	9,658	-	16,146	(669,565)
503 Water line Delaware Road	(3,329,731)	-	-	175,000	32,226	-	42,849	(3,165,354)
504 Water line NYCC Road	(550,000)	-	-	50,000	4,920	-	6,831	(501,911)
505 Lines & Sheridan Tank	(1,850,000)	-	-	100,000	17,220	-	22,977	(1,755,757)
506 Waterlines	(853,304)	-	-	-	24,600	1,159,285	-	(1,987,989)
553 Inflow/infiltration demo project	184,305	-	-	-	-	-	-	184,305
554 Creekside/cleve/orch sewer line	(900,000)	-	-	75,000	8,118	-	11,178	(828,060)
555 Parker/fries interceptor phase 2	355,157	-	-	-	-	-	300,000	55,157
556 WWTF sludge management	(2,895,189)	-	-	154,811	28,489	-	37,881	(2,749,770)
557 WWTF high voltage substation	(600,000)	-	-	25,000	5,658	-	7,452	(576,794)
558 Inflow/infiltration demo project	(2,368,063)	-	-	200,000	25,584	-	34,776	(2,177,255)
559 Parker/Fries interceptor phase 3	1,667,183	-	-	-	-	-	-	1,667,183
560 Parker/Fries interceptor phase 4	31,778	-	-	-	-	-	-	31,778
561 SPDES permit	(122,683)	-	-	-	-	-	-	(122,683)
602 Dupont/Desmond line	(1,025,000)	-	-	100,000	9,102	-	12,731	(928,629)
603 Two Mile Creek bank stabilization	(600,000)	-	-	50,000	5,412	-	7,452	(552,040)
650 WWTF solids handling	-	-	-	-	13,437	1,363,740	-	(1,350,303)
Total	\$ (17,170,306)	\$ 169,643	\$ 25,000	\$ 2,635,001	\$ 217,292	\$ 3,420,986	\$ 550,575	\$ (18,094,931)

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FEDERAL AWARDS INFORMATION

TOWN OF TONAWANDA, NEW YORK
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

<u>Federal Grantor/Pass-Through Grantor/ Program Title (1a)</u>	<u>Federal CFDA Number (1b)</u>	<u>Pass-Through Grantor Number</u>	<u>Passed-Through to Sub- Receipts</u>	<u>Federal Expenditures (1c)</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:				
Direct programs:				
Community Development Block Grants—Entitlement Grants	14.218	n/a	\$ 638,598	\$ 1,872,966
Emergency Solutions Grant Program	14.231	n/a	-	142,734
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>638,598</u>	<u>2,015,700</u>
U.S. DEPARTMENT OF JUSTICE:				
Passed through NYS Department of Justice:				
Bulletproof Vest Partnership Program	16.607	n/a	-	4,762
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>-</u>	<u>4,762</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS (1d)			<u>\$ 638,598</u>	<u>\$ 2,020,462</u>

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

TOWN OF TONAWANDA, NEW YORK
Notes to the Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the Town under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations (“CFR”) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of the Town, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Town. The following notes were identified on the schedule of expenditures of federal awards:

- a) Includes all federal award programs of the Town of Tonawanda, New York.
- b) Source: Catalog of Federal Domestic Assistance.
- c) Prepared under accounting principles generally accepted in the United States of America and includes all federal award programs.
- d) A reconciliation to the financial statements is available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principle contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Town has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance. Pass-through entity identifying numbers are presented where available.

3. MATCHING COSTS

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

Certified Public Accountants

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

Honorable Town Board
Town of Tonawanda, New York

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Town of Tonawanda, New York (the "Town") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated August 30, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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

Our consideration of internal control 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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.

 Duescher & Malachuk LLP

August 30, 2018

Certified Public Accountants

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

Honorable Town Board
Town of Tonawanda, New York

Report on Compliance for Each Major Federal Program

We have audited Town of Tonawanda, New York's (the "Town") compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget ("OMB") Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended December 31, 2017. The Town'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

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Town 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, 2017.

Report on Internal Control Over Compliance

Management of the Town 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 Town's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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

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

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

 Duescher & Malachuk LLP

August 30, 2018

TOWN OF TONAWANDA, NEW YORK
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Section I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	_____ Yes	_____ <input checked="" type="checkbox"/> No	
Significant deficiency(ies) identified?	_____ Yes	_____ <input checked="" type="checkbox"/> None reported	
Noncompliance material to the financial statements noted?	_____ Yes	_____ <input checked="" type="checkbox"/> No	

Federal Awards:

Internal control over major federal programs:

Material weakness(es) identified?	_____ Yes	_____ <input checked="" type="checkbox"/> No	
Significant deficiency(ies) identified?	_____ Yes	_____ <input checked="" type="checkbox"/> None reported	

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____ Yes	_____ <input checked="" type="checkbox"/> No	
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Identification of major federal programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grants-Entitlement Grants

Dollar threshold used to distinguish between Type A and Type B programs?	\$ 750,000
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Auditee qualified as low-risk auditee?	_____ Yes	_____ <input checked="" type="checkbox"/> No	
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TOWN OF TONAWANDA, NEW YORK
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Section II. FINANCIAL STATEMENT FINDINGS SECTION

No findings noted.

Section III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings noted.

TOWN OF TONAWANDA, NEW YORK
Schedule of Prior Year Audit Findings and Corrective Action Plan
Year Ended December 31, 2017
(Follow-up of December 31, 2016 findings)

Finding 2016-001—Interdepartmental Communication

Criteria: The information presented within the Town’s financial statements originates from individual transactions occurring throughout the departments of the Town. Relevance and reliability are two key qualities required in providing useful information to the users of financial statements, making effective decisions on behalf of the citizens of the Town, and ensuring compliance with legal regulations. Timeliness, accuracy, completeness, neutrality, consistency and verifiability comprise the characteristics of relevant and reliable information. Pertinent information regarding the individual transactions occurring within each department must be identified, captured and communicated in a manner consistent with the aforementioned characteristics.

Condition and Context: Certain attributes concerning the transactions occurring at the departmental level were found to be omitted from the source documentation distributed between Town departments. Additionally, the distribution of the source documentation required to compile financial information was not consistently communicated promptly. As a result of the deficiencies in interdepartmental communication, recognition of expenditures did not correlate with the date the invoices were received, instead they were recognized when the Comptroller’s office received notification of the invoice from the Town’s departments.

Cause: Insufficient and delayed identification, capture, and exchange of relevant information between Town departments.

Effect or Potential Effect: Misstatement of financial information and noncompliance with legal regulations.

Recommendation: We recommend the Comptroller continue to emphasize the significance of, and requirements for, relevant financial information to Town departments. Further, we recommend the Town Board implement and enforce formal information and communication procedures to ensure timely and accurate distribution of information between Town departments.

Managements Corrective Action Plan: The Town began additional training and educational measures during the previous fiscal year and intends to continue such practices during the current fiscal year to educate and inform Town departments of their responsibilities in effective financial communication. The Town intends to formalize and enforce the education provided through Town policy and Town Board oversight.

Current Status: During the fiscal year ending December 31, 2017, the Town advised departments of the appropriate deadlines in regards to year-end cut-offs. All transactions that occurred close to year end were analyzed and were recorded in the appropriate fiscal year.

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