

**AUDITED  
BASIC FINANCIAL STATEMENTS**

# **CITY OF BATAVIA, NEW YORK**

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**MARCH 31, 2016**

## CITY OF BATAVIA, NEW YORK

### Table of Contents

#### Page

### SECTION A FINANCIAL SECTION

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-21
<b>Basic Financial Statements:</b>	
Statement of Net Position	A1
Statement of Activities	A2-A3
Balance Sheet - Governmental Funds	A4
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	A5-A6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	A7
Statement of Net Position - Enterprise Funds	A8
Statement of Revenues, Expenses and Changes in Net Position - Enterprise Funds	A9
Statement of Cash Flows - Enterprise Funds	A10
Statement of Net Position - Fiduciary Fund	A11
Statement of Changes in Net Position – Fiduciary Fund	A12
Notes to Basic Financial Statements	A13-A36
<b>Required Supplementary Information:</b>	
Schedule of Funding Progress for Retiree Health Plan	A37
Budgetary Comparison Schedule for the General Fund	A38
Schedule of the City's Proportionate Share of Net Pension Liability – Employees' and Police and Fire Retirement Systems	A39
Schedule of the City's Contributions – Employees' and Police and Fire Retirement Systems	A40

**SECTION B**  
**SUPPLEMENTAL SCHEDULES**

Combining Balance Sheet – Nonmajor Governmental Funds	B1
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	B2

**SECTION C**  
**INTERNAL CONTROL AND COMPLIANCE**

Independent Auditor's Report On Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	C1-C2
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**SECTION A**

**FINANCIAL SECTION**



## **INDEPENDENT AUDITOR'S REPORT**

The Honorable Members of the City Council  
City of Batavia, New York

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Batavia, New York (the City), as of and for the year ended March 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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 City'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 City'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, business-type activities, each major fund, and the aggregate remaining fund information of the City, as of March 31, 2016, 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.

## **Emphasis of Matter**

As stated in Note 1, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An amendment of GASB Statement No. 27*; Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*; and Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and 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 City's basic financial statements. The supplementary information, as listed in the table of contents, 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, is the responsibility of management and was derived from and relates 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; is 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 22, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Freed Maxick CPAs, P.C.*

Batavia, New York  
August 22, 2016

## **Management's Discussion and Analysis**

### **City of Batavia, New York**

### **Fiscal Year ended March 31, 2016**

This section of City of Batavia, New York's (the City) annual financial report presents its discussion and analysis of the City's financial performance during the fiscal year ended March 31, 2015. Please read it in conjunction with the City's financial statements, which immediately follow this section. **ALL AMOUNTS ARE EXPRESSED IN THOUSANDS OF DOLLARS, UNLESS OTHERWISE INDICATED.**

#### **Preliminary Summary**

In the fiscal year ending March 31, 2016, the City continued to maintain a healthy and stable financial position. This is the seventh consecutive year the City has maintained a positive unassigned fund balance. Despite challenges such as slow tax base growth and state mandates (ie. the property tax cap) the City continues to remain fiscally diligent by committing one-time surplus to restricted fund balance for future capital investments.

In reviewing the attached financial statements, it is important to understand the critical points of achievement over the past year that have assisted the City with improving its financial stability. These points include:

- Continued strength in assigned and unassigned fund balance in the general fund and cash growth in water and sewer funds
- Healthy operations in general, water and sewer funds
- The commitment of surplus to reserve funds for one-time equipment purchases and infrastructure and facility improvements
- The formal adoption of fiscal policies such as a Fund Balance Policy, Investment Policy, revised Purchasing Manual and monthly financial monitoring

These efforts along with continued expense monitoring and revenue improvements have assisted in maintaining long term fiscal solvency, while building fund balance and investing in capital equipment, city facilities, and infrastructure.

#### **Financial Highlights**

- As shown on page A6, there was an excess of revenues over expenditures of \$1,732,931 at March 31, 2016. However, after net transfers out of other financing sources in the amount of \$381,299 there was a positive net change in fund balance of \$1,351,632.
- Factors contributing to the general funds excess of revenues over expenditures were primarily due to one-time revenue receipts above budget, and lower than expected expenses. For example:
  - Real Property Tax items were \$176,971 over budget due to increased interest and penalty payments.



- The City experienced several vacancies throughout the year causing lower than budgeted personnel and social security expenditures. Also New York State Retirement expenditures were \$272,222 under budget.
- The City utilized over \$575,000 of reserve and committed funding for capital equipment, compensated absence pay outs, facilities, and sidewalk improvements. The general fund also budgeted \$200,000 to further build reserves for anticipated liabilities/costs in future years.
- The City's Purchasing Manual revisions, adopted Fund Balance Policy, Investment Policy and the increase in financial reporting to the City Council, supports the City's commitment to strong fiscal planning.
- New York State AIM (Aid and Incentives for Municipalities) stayed flat in the fiscal year ending March 31, 2016. However, since fiscal year ending March 31, 2011 New York State reduced AIM by 6.9% or \$109,949. Meanwhile, New York State retirement costs have increased 27% or \$403,894 since fiscal year ending March 31, 2009.

While the City has experienced a positive surplus from these budget lines, it should be noted that these budget areas are subject to changes from year to year. Consistent with the City budgeting practices of the past, the City should commit these surplus funds to decreasing debt or increasing reserve fund balances for future liabilities such as equipment, facility and infrastructure improvements.

### **Overview of the Financial Statements**

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements.
- The governmental funds statements tell how basic services such as public safety and transportation were financed in the short term as well as what remains for future spending.
- Fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the City's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1**

***Organization of City of Batavia, New York's Annual Financial Report***

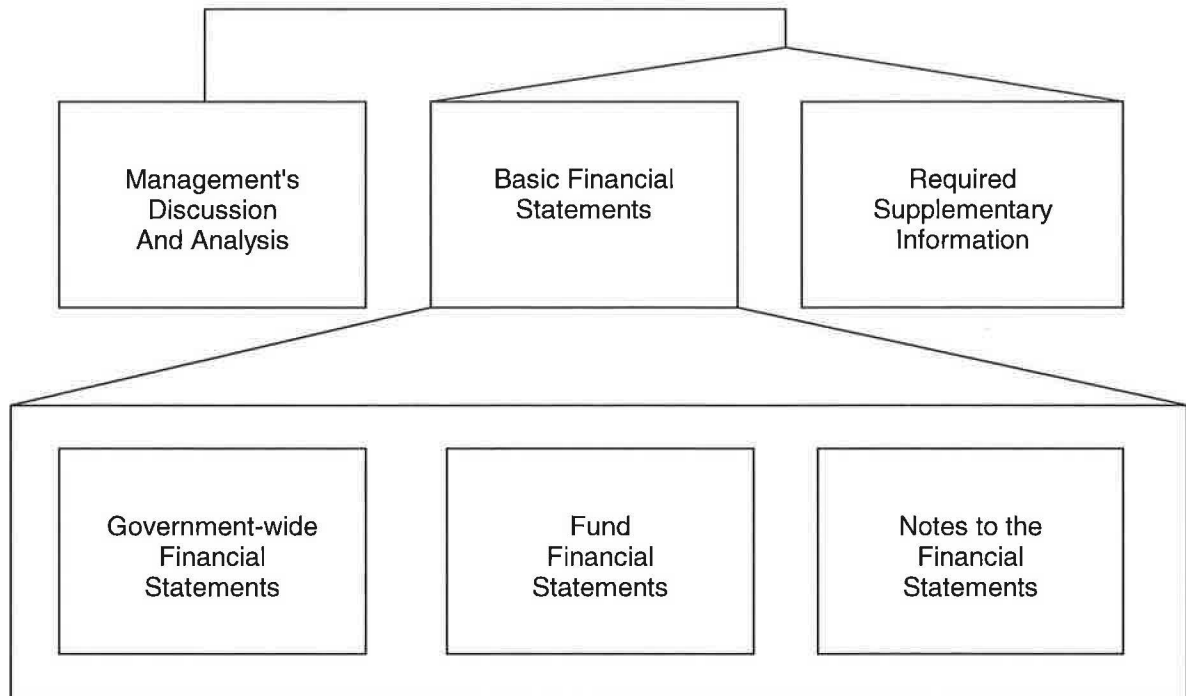


Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

<b>Figure A-2</b> <b>Major Features of the Government-wide and Fund Financial Statements</b>			
		Fund Financial Statements	
	Government-wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire government (except Fiduciary funds)	The activities of the City that are not proprietary or fiduciary, such as public safety and transportation	The activities of the City in which the City charges for services
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Revenues, Expenses and Changes in Net Position</li> <li>• Statement of Cash Flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and deferred outflows of resources and liabilities and deferred inflows of resources, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; generally no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term
Type of inflow/out-flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during year, regardless of when cash is received or paid

## **Government-wide Statements**

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The government-wide financial statements present the financial position of the City from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business type activities separately. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt).

The two government-wide statements report the City's net position and how they have changed. Net position - the difference between the City's assets and liabilities - is one way to measure the City's financial health or financial position.

- Over time, increases or decreases in the City's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the City's overall health, one needs to consider additional non-financial factors such as changes in the City's property tax base and the condition of the City's infrastructure and other facilities.

In the Statement of Net Position and the Statement of Activities, the City's activities are separated as follows:

**Governmental activities** - Most of the City's basic services are reported in this category, including the general government, police, fire, public safety, health, transportation, economic assistance, culture and recreation, home and community services, and refuse and recycling. Property and sales taxes, user fees, interest income, franchise fees, and state and federal grants finance these activities.

**Business-type activities** - The City charges a fee to customers to cover all or most of the cost of certain services it provides. The City's water and sewer activities are reported in this category.

## **Fund Financial Statements**

The fund financial statements provide more detailed information about the City's funds, focusing on its most significant or "major" funds - not the City as a whole. Some funds are required to be established by State law. However, the City Council establishes other funds to control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants or other money.

The City has three kinds of funds:

- **Governmental Funds:** Most of the City's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information provided with the governmental funds statements explains the relationship (or differences) between them.

- **Proprietary Funds:** These funds are generally used to account for services for which the City charges customers (both external and internal). These funds use accrual accounting, which is the same method used by the private sector. The City of Batavia has two enterprise funds. The City's enterprise funds are the water and sewer funds. Enterprise funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The enterprise fund financial statements provide separate information for each of the enterprise funds, both of which are considered to be major funds of the City.
- **Fiduciary Funds:** The City is the trustee, or fiduciary, for assets that belong to others, such as deposits. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The City excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

### **Financial Analysis of the City as a Whole**

In recent years the City has focused their efforts on proactive financial management and strategic planning emphasizing the City's financial health with specific measured results reviewed every month by City Council. Through these efforts and with multi-year financial planning, the City has committed to and prepared for long-term financial stability and investments.

- **The Annual budget.** In reflecting on the City's multi-year financial plan, the City has maintained a responsible tax rate. The City continues to closely monitor expenses and conservatively budget revenue. As a result, year ending March 31, 2016 resulted in revenues exceeding expenditures after Other financing sources by \$1,351,632. While this was due to unexpected revenues and well managed expenditures, such as higher than expected interest and earnings penalties and lower than expected personnel and retirement expenditures due to unexpected position vacancies throughout the City, it should be noted that these budget areas have and are subject to changes from year to year. Consistent with the City budgeting practices of the past, the City should commit these surplus funds to decreasing debt or increasing reserve fund balances for future liabilities such as equipment, facility and infrastructure improvements.
- **Strategic use of unexpected revenues and/or surpluses.** The City uses one-time revenues/surpluses to offset capital project expenses, build fund balance and reserves, assist in purchasing equipment and improving infrastructure. The City remains cautiously optimistic and budgetarily conservative as major revenue sources such as sales tax and State aid, and expenses such as retirement contributions and healthcare costs continue to be inconsistent. The increase in unassigned fund balance should be paired with the City's fund balance policy and one-time surpluses are recommended to be moved to restricted fund balance to support future equipment, facility and infrastructure needs.

It should be noted that the City experienced a decrease in sales tax receipts for fiscal year ending March 31, 2016. This is the first time since 2010 the City has experienced a decrease in sales tax when compared to the prior year. In addition, healthcare expenditures were approximately \$125,000 over budget due to several high healthcare claims. Both sales tax and healthcare expenditures are significant budget items and should they continue to perform negatively in future years, structural budget changes may have to be considered.



- Investment in City vehicles, equipment, infrastructure and facilities. The City has aggressively accomplished planned capital projects outlined in the Capital Infrastructure Plan (CIP). In addition, the City has completed several sewer and water infrastructure projects on a cash for capital basis. An Equipment Replacement Plan (ERP) has also been developed to assist with investing in and replacing the City's fleet of vehicles and equipment. The City has also adopted a Parking Lot and Sports Surface Management Plan that provides a 10 year outline of annual investments for City parking lots and sport surface improvements. In the year ending March 31, 2016 the City planned over \$575,000 of capital expenditures related to equipment replacement, facility improvements, and sidewalk improvements. Continued planning and investment is needed for long-term stable operations, otherwise one-time equipment and emergency purchases, facility repairs and infrastructure replacement may force the City to increase property tax rates, water and sewer rates and/or debt service levels to meet service demands.
- The City's Strategic Plan. The intent of the City's Strategic Plan is to allocate available resources to best meet the needs of City residents, while balancing the environmental factors that may affect us in the future. Created during the fiscal year ending March 31, 2011, the strategic plan began with a survey of citizens that progressed to creating strategic priorities defined by directional statements. Key intended outcomes linked to the strategic priorities with associated performance goals, became the basis for the annual budget and ultimately the City's Business Plan was created. In May 2014 the City was awarded the 2014 Strategic Leadership & Governance Program Excellence Award by the International City/County Management Association. The award recognized the City's Strategic Business Plan as an innovative and successful local government program and process that has significantly affected a local government's organizational strategic direction. In fiscal year ending March 31, 2016 the City Council updated the Strategic Plan outlining new key intended outcomes and performance objectives to align with City resources.
- State Comptroller's Fiscal Stress Initiative. In May 2014 the New York State Comptroller Thomas P. DiNapoli announced the completion of the initial scoring for all local governments and school districts in New York in the Fiscal Stress Monitoring System. Batavia was issued a fiscal stress score of 0% for 2012, 2013, 2014 and 2015 the lowest (best) possible score. The City has since calculated a draft 2016 scoring using the fiscal stress indicators utilized by the Comptroller, and the City scoring is again 0%. This further indicates the progress made resulting from the City's planning budgeting and good fiscal management decisions.
- Bond Rating Upgrade. A bond rating upgrade was is an objective outlined in the City's Strategic Plan. On July 19, 2012 Moody's Investors Service upgraded the City's bond rating from "A2" to "A1". The upgrade reflects the City's improved financial position marked by consecutive years of operating surpluses, as well as, the City's practice of conservative budgeting of both revenues and expenditures. The rating also factors in the City's moderately sized tax base, below average wealth levels and average direct debt level.
- Fund Balance Recovery. In fiscal year ending March 31, 2006 the City's total fund balance was a deficit \$1,302,857. Fiscal year ending March 31, 2016 the City's total fund balance is \$8,488,914. This recovery in fund balance is due to instituting diligent fiscal management and policies, and as a result has provided the City with the wherewithal to make needed capital investments to provide good services to residents. Continued fiscal prudence also provides the City with the ability to balance better economic times with challenging times.

## **Capital Projects**

The Cedar Street Reconstruction project began construction in fiscal year ending March 31, 2014, and was completed in summer 2015. The Summit Street Reconstruction was in final design, when in December 2013, funding was revoked by New York State. However, federal and state funding was reinstated in summer 2015, and the City has been proceeding with the project with construction starting in 2016.

The City utilized over \$350,000 of reserve funds for the sidewalk improvements. In addition the City utilized over \$200,000 of Consolidated Highway Improvement Program (CHIPs) funding for street resurfacing.

### ***Condensed Statement of Net Position (in thousands of dollars)***

	Governmental Activities			Business-Type Activities		
	2016	2015 as restated	Increase (Decrease)	2016	2015 as restated	Increase (Decrease)
Current and other assets	\$ 12,631	\$ 13,683	(1,052)	\$ 18,148	\$ 13,040	\$ 5,108
Capital assets, net	21,518	21,126	392	25,656	26,657	(1,001)
Total assets	<u>\$ 34,149</u>	<u>\$ 34,809</u>	<u>(660)</u>	<u>\$ 43,804</u>	<u>\$ 39,697</u>	<u>\$ 4,107</u>
Deferred outflows of resources	<u>1,475</u>	<u>571</u>	<u>1,242</u>	<u>291</u>	<u>-</u>	<u>154</u>
Long-term liabilities	\$ 10,971	\$ 11,185	(214)	\$ 2,310	\$ 2,439	\$ (129)
Other liabilities	3,597	5,156	(1,559)	4,892	796	4,096
Total liabilities	<u>14,568</u>	<u>16,341</u>	<u>(1,773)</u>	<u>7,202</u>	<u>3,235</u>	<u>3,967</u>
Deferred inflow of resources	<u>155</u>	<u>-</u>	<u>163</u>	<u>25</u>	<u>-</u>	<u>17</u>
Net investment in capital assets	16,890	14,570	2,320	23,794	24,956	(1,162)
Restricted	5,452	4,544	908	5,707	3,677	-
Unrestricted (deficit)	(1,441)	(75)	(1,366)	7,367	7,829	(462)
Total net position	<u>20,901</u>	<u>19,039</u>	<u>1,862</u>	<u>36,868</u>	<u>36,462</u>	<u>406</u>
Total liabilities and and net position	<u>\$ 35,624</u>	<u>\$ 35,380</u>	<u>\$ 244</u>	<u>\$ 44,070</u>	<u>\$ 39,697</u>	<u>\$ 4,373</u>

### Governmental Activities

Governmental activities experienced a decrease in the City's net position by \$249,305 when compared to the prior years increase. Key elements of this decrease are as follows:

- Revenues increased by 6.3% and expenses decreased by 5.4% when compared to prior year. This was primarily due to the completion of the Cedar Reconstruction project in 2015. This was reflected in the decrease in Capital Grant and contributions and General Government expenses.
- Property taxes, special assessments and property tax items increased 4.3% due to increased collections and interest and penalty payments.
- General Government, Police and Fire all decreased when compared to the prior year due to vacant positions and lower personnel related expenditures and retirement costs.
- Transportation expenses increased by 10.8% due to more sidewalk improvements when compared to the prior year.

### Business-Type Activities

Business-type activities experienced a decrease in the City's net position by \$1,673,448 compared to the prior years increase. Key elements of this decrease are as follows:

- In fiscal year ending March 31, 2015 there was the sale of sewer plant capacity to the Town of Batavia for over \$2,000,000, this was a one-time sale to the Town and did not continue in fiscal year ending March 31, 2016.

**Changes in Net Position from Operating Results**  
**(in thousands of dollars)**

	Governmental Activities			Business-Type Activities		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
<b>Program Revenues:</b>						
Charges for services	\$ 780	\$ 835	\$ (55)	\$ 5,356	\$ 7,099	\$ (1,743)
Operating grants and contributions	914	452	462	2,311	2,176	135
Capital grants and contributions	179	2,082	(1,903)	-	-	-
<b>General Revenues:</b>						
Property taxes, special assessments and property tax items	5,550	5,323	227	-	-	-
Non-property taxes	6,441	6,490	(49)	-	-	-
Interest earnings	73	68	5	23	15	8
State and federal sources	1,894	1,865	29	-	-	-
Miscellaneous	762	598	164	-	-	-
Total revenues	16,593	17,713	(1,120)	7,690	9,290	(1,600)
<b>Program Expenses:</b>						
General government	2,555	3,204	(649)	-	-	-
Police	3,978	4,002	(24)	-	-	-
Fire	3,969	4,206	(237)	-	-	-
Public safety	405	392	13	-	-	-
Health	20	20	-	-	-	-
Transportation	2,266	2,046	220	-	-	-
Economic assistance	259	239	20	-	-	-
Culture and recreation	1,019	1,073	(54)	-	-	-
Home and community service	417	498	(81)	6,967	7,013	(46)
Refuse and recycling	52	57	(5)	-	-	-
Interest on debt	109	203	(94)	-	-	-
Total expenses	15,049	15,940	(891)	6,967	7,013	(46)
Excess of revenues over expenses	1,544	1,773	(229)	723	2,277	(1,554)
Capital contributions	-	-	-	-	141	(141)
Transfers	318	339	(21)	(318)	(339)	21
Change in net position	1,862	2,112	(250)	405	2,079	(1,674)
Restatement (see Note 4)	-	571	(571)	-	(9)	9
Net position-beginning (as restated)	19,039	16,356	2,683	36,463	34,393	2,070
Net position-ending	\$ 20,901	\$ 19,039	\$ 1,862	\$ 36,868	\$ 36,463	\$ 405

### **Financial Analysis of the City's Funds**

The fiscal year ending March 31, 2016 concluded with an unassigned fund balance of \$1,849,567 after restrictions and assignments for encumbrance, reserves and other fund balance commitments. This is the eighth consecutive year the City has maintained a positive fund balance.

#### **The General Fund**

Revenues for the general fund increased compared to last year by \$801,658. This is primarily due to an increase in property tax collections and interest and penalty payments. The City identifies this influx, however does not budget for increases in penalty payments as they are considered one-time revenues.

Despite an increase in healthcare expenditures of \$100,000 in the general fund over the prior year, expenses for the general fund were collectively \$70,609 less when compared to the prior year. This is primarily due to multiple vacancies throughout the organization and lower retirement expenditures compared to the prior year.

#### **Water Fund**

The water fund, including depreciation, had a current year increase in net position of \$347,082, compared to last year's decrease of \$138,142. Increases in charges for services (water rents) and capital improvement fees accounts for the biggest change from last year, while decreases in the County contract expenses contributed to the Fund's improvement in net position.

#### **Sewer Fund**

The sewer fund, including depreciation, has experienced an increase in net position of \$58,333. This is a significantly smaller net change due to prior years sale of sewer plant capacity to the Town of Batavia for just over \$2,000,000.

### **Workers Comp. Fund**

This year's workers compensation fund balance increased by \$76,039. This is primarily due to less unexpected expenditures related to open claims from when the City was self-insured (pre-March 31, 2009) than in prior years.

### **Capital Projects Fund**

Cedar Street Reconstruction was completed in 2015. While construction funding for Summit Street Reconstruction was originally revoked in December 2013 it was reinstated in 2015 and construction began in Spring 2016.

<b><i>Revenues, Expenditures/Expenses and Changes in Fund Balance/Net Assets - Governmental Funds and Business-Type Activities (in thousands of dollars)</i></b>			
	<b>2016</b>		
	<u>Revenues</u>	<u>Expenditures/ Expenses</u>	<u>Fund Balance/ Net Assets</u>
General Fund	\$ 16,300	\$ 14,948	\$ 8,489
Water Fund	4,699	4,351	9,348
Sewer Fund	2,993	2,934	27,520
	<b>2015</b>		
	<u>Revenues</u>	<u>Expenditures/ Expenses</u>	<u>Fund Balance/ Net Assets</u>
General Fund	\$ 15,673	\$ 15,811	\$ 7,137
Water Fund	4,472	4,610	9,006
Sewer Fund	4,959	2,742	27,465

Revenues and Expenditures/Expenses include other financing sources or uses.

## General Fund Budgetary Highlights

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

The City general fund experienced an increase in fund balance over the prior year of \$1,351,632. This included planned expenditures of reserve funds of over \$575,000 for budgeted capital equipment, facility and sidewalk expenditures. The City's excess revenues over expenditures provides the City an opportunity to meet its unassigned fund balance objective of 10% of general fund expenditures while continuing to build several reserve funds for future liabilities.

Revenues that the City does not receive on a consistent basis are not included in future budgets. While some one-time revenues have assisted with financial recovery, sustained growth in larger reoccurring revenues remain questionable. One-time revenues include:

- Interest and Penalties on property taxes were \$176,971 above budget. While this revenue has benefited the City's bottom line, it is completely reliant on delinquent property taxes being paid late.
- Video Lottery Terminal aid received this year was \$440,789. This revenue is not budgeted as it has continually been debated, and at times removed, from the Governor's Executive Budget. The City has utilized this revenue in the past to support capital expenditures and economic development.

Revenues that experience limited to no growth continue to be a concern, and the City continues to monitor these revenues. Should any significant changes occur in future years, the City's general fund would be negatively affected. These revenues include:

- Sales tax revenue decreased .20%, or \$12,302 compared to the prior year. While this is a slight decrease over the prior year, the City's sales tax revenue is an economically sensitive revenue, and is subject to volatile swings in receipts, as witnessed in the not so distant past. For the past three years annual sales tax growth has slowly dwindled to a loss, while the three years prior annual average growth was almost 6%.
- Utility gross receipts tax decreased \$36,040, or 16% compared to the prior year. Utility gross receipts tax has been inconsistent over the past five years due to changing electricity and natural gas prices.

In addition to revenue changes, this fiscal year had several lower than expected expenditures. These include:

- General fund unappropriated contingency, personnel services and retirement expenditures in General Government, equaled \$304,880. This was due to limited use of the contingency budget as the most revenue and expenditure lines were within budget.
- Vacancies and lower than expected retirement costs attributed to Public Safety expenditures \$654,678 under budget.
- Transportation expenditures were \$289,636 less than budgeted. This was primarily due to lower than expected retirement expenditures, fuel costs and snow operations expenditures.

One expenditure that was greater than budget was healthcare expenditures. In prior years healthcare expenses has been typically under budget, however fiscal year ending March 31, 2016 had several high unexpected healthcare claims. Healthcare claims continue to be monitored on a monthly basis for abnormal trends.

Aside from conservative budgeting and the utilization of one-time revenues to fund capital acquisitions, the City continued the practice of conservative spending and strict expense monitoring throughout the year.

The City's prudent revenue budgeting and expense monitoring has resulted in general fund surpluses needed to eliminate prior fund balance deficits, grow reserve balances and unassigned fund balance. While the City has experienced several lower than expected expenditures, these one-time savings are short lived and will not continue in future years. Furthermore, depending on the severity of change, revenue declines and expenditure increases, such as healthcare, retiree healthcare and retirement costs, the City may experience challenges in building the financial resources necessary to gain better financial footing. With the New York State Property Tax Cap, the inability to increase property taxes may further limit our ability to maintain services to residents at current levels.



## Capital Asset and Debt Administration

### Capital Assets

In the year ending March 31, 2016, the City funded general fund reserves with an additional \$1,470,000. The City continued to make an effort to plan and fund for future equipment and infrastructure improvements, rather than defer funding for these needed improvements. In addition to funding reserves, the City utilized just over a \$575,000 of the reserve funds in the general fund to purchase multiple equipment purchases, several additional facility improvements, install sidewalks and absorb compensated absences from several retirements, thereby utilizing reserve funding instead of property tax increases or issuance of debt for these types of improvements.

<b>Capital Assets Net of Depreciation</b> <b>(in thousands of dollars)</b>				
	Governmental Activities		Business -Type Activities	
	2016	2015	2016	2015
Land	\$ 1,135	\$ 1,135	\$ 42	\$ 42
Construction work in progress	4,153	10,077	301	1,339
Buildings	6,560	6,814	15,388	16,264
Machinery & equipment	2,359	2,212	567	606
Infrastructure	7,312	888	9,358	8,406
Total	<u>\$ 21,519</u>	<u>\$ 21,126</u>	<u>\$ 25,656</u>	<u>\$ 26,657</u>

### Long-Term Obligations

The City received a bond rating of "A2" from Moody's Investors Service in May 2010. At that time Moody's recalibrated the scale for municipalities to bring their ratings in line with and more comparable to private organizations. Previously the City's bond rating was "Baa2". In June 2011, Moody's affirmed the City's "A2" bond rating and assigned the City a "positive outlook". Moody's assignment of the positive outlook acknowledged a modest financial position by specifically identifying City management's ability to restore financial health, establish a Retirement, Health Insurance and Employee Benefits Reserves and negotiated manageable settlements with three of its unions, which included wage freezes and healthcare concessions. In July 2012 Moody's Investors Service upgraded the City's bond rating from "A2" to "A1". The upgrade reflected the City's improved financial position marked by five consecutive years of operating surpluses as well as the City's practice of conservative budgeting of both revenues and expenditures. The rating also factors the City's moderately sized tax base, below average wealth levels and average direct debt level.

More detailed information on the City's capital assets and long-term debt activity is provided in the Notes to the Financial Statements under 3.C and 3.I.

**Outstanding Long-Term Obligations**  
(in thousands of dollars)

	Governmental Activities		Business-Type Activities	
	2016	2015	2016	2015
General obligation debt backed by the City	\$ 3,971	\$ 4,359	\$ 1,229	\$ 1,385
Installment purchase debt	658	547	264	317
Other debt	545	682	-	-
Compensated absences	2,243	2,275	436	386
Other post employment benefits	3,554	3,345	380	367
Total	<u>\$ 10,971</u>	<u>\$ 11,208</u>	<u>\$ 2,309</u>	<u>\$ 2,455</u>

**Factors Bearing on the City's Future**

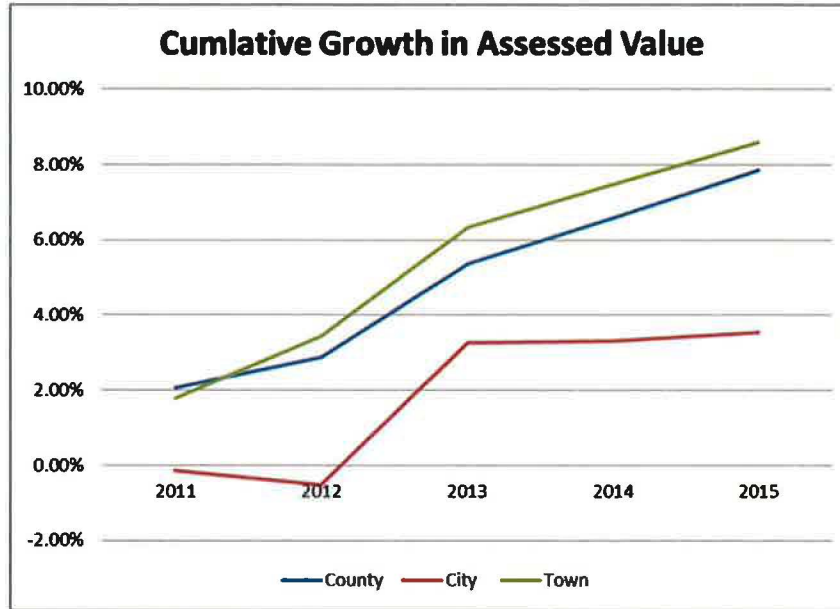
Following is a description of both short and long-term factors the City will be forced to deal with in the future:

- **General Fund Revenue** – Growth in major revenues has leveled off in the past several years. The City's major general fund revenues, payment in lieu of taxes, sales tax, utilities gross receipt tax, cable franchise fees, fines and forfeitures and mortgage tax, which makes up approximately 44% of the general fund revenues, has decreased in growth from 1.9% in 2013 to no growth in 2016. With nearly half the general fund revenues demonstrating little to no growth there is greater risk of deferring capital expenditures, cutting services and increasing taxes.
- **Sales Tax & Water Agreements** – In 1999 the City and County entered into the Sales Tax Allocation Agreement formalizing the percentage share of County sales tax to be distributed between the City (16%), County (50%), Towns and Villages (34%). This agreement came in tandem with the creation of the Operation and Maintenance Agreement for the Water Treatment Plant and Water Treatment Facilities Agreement, as all three agreements addressed the Genesee County Public Water Supply Program, economic development and water demands in the County. All three agreements were renewed and extended in 2007 for an additional 10 years.

The City is currently in negotiations with Genesee County regarding the renewal of the water and sales tax agreements, however it is important to note that any percentage change in the City's share of sales tax (16%) that may limit or decrease the City's sales tax from its current position would be detrimental to the City's general fund. Further contributing to the City's general fund revenue challenges. In addition changes to the existing water agreements that does not promote the continuation of the current relationship between the City and County may result in unexpected increases in the water rates. Both agreements are critical to the financial health of the City, surrounding Town's and Village's and the County.

- Property Tax Cap – The City continues to be proactive in our response to various NYS Budget changes and cuts that affect the City. It is important that the City anticipate these well in advance and remain flexible in our ability to respond during the budget process. However the adoption of the property tax cap without mandate relief, has significantly hampered the City's ability to levy the necessary funds to support services. In addition, the tax cap is not a tax cap of 2%, it is rather a cap of the 2% or inflation, whichever is lowest. Over the past two years inflation has been under 1%. The City is continually evaluating the impact of the tax cap on the City's budget and services, however if changes are not made in the legislation many communities, including Batavia, will be facing cutting services and capital investments while increasing taxes in the same year.
- Reserve funding – Funding reserves now for future equipment, infrastructure and facility improvements has been and will continue to be critical in avoiding larger tax burdens in future years. In the fiscal year ending March 31, 2016, the City utilized just over \$575,000 of reserve funding to purchase needed equipment and offset liabilities as they came due. Planning for these improvements/liabilities is a major priority in the City's work plan. Updating capital improvement plans and designated revenue streams to fund these plans are essential to maintaining a safe financial position for the City.
  - Employee Accrued Liability Reserve – Due to a high number of retirements/terminations in prior years, the City depleted its Employee Accrued Liability Reserve in the fiscal year ending March 31, 2013. While it is unreasonable to fully fund all liabilities, it is important to properly assess and evaluate potential risks in order to appropriately fund and prepare for likely obligations. This reserve balance should be increased.
  - Facility Reserve – For the past four years City Council has committed surplus revenues to the City's Facility Reserve in preparation of needed improvements to several City facilities including the City's Police Station. In addition, the City has developed 5-year capital plans for Dwyer Stadium and Falletti Ice Arena. The City's Strategic Plan has also outlined a key objective for developing a capital facilities improvement plan for each City facility. A capital plan for the Bureau of Maintenance and Fire Station has been completed and has identified approximately \$650,000 of needed improvements. In preparation of needed upcoming facility improvements, additional commitment of reserve funding will provide the City with greater financial capacity to handle future improvements with each facility. Continuing to build this reserve will also allow the City to avoid additional debt service or the temptation to procrastinate or put off needed investments.
- NYS Retirement Costs – Since FY 2009/10, annual fluctuations in actual retirement payments have ranged from a 29% decrease (\$311,000) in 2009/10 to a 62% increase (\$478,000) the following year in 2010/11, and then a 4% decrease (\$52,000) in 2011/12. In 2012/13 the City's retirement costs increased 45.7% (\$548,032) over the prior year. In 2013/14 the City's retirement costs decreased 22.3% (\$389,118) from the prior year. While in 2014/15 the City's retirement costs was again a 36% increase (\$488,148) from the prior year, 2015/16 was a decrease of 20% (\$369,459) from the prior year. Because the State's projected retirement contributions in past years have not been consistent with actual retirement payments, it is prudent to assume retirement costs will increase in future years until consistent and reliable retirement payments are restored.

- *Healthcare Costs* – On average, for the past five years the City's healthcare costs have increased approximately 8-10% per year. On an annual basis the City analyzes the option of transitioning from a self-insured plan to an experienced-based plan, however the City's ability to maintain manageable annual increases in healthcare costs while building a healthcare reserve makes it financially feasible to remain self-insured. The recent increase in expenditures in healthcare in fiscal year ending March 31, 2016 was due to unexpected claims, not consistent with the past. This expenditure will continue to be monitored closely to determine if fiscal year ending March 31, 2016 was a one time high expenditure and if healthcare claims will return to prior year similarities.
- *Retiree Healthcare Costs* – Retiree healthcare will continue to increase in the future. In the fiscal year ending March 31, 2012 post employment health insurance cost for the City's 34 retirees was \$257,664. In the fiscal year ending March 31, 2013 post employment health insurance cost for the City's for 38 retirees was \$365,588. This was a 41.9% increase, or \$107,924 increase over the prior year. In the fiscal year ending March 31, 2014 post employment health insurance cost for the City's 52 retirees was \$537,269. This was a 47.96% increase, or \$171,681 increase over the prior year. In fiscal year ending March 31, 2015 post employment health insurance cost for the City's 33 retirees was \$314,727. While this is a decrease when compared to the prior year, retiree healthcare expenses are a large portion of the general fund expenses, are unpredictable and can be extremely volatile due to one single illness. The City's liability for post employment benefits, as of the actuarial valuation date of April 1, 2013, amounted to \$9,225,643. Aggressive labor negotiations to reduce future retiree costs will be essential for maintaining a long term decrease of this liability.
- *Union Contracts* – While all contracts are current, two contracts expire March 31, 2017. The City's negotiations will be focused on manageable benefit packages that will not significantly impact future property tax levels. Strong but fair negotiations will have to take place to ensure that future benefit packages are reasonable for City employees and affordable for City taxpayers. In addition, future benefit packages will begin to focus on pay for skill initiatives that will provide employees with better pay and benefits for high performance, more cross training and professional and leadership development.
- *Taxable Assessed Value Decline* – The City has enjoyed an average growth of 1.5% in its tax base annually, however, since 2010 the City's taxable assessed value has been less than 1% annually. As the housing market continues to show slow signs of recovery, the City should expect similar trends over the next several years. In addition, with the adoption of the property tax cap without relief from State mandated expenses, the City's ability to levy the necessary funds to support services are significantly hampered. Considering taxable assessed value is the City's most stable source of revenue, the City needs to make improving the City's tax base, particularly the non-residential tax base, a priority and encourage future commercial and industrial redevelopment, specifically Brownfield Redevelopment, throughout the City's Central Corridor.



Furthermore, growth in the City has been lagging when compared to the surrounding area. The above chart illustrates the lack in City taxable assessed value growth when compared in Genesee County and the Town of Batavia. Both have had robust focuses on economic development for nearly 10 years, and as a result the cumulative growth in taxable assessed value growth has been more than double the City's since 2010.

***Building tax base is imperative to supporting and maintaining valuable City services at reasonable costs and maintaining a strong financial position.***

Over the past seven years the City has experienced decreases in State aid as well as considerable increases in state retirement costs and retiree healthcare costs. In addition, the imposition of the Property Tax Cap further limits the City's ability to combat increasing State mandated costs as the cap imposes a ceiling on the City's ability to levy property taxes. The City Council's Strategic Plan emphasizes Well-Managed City, which consists of maintaining a healthy and stable financial position. The City's financial improvement over the past several years has been the result of many necessary reactive and proactive approaches to budgeting and operations for the City. It is critically important that the City continue to spend a considerable effort on planning for the future, most specifically with regards to funding reserves, maintaining and funding capital and equipment replacement plans, and maintaining low cost, high quality services to residents. In addition, resources need to be focused on encouraging tax base growth through economic development efforts promoting land use redevelopment and job growth within the City.

#### **Contacting the City's Financial Management**

This financial report is designed to provide the City's citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Manager's Office, City of Batavia, Batavia, New York.

**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF NET POSITION**  
**MARCH 31, 2016**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 8,266,865	\$ 12,111,370	\$ 20,378,235
Cash - restricted	181,073	3,681,146	3,862,219
Property taxes receivable, net	1,676,445	-	1,676,445
Accounts receivable, net	507,282	1,803,364	2,310,646
State and federal receivables	465,653	-	465,653
Loans receivable, net	180,199	-	180,199
Due from other governments	1,353,741	551,514	1,905,255
Capital assets not being depreciated	5,287,385	342,812	5,630,197
Capital assets, net of accumulated depreciation	<u>16,231,174</u>	<u>25,313,653</u>	<u>41,544,827</u>
 Total assets	 <u>34,149,817</u>	 <u>43,803,859</u>	 <u>77,953,676</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Deferred pension outflows	247,285	41,924	289,209
Deferred pension outflows, contributions subsequent to measurement date	<u>1,227,650</u>	<u>248,988</u>	<u>1,476,638</u>
Total deferred outflows of resources	<u>1,474,935</u>	<u>290,912</u>	<u>1,765,847</u>
<b>LIABILITIES:</b>			
Accounts payable	567,059	527,833	1,094,892
Accrued liabilities	380,103	110,308	490,411
Bond anticipation notes payable	-	4,050,000	4,050,000
Due to other governments	443,238	-	443,238
Unearned revenues	1,504,123	-	1,504,123
Long-term liabilities:			
Due and payable within one year	824,869	257,528	1,082,397
Due and payable after one year	10,145,999	2,052,078	12,198,077
Net pension liability	<u>702,984</u>	<u>203,811</u>	<u>906,795</u>
Total liabilities	<u>14,568,375</u>	<u>7,201,558</u>	<u>21,769,933</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Deferred pension inflows	<u>155,094</u>	<u>25,126</u>	<u>180,220</u>
Total deferred inflows of resources	<u>155,094</u>	<u>25,126</u>	<u>180,220</u>
<b>NET POSITION:</b>			
Net investment in capital assets	16,889,932	23,794,332	40,684,264
Restricted for:			
Insurance	770,359	55,446	825,805
Capital projects	3,384,263	5,627,265	9,011,528
Retirement contribution	433,895	-	433,895
Other purposes	7,691	-	7,691
Special grant	443,161	-	443,161
Small cities	159,863	-	159,863
Repairs	145,192	-	145,192
Employee benefit accrued liability	7,702	-	7,702
Unrestricted	<u>(1,340,775)</u>	<u>7,391,044</u>	<u>6,050,269</u>
 Total net position	 <u>\$ 20,901,283</u>	 <u>\$ 36,868,087</u>	 <u>\$ 57,769,370</u>

See notes to basic financial statements.



**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED MARCH 31, 2016**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Functions/Programs:</b>							
Governmental activities:							
General government	\$ 2,555,179	\$ 158,331	\$ 3,271	\$ -	(2,393,577)	\$ -	(2,393,577)
Police	3,977,937	185,715	53,259	-	(3,738,963)	-	(3,738,963)
Fire	3,968,773	-	36,419	-	(3,932,354)	-	(3,932,354)
Public safety	402,590	82,742	218,894	-	(100,954)	-	(100,954)
Health	19,850	37,072	-	-	17,222	-	17,222
Transportation	2,265,625	11,514	209,186	178,979	(1,865,946)	-	(1,865,946)
Economic assistance	258,828	199,976	371,492	-	312,640	-	312,640
Culture and recreation	1,019,811	73,990	21,440	-	(924,381)	-	(924,381)
Home and community services	417,325	28,194	-	-	(389,131)	-	(389,131)
Refuse and recycling	51,510	-	-	-	(51,510)	-	(51,510)
Interest on debt	109,153	-	-	-	(109,153)	-	(109,153)
Total governmental activities	15,046,581	777,534	913,961	178,979	(13,176,107)	-	(13,176,107)
Business-type activities:							
Sewer	2,894,971	2,740,810	235,550	-	-	81,389	81,389
Water	4,072,389	2,615,116	2,076,245	-	-	618,972	618,972
Total business-type activities	6,967,360	5,355,926	2,311,795	-	-	700,361	700,361

See notes to basic financial statements.

**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED MARCH 31, 2016**  
**(Continued)**

		Program Revenues			Net (Expense) Revenue and Changes in Net Position						
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total				
Expenses											
Total governmental and business-type activities	\$	<u>22,013,941</u>	\$	<u>6,133,460</u>	\$	<u>3,225,756</u>	\$	<u>178,979</u>	(13,176,107)	700,361	(12,475,746)
General revenues:											
Real property taxes and tax items					5,549,620	-	5,549,620				
Non-property taxes					6,441,305	-	6,441,305				
Interest earnings					72,997	23,454	96,451				
State aid not restricted for a specific purpose					1,894,319	-	1,894,319				
Other miscellaneous revenues					762,284	-	762,284				
Transfers:											
Sewer					39,330	(39,330)	-				
Water					279,070	(279,070)	-				
Total general revenues and transfers					15,038,925	(294,946)	14,743,979				
Change in net position					1,862,818	405,415	2,268,233				
Net position - beginning as restated (Note 4)					19,038,465	36,462,672	55,501,137				
Net position - ending					\$	<u>20,901,283</u>	\$	<u>36,868,087</u>	\$	<u>57,769,370</u>	

See notes to basic financial statements.



**CITY OF BATAVIA, NEW YORK**  
**BALANCE SHEET- GOVERNMENTAL FUNDS**  
**MARCH 31, 2016**

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 5,749,440	\$ 1,604,693	\$ 912,732	\$ 8,266,865
Cash - restricted	-	181,073	-	181,073
Receivables (net of allowance for uncollectible receivables)				
Property taxes receivable	1,676,445	-	-	1,676,445
Accounts receivable	375,627	-	131,655	507,282
Loan receivables	-	-	180,199	180,199
State and federal receivables	299,002	133,856	32,795	465,653
Due from other governments	1,353,741	-	-	1,353,741
Due from other funds	1,710,639	-	-	1,710,639
Total assets	<u>\$ 11,164,894</u>	<u>\$ 1,919,622</u>	<u>\$ 1,257,381</u>	<u>\$ 14,341,897</u>
<b>LIABILITIES:</b>				
Accounts payable	\$ 267,565	\$ 249,654	\$ 49,840	\$ 567,059
Accrued liabilities	339,361	-	40,742	380,103
Unearned revenues	1,504,123	-	-	1,504,123
Due to other governments	443,238	-	-	443,238
Due to other funds	-	1,700,639	10,000	1,710,639
Total liabilities	<u>2,554,287</u>	<u>1,950,293</u>	<u>100,582</u>	<u>4,605,162</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Unavailable revenue-property taxes	121,693	-	-	121,693
Total deferred inflows of resources	<u>121,693</u>	<u>-</u>	<u>-</u>	<u>121,693</u>
<b>FUND BALANCES (DEFICITS):</b>				
Restricted	4,749,102	-	603,024	5,352,126
Committed	152,611	-	-	152,611
Assigned	1,737,634	-	553,775	2,291,409
Unassigned (deficit)	1,849,567	(30,671)	-	1,818,896
Total fund balances (deficits)	<u>8,488,914</u>	<u>(30,671)</u>	<u>1,156,799</u>	<u>9,615,042</u>
Total liabilities, deferred inflows of resources and fund balances (deficits)	<u>\$ 11,164,894</u>	<u>\$ 1,919,622</u>	<u>\$ 1,257,381</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation.	21,518,559
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds:	
Serial bonds payable and bond premium	(3,970,386)
Installment purchase debt	(658,241)
Due to other governments	(545,344)
Compensated absences	(2,242,805)
Post employment benefits	(3,554,092)
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	121,693
Pension liabilities are not due and payable in the current period and therefore are not reported in the funds.	(702,984)
Deferred outflows and inflows are not assets or liabilities of the current period and therefore are not reported in the funds.	1,319,841
Net position of governmental activities	<u>\$ 20,901,283</u>

See notes to basic financial statements.

**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2016**

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES:</b>				
Real property taxes	\$ 5,434,357	\$ -	\$ -	\$ 5,434,357
Real property tax items	416,561	-	-	416,561
Special assessments	-	-	199,976	199,976
Sales and other taxes	6,441,305	-	-	6,441,305
Departmental income	275,356	-	-	275,356
Use of money and property	66,071	771	6,155	72,997
Licenses and permits	84,622	-	-	84,622
Fines and forfeitures	154,983	-	-	154,983
Sale of property and compensation for loss	117,812	-	107,528	225,340
Miscellaneous local sources	596,312	-	5,512	601,824
Federal and state sources	2,486,758	178,979	321,522	2,987,259
	<u>16,074,137</u>	<u>179,750</u>	<u>640,693</u>	<u>16,894,580</u>
Total revenues				
<b>EXPENDITURES:</b>				
Current:				
General government	1,780,112	-	503,504	2,283,616
Police	3,304,715	-	-	3,304,715
Fire	3,342,777	-	-	3,342,777
Public safety	278,550	-	-	278,550
Health	17,120	-	-	17,120
Transportation	2,033,546	-	-	2,033,546
Economic assistance	75,365	-	183,463	258,828
Culture and recreation	777,400	-	-	777,400
Home and community services	263,529	-	415,882	679,411
Refuse and recycling	51,569	-	-	51,569
Employee health benefits	1,758,451	-	20,225	1,778,676
Debt service:				
Principal	545,422	-	-	545,422
Interest	112,650	-	-	112,650
Capital outlay:				
General government	-	204	-	204
Transportation	-	441,365	-	441,365
	<u>14,341,206</u>	<u>441,569</u>	<u>1,123,074</u>	<u>15,905,849</u>
Total expenditures				

See notes to basic financial statements.

**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2016**  
**(Continued)**

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Excess (deficit) of revenues over expenditures	1,732,931	(261,819)	(482,381)	988,731
<b>OTHER FINANCING SOURCES (USES):</b>				
Interfund transfers in	225,000	83,069	616,630	924,699
Interfund transfers out	(606,299)	-	-	(606,299)
Installment purchase debt proceeds	-	181,073	-	181,073
Total other financing sources (uses)	<u>(381,299)</u>	<u>264,142</u>	<u>616,630</u>	<u>499,473</u>
Net change in fund balances	1,351,632	2,323	134,249	1,488,204
Fund balances - beginning	<u>7,137,282</u>	<u>(32,994)</u>	<u>1,022,550</u>	<u>8,126,838</u>
Fund balances (deficit) - ending	<u>\$ 8,488,914</u>	<u>\$ (30,671)</u>	<u>\$ 1,156,799</u>	<u>\$ 9,615,042</u>

See notes to basic financial statements.

**CITY OF BATAVIA, NEW YORK**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED MARCH 31, 2016**

Net change in fund balances - total governmental funds	\$ 1,488,204
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$8,038,491) less construction work in process removed or placed in service (\$6,738,759) exceeded depreciation (\$876,845) in the current period.	422,887
The net effect of various miscellaneous transactions involving capital assets (disposals) is to decrease net position.	(30,527)
Revenues that are not available to pay current obligations are not reported in the fund financial statements, but they are presented as revenues in the statement of activities.	(301,298)
Decrease in the proportionate share of net pension liability reported in the Statement of Net Position does not provide for or require the use of current financial resources and therefore is not reported as expenditures in the governmental funds (ERS- \$99,025, PFRS- \$209,939)	(308,364)
Decrease in the proportionate share of the net deferred inflow and outflow reported in the statement of net position during the measurement period between the City's contributions and its proportionate share to the total contributions to the pension systems subsequent to the measurement date do not provide for or require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (ERS- \$200,936, PFRS- \$153,827)	354,763
The issuance of long-term debt (i.e., bonds, leases) 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. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	
Serial bonds principal payment	385,000
Premium liability	3,497
Installment purchase debt payment	70,422
Issuance of new installment purchase debt	(181,073)
Due to other governments	135,842
On the statement of activities, the actual and projected long term expenditures for post employment benefits are reported, whereas on the governmental funds, only the actual expenditures are recorded for post employment benefits.	(208,908)
(Increases) decreases in accrued compensated absences reported in the statement of activities do not provide for or require the use of current financial resources and therefore are not reported as revenues or expenditures in the governmental funds.	32,373
Change in net position of governmental activities	\$ <u>1,862,818</u>

See notes to basic financial statements.

**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF NET POSITION - ENTERPRISE FUNDS**  
**MARCH 31, 2016**

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 7,351,608	\$ 4,759,762	\$ 12,111,370
Cash - restricted	3,519,255	161,891	3,681,146
Accounts receivable	779,297	1,024,067	1,803,364
Due from other governments	-	551,514	551,514
Capital assets not being depreciated	300,877	41,935	342,812
Capital assets, net of accumulated depreciation	20,727,966	4,585,687	25,313,653
Total assets	<u>32,679,003</u>	<u>11,124,856</u>	<u>43,803,859</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Deferred pension outflows	17,383	24,541	41,924
Deferred pension outflows, contributions subsequent to measurement date	103,239	145,749	248,988
Total deferred outflows of resources	<u>120,622</u>	<u>170,290</u>	<u>290,912</u>
<b>LIABILITIES:</b>			
Accounts payable	\$ 34,587	\$ 493,246	\$ 527,833
Accrued liabilities	69,431	40,877	110,308
Bond anticipation note payable	3,720,000	330,000	4,050,000
Long-term liabilities:			
Due and payable within one year	195,186	62,342	257,528
Due and payable after one year	1,165,156	886,922	2,052,078
Net pension liability	84,507	119,304	203,811
Total liabilities	<u>5,268,867</u>	<u>1,932,691</u>	<u>7,201,558</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Deferred pension inflows	10,418	14,708	25,126
Total deferred inflows of resources	<u>10,418</u>	<u>14,708</u>	<u>25,126</u>
<b>NET POSITION:</b>			
Net investment in capital assets	19,803,366	3,990,966	23,794,332
Restricted for:			
Insurance	21,962	33,484	55,446
Capital projects	3,120,523	2,506,742	5,627,265
Unrestricted	4,574,489	2,816,555	7,391,044
Total net position	<u>\$ 27,520,340</u>	<u>\$ 9,347,747</u>	<u>\$ 36,868,087</u>

See notes to basic financial statements.

**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION -**  
**ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2016**

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 2,740,810	\$ 2,615,116	\$ 5,355,926
County water agreement charges	-	1,387,342	1,387,342
Rental of real property	-	550,000	550,000
Other operating revenue	235,550	138,903	374,453
Total operating revenues	<u>2,976,360</u>	<u>4,691,361</u>	<u>7,667,721</u>
<b>OPERATING EXPENSES:</b>			
Salaries, wages and employee benefits	883,771	1,202,473	2,086,244
Contractual expense	635,855	2,692,717	3,328,572
Depreciation	1,354,113	164,023	1,518,136
Total operating expenses	<u>2,873,739</u>	<u>4,059,213</u>	<u>6,932,952</u>
Operating income	<u>102,621</u>	<u>632,148</u>	<u>734,769</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Investment income	16,274	7,180	23,454
Interest expense	(21,232)	(13,176)	(34,408)
Operating subsidy to governmental funds	(39,330)	(279,070)	(318,400)
Total non-operating expenses	<u>(44,288)</u>	<u>(285,066)</u>	<u>(329,354)</u>
Change in net position	58,333	347,082	405,415
Net position - beginning as restated (Note 4)	<u>27,462,007</u>	<u>9,000,665</u>	<u>36,462,672</u>
Net position - ending	<u>\$ 27,520,340</u>	<u>\$ 9,347,747</u>	<u>\$ 36,868,087</u>

See notes to basic financial statements.

**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2016**

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>			
Cash received from customers	\$ 4,761,394	\$ 2,526,177	\$ 7,287,571
Cash payments for contractual expenses	(706,548)	(2,918,810)	(3,625,358)
Cash payments to employees for services	(841,839)	(1,181,486)	(2,023,325)
Other operating revenue	235,550	2,076,245	2,311,795
Net cash provided by operating activities	<u>3,448,557</u>	<u>502,126</u>	<u>3,950,683</u>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u></b>			
Operating subsidy to governmental funds	(39,330)	(279,070)	(318,400)
Net cash used by noncapital financing activities	<u>(39,330)</u>	<u>(279,070)</u>	<u>(318,400)</u>
<b><u>CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:</u></b>			
Bond anticipation notes payable	3,720,000	330,000	4,050,000
Acquisition and construction of capital assets	(303,244)	(194,872)	(498,116)
Principal payments on debt	(173,183)	(33,934)	(207,117)
Interest paid on debt	(9,826)	(10,825)	(20,651)
Net cash provided by capital and financing activities	<u>3,233,747</u>	<u>90,369</u>	<u>3,324,116</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>			
Interest on cash and investments	16,274	7,180	23,454
Net cash provided by investing activities	<u>16,274</u>	<u>7,180</u>	<u>23,454</u>
Net increase in cash and cash equivalents	6,659,248	320,605	6,979,853
Cash and cash equivalents - beginning	<u>4,211,615</u>	<u>4,601,048</u>	<u>8,812,663</u>
Cash and cash equivalents - ending	<u>\$ 10,870,863</u>	<u>\$ 4,921,653</u>	<u>\$ 15,792,516</u>
Reconciliation of cash and cash equivalents to statements of financial position:			
Cash and cash equivalents	\$ 7,351,608	\$ 4,759,762	\$ 12,111,370
Restricted	3,519,255	161,891	3,681,146
Total cash and cash equivalents	<u>\$ 10,870,863</u>	<u>\$ 4,921,653</u>	<u>\$ 15,792,516</u>
Reconciliation of income from operations to net cash provided by operating activities:			
Income from operations	\$ 102,621	\$ 632,148	\$ 734,769
Adjustments to reconcile income from operations to net cash provided by operating activities:			
Depreciation	1,354,113	164,023	1,518,136
Pension expense	(29,363)	(41,455)	(70,818)
Change in assets and liabilities			
Decrease (increase) in:			
Accounts receivable	(14,004)	(113,694)	(127,698)
Due from other governments	2,034,588	24,755	2,059,343
Increase (decrease) in:			
Accounts payable	5,527	712,697	718,224
Accrued liabilities	31,241	(552,120)	(520,879)
Accrued interest	(31,495)	(2,788)	(34,283)
Bond anticipation notes payable	-	(330,000)	(330,000)
Due to other funds	(46,603)	(12,427)	(59,030)
Compensated absences	34,842	15,586	50,428
Other post employment benefits	7,090	5,401	12,491
Net cash provided by operating activities	<u>\$ 3,448,557</u>	<u>\$ 502,126</u>	<u>\$ 3,950,683</u>

See notes to basic financial statements.

**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF NET POSITION -**  
**FIDUCIARY FUNDS**  
**MARCH 31, 2016**

	<b><u>Private Purpose Trusts</u></b>	<b><u>Agency</u></b>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ -	\$ 129,645
Cash and cash equivalents - restricted	<u>21,392</u>	<u>-</u>
Total assets	<b><u>\$ 21,392</u></b>	<b><u>\$ 129,645</u></b>
<b>LIABILITIES:</b>		
Agency liabilities	\$ <u>-</u>	\$ <u>129,645</u>
Total liabilities	<u>-</u>	<u>129,645</u>
<b>NET POSITION:</b>		
Restricted trust funds	<u>21,392</u>	<u>-</u>
Total liabilities and net position	<b><u>\$ 21,392</u></b>	<b><u>\$ 129,645</u></b>

See notes to basic financial statements.



**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF CHANGES IN NET POSITION -**  
**FIDUCIARY FUND**  
**FOR THE YEAR ENDED MARCH 31, 2016**

	<u>Private Purpose Trusts</u>
<b>ADDITIONS:</b>	
Interest	\$ 65
Total additions	<u>65</u>
Change in net position	65
Net position - beginning	<u>21,327</u>
Net position - ending	<u><u>\$ 21,392</u></u>

See notes to basic financial statements.

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. DESCRIPTION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. 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. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of activities presents a comparison between direct expenses and direct revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Direct or program revenues include fees, fines and charges paid by the recipients of goods or services offered by the programs. Operating grants include program-specific and discretionary grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues that are not classified as direct revenues, including property taxes, non-property taxes, investment earnings, and general state aid are presented as general revenues.

**B. REPORTING ENTITY**

The City reports related organizations under the guidance of the Governmental Accounting Standards Board. The Standards define the primary government, and redefines and establishes the criteria for which potential component units are included in the reporting entity. The Standards also define financial accountability of the primary government as being determined on the basis of fiscal dependency, appointment of a voting majority of a governing Council, ability to impose its will or potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government.

According to GASB Statement No. 14, as amended by GASB Statement No. 61, a related organization of a primary government is defined as one in which the government appoints a voting majority of the board, but is not financially accountable for the organization. The City appoints a voting majority of the Batavia Housing Authority's board; however, no financial burden or benefit relationship exists between the City and the Authority. The Authority maintains and runs a senior citizens' housing unit within the City.

Joint Ventures - The City participates in various joint ventures with other local municipalities for the purpose of providing intermunicipal services. These activities are excluded from the financial statements of all participating municipalities.

The accompanying basic financial statements include only the operations of the City, since management has determined that there are no other organizations that meet the criteria for inclusion in the reporting entity of the City.

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. BASIS OF PRESENTATION**

**1. 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, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are 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.

**2. FUND FINANCIAL STATEMENTS**

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

For the purposes of the Statement of Cash Flows - Enterprise Funds, the City considers cash to be all unrestricted and restricted cash accounts including demand accounts and certificates of deposit with an original maturity of generally three months or less.

The City reports the following major governmental funds:

General Fund - the principal operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

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

The City reports the following major enterprise funds:

Sewer and Water Funds - used to account for operations that provide water and sewer services and are financed primarily by user charges.

Additionally, the City reports the following fund types:

Special Grant Fund - used to account for community development block grants and other federal and state grants not required to be accounted for in other funds.

Mall Maintenance Fund - used to account for the maintenance of the Batavia City Centre.

Small Cities Fund - used to account for the activity of the City's New York Small Cities Block Grant and U.S. Department of Housing and Urban Development programs.

Self-Insurance Fund - used to account for the City's workers' compensation insurance activity.

Private-Purpose Trust Fund - used to account for contributions made by individuals, for the purpose of providing from the income of such contributions, funds to be utilized for fire protection and indigent citizens of the City.

Agency Fund - used to account for bid deposits, tax redemptions, joint liens and other assets and liabilities that are custodial in nature.

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**D. 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 and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the 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 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 City considers revenues to be available if they are collected within sixty 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, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in the 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. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within sixty days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the City.

The proprietary and private purpose trust 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.

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. BUDGETARY INFORMATION**

**1. BUDGETARY BASIS OF ACCOUNTING**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, self insurance fund, and mall maintenance fund. The capital projects fund is appropriated on a project-length basis. Other special revenue funds do not have appropriated budgets since other means control the use of these resources (e.g., grant awards and endowment requirements) and sometimes span a period of more than one fiscal year. The water and sewer enterprise funds have a budget that is utilized for cost control purposes.

The appropriated budget is prepared by fund, function, and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the city council or, in certain limited circumstances the City Manager. The legal level of budgetary control (e.g., 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.

**2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

For the year ended March 31, 2016 expenditures exceeded appropriations in employee health benefits by \$99,811. Overall expenditures did not exceed appropriations in the general fund.

**F. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE**

**1. CASH AND CASH EQUIVALENTS**

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

**2. RESTRICTED ASSETS**

Certain assets are classified on the balance sheet as restricted because their use is limited. The proceeds of bond or bond anticipation note (BAN) sales can only be used for the stated purpose of the borrowing and are restricted specifically for that purpose.

**3. ACCOUNTS RECEIVABLE**

Accounts receivables are carried at their net realizable value. Accounts are written-off as uncollectible after the likelihood of payment is considered remote by management. The allowance for uncollectible accounts has been established by management, using past history of uncollectible accounts. As of March 31, 2016, the provision for uncollectible accounts amounted to \$41,596 and \$15,286 in the community development and small cities grant funds, respectively.

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**4. CAPITAL ASSETS**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at 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.

Land and construction in progress are not depreciated. Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings	\$ 50,000	straight-line	25-50 years
Improvements	50,000	straight-line	10-50 years
Infrastructure	200,000	straight-line	25-50 years
Furniture and equipment	5,000	straight-line	3-20 years
Vehicles	20,000	straight-line	3-5 years

**5. INSURANCE**

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, personal injury liability, and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. Settled claims from these risks have not yet exceeded commercial insurance coverage for the past three fiscal years.

**6. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

In addition to assets, the statement of net 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. The City has one item that qualified for reporting in this category. It is related to pensions reported in the government- wide Statement of Net Position. This represents the effect of the net change in the City's proportion of the collective net pension asset or liability and difference during the measurement period between the City's contributions and its proportional share of total contributions to the pension systems not included in pension expense.



**CITY OF BATAVIA, NEW YORK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In addition to liabilities, the Statement of Net 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. The City has one type of item which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City also has one type of item related to pensions reported only on the government-wide Statement of Net Position. (See note 3.D)

**7. COMPENSATED ABSENCES**

The City's labor agreements and City Council rules and regulations provide for sick and vacation leave. Upon retirement certain eligible employees qualify for paid medical and dental insurance premiums and/or payment for fractional values of unused sick leave. These payments are budgeted annually.

Consistent with GASB Statement No. 16, Accounting for Compensated Absences, an accrual for accumulated sick leave is included in compensated absences at year-end. The compensated absences liability is calculated based on the contractually negotiated rates in effect at year-end.

Compensated absences for governmental fund type employees are reported as a fund liability and as an expenditure in the government-wide financial statements. A portion of the compensated absences liability recognized is attributed to the value of sick leave converted to pay the employees' share of post-employment health insurance premiums. The compensated absences liability for the Governmental and Enterprise funds at the year-end totaled \$2,242,805 and \$436,409, respectively.

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

**8. POST EMPLOYMENT BENEFITS**

In addition to providing compensated absence and retirement benefits, the City provides post employment health insurance to its retirees in accordance with provisions of the employment contracts negotiated between the City and the Batavia Firefighters Association, I.A.F.F Local 896, the Civil Service Employees Association, CSEA Local 819, the American Federation of State, County and Municipal Employees, AFSCME Local 3632, the Batavia Police Benevolent Association and non-union management. Substantially all employees in these bargaining units may become eligible for these benefits if they meet the retirement eligibility requirements under their contracts while working for the City. The City accounts for these benefits as described in Note 3.E.

**9. LONG-TERM LIABILITIES**

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of serial bonds payable, the City's portion of debt issued by other governments on joint projects, installment purchase debt, other post employment benefits and compensated absences.

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

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**10. NET POSITION FLOW ASSUMPTION**

Sometimes the City will fund outlays for a particular purpose from both restricted (i.e., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the City's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

**11. FUND BALANCE FLOW ASSUMPTION**

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund 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 City's policy that the City Council will assess the current financial condition of the City and then determine the order of application of expenditures to which fund balance classifications will be charged.

**12. FUND BALANCE POLICIES**

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the government that can, by adoption of an ordinance 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 City for specific purposes but do not meet the criteria to be classified as committed. The City Council (Council) has by resolution authorized the City Manager to assign fund balance. The Council 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.

**G. REVENUES AND EXPENDITURES/EXPENSES**

**1. 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 the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.



**CITY OF BATAVIA, NEW YORK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. PROPERTY TAXES**

Real property taxes are levied upon budget adoption and become an enforceable lien on April 1<sup>st</sup>. Taxes are payable in two installments on May 1<sup>st</sup> and August 1<sup>st</sup>. The City assumes enforcement responsibility for all property taxes levied by the County on properties within the City. The City also enforces real property taxes of the Batavia City School District, which are unpaid at January 1<sup>st</sup>. The City pays the County and School District the full amount of the property taxes collected on their behalf. Any amounts which have been collected as of March 31<sup>st</sup> but have not yet been remitted to the School District are included in the account "Due to other governments".

In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end. The City is permitted by the New York State Constitution to levy taxes up to 2% of the most recent five-year average full valuation of taxable real property. Principal and interest on long-term debt related to Water and Sewer debt (if application filed with Office of State Comptroller) and budgetary appropriations for capital outlay are excludable. In the 2015-16 year, the five-year average full valuation was \$540,828,157 allowing for a maximum tax limit of \$10,816,563 (includes allowance exclusions). The City tax levy was \$5,070,713 for the year ended March 31, 2016.

**3. 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 water fund and sewer fund are charges to customers for sales and services. The water fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**H. USE OF ESTIMATES**

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

**I. ACCOUNTING PRONOUNCEMENTS**

During the fiscal year ended March 31, 2016, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An amendment of GASB Statement No. 27*; Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*; and Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The primary objective of Statement No. 68 and No. 71 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. These Statements result from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The GASB has issued the following new statements:

- Statement No. 72, *Fair Value Measurement and Application*, Statement No. 77, *Tax Abatement Disclosures*, Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*; and Statement No. 79, *Certain External Investment Pools and Pool Participants*, which will be effective for the year ending March 31, 2017;
- Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*; Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*; Statement No. 81, *Irrevocable Split-Interest Agreements*; and Statement No. 82, *Pension Issues; an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for the year ending March 31, 2018;
- Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits Other than Pensions*, which will be effective for the year ending March 31, 2019; and
- Statement No. 77, *Tax Abatement Disclosures*, which will be effective for the year ending March 31, 2017.

The City is currently reviewing these statements and plan on adoption, as required.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. DEFICIT FUND EQUITY**

At March 31, 2016, the capital projects fund, a major fund, has a deficit fund balance of \$30,671. It is not unusual for a capital projects fund, especially one that finances capital projects mainly by borrowings or transferring from other funds, to report a deficit. This deficit will be eliminated by a transfer in the subsequent fiscal year.

**NOTE 3 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS**

**A. DEPOSITS AND INVESTMENTS**

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

Collateral is required for demand deposits and certificates of deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the state and its municipalities and school districts.

The City's aggregate bank balances were fully collateralized at March 31, 2016.

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes. Restricted cash as of year end includes \$181,073, \$3,519,255 and \$161,891 in the Capital, Sewer and Water Funds, respectively, from unexpended bond anticipation note and installment purchase debt proceeds, and \$21,392 in the Private Purpose Trust Fund restricted for fire protection and assistance to citizens.

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 3 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)**

Investment and Deposit Policy

The City implemented Governmental Accounting Standards Council Statement No. 40, *Deposit and Investment Risk Disclosures*.

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

Interest Rate Risk

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

Credit Risk

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the City's investment policy, all deposits of the City including interest bearing demand accounts and certificates of deposit, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIC) shall be secured by a pledge of securities with an aggregate value equal to 106% of the aggregate amount of deposits. The City restricts the securities to the following eligible items:

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

**B. RECEIVABLES**

Significant revenues accrued by the City at March 31, 2016 include the following:

Capital Fund:

Cedar Street reimbursement	\$ 34,107
Summit Street reimbursement	<u>99,749</u>
Total state and federal receivables	<u>\$ 133,856</u>

Water Fund:

Water rents receivable	\$ 1,020,361
Miscellaneous	<u>3,706</u>
Total receivables	<u>\$ 1,024,067</u>

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 3 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)**

Sewer Fund:

Sewer rents receivable	\$ 774,954
Miscellaneous	4,343
Total receivables	<u>\$ 779,297</u>

- a. Due from Other Governments - represents amounts due primarily from the County of Genesee, New York, and other governmental entities. Amounts accrued at March 31, 2016, consist of:

General Fund:

NYS sales tax	\$ 1,336,636
Fines and forfeitures	17,105
Total governmental activities due from other governments	<u>\$ 1,353,741</u>

Water Fund:

City/County water agreement	<u>\$ 551,514</u>
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**C. CAPITAL ASSETS**

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

**Governmental Activities:**

	Balance 04/01/15	Increases	Decreases	Balance 03/31/16
<u>Capital assets, not being depreciated:</u>				
Land	\$ 1,134,588	\$ -	\$ -	\$ 1,134,588
Construction work in progress	<u>10,076,921</u>	<u>814,635</u>	<u>6,738,759</u>	<u>4,152,797</u>
Total capital assets not being depreciated	<u>11,211,509</u>	<u>814,635</u>	<u>6,738,759</u>	<u>5,287,385</u>
<u>Capital assets, being depreciated:</u>				
Buildings and building improvements	10,105,905	-	-	10,105,905
Machinery, equipment & vehicles	5,940,596	446,459	78,377	6,308,678
Infrastructure	<u>4,089,051</u>	<u>6,777,397</u>	<u>-</u>	<u>10,866,448</u>
Total capital assets, being depreciated	<u>20,135,552</u>	<u>7,223,856</u>	<u>78,377</u>	<u>27,281,031</u>
<u>Less accumulated depreciation:</u>				
Buildings and building improvements	3,291,730	253,996	-	3,545,726
Machinery, equipment & vehicles	3,728,871	268,640	47,850	3,949,661
Infrastructure	<u>3,200,261</u>	<u>354,209</u>	<u>-</u>	<u>3,554,470</u>
Total accumulated depreciation	<u>10,220,862</u>	<u>876,845</u>	<u>47,850</u>	<u>11,049,857</u>
Total capital assets being depreciated, net	<u>9,914,690</u>	<u>6,347,011</u>	<u>30,527</u>	<u>16,231,174</u>
Governmental activities capital assets, net	<u>\$ 21,126,199</u>	<u>\$ 7,161,646</u>	<u>\$ 6,769,286</u>	<u>\$ 21,518,559</u>

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 3 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)**

Depreciation expense was charged to the functions/programs of the governmental activities as follows:

**Governmental activities:**

General government	\$ 170,437
Public safety	100,414
Transportation	475,219
Culture and recreation	114,335
Home and community services	16,440
Total depreciation expense - governmental activities	<u>\$ 876,845</u>

**Business-Type Activities:**

	Balance 04/01/15	Increases	Decreases	Balance 03/31/16
<u>Capital assets, not being depreciated:</u>				
Land	\$ 41,500	\$ -	\$ -	\$ 41,500
Construction work in progress	<u>1,339,481</u>	<u>301,312</u>	<u>1,339,481</u>	<u>301,312</u>
Total capital assets not being depreciated	<u>1,380,981</u>	<u>301,312</u>	<u>1,339,481</u>	<u>342,812</u>
<u>Capital assets, being depreciated:</u>				
Buildings and building improvements	41,427,000	168,109	-	41,595,109
Machinery, equipment & vehicles	1,338,044	48,346	-	1,386,390
Infrastructure	<u>14,762,136</u>	<u>1,339,482</u>	<u>-</u>	<u>16,101,618</u>
Total capital assets, being depreciated	<u>57,527,180</u>	<u>1,555,937</u>	<u>-</u>	<u>59,083,117</u>
<u>Less accumulated depreciation:</u>				
Buildings and building improvements	25,162,726	1,044,628	-	26,207,354
Machinery, equipment & vehicles	731,752	87,713	-	819,465
Infrastructure	<u>6,356,850</u>	<u>385,795</u>	<u>-</u>	<u>6,742,645</u>
Total accumulated depreciation	<u>32,251,328</u>	<u>1,518,136</u>	<u>-</u>	<u>33,769,464</u>
Total capital assets, being depreciated - net	<u>25,275,852</u>	<u>37,801</u>	<u>-</u>	<u>25,313,653</u>
Business-type activities capital assets, net	<u>\$ 26,656,833</u>	<u>\$ 339,115</u>	<u>\$ 1,339,481</u>	<u>\$ 25,656,465</u>

**D. PENSION OBLIGATIONS**

***New York State and Local Employees' Retirement System (ERS) and the New York State and Local Police and Fire Retirement System (PFRS) (the Systems)***

**PLAN DESCRIPTION AND BENEFITS PROVIDED**

The City participates in the New York State and Local Police and Fire Retirement system (PFRS) and the New York State and Local Employees' Retirement system (ERS), which are collectively referred to as the New York State and Local Retirement System (the System). The System provides 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 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 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 be enactment of a State statute. The City also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The 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](http://www.osc.state.ny.us/retire/publications/index.php) or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 3 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)**

The System is noncontributory, except for employees who joined the ERS after July 27, 1976 who contribute three percent (3%) of their salary for the first ten years of membership, and employees who joined on or after January 10, 2010 (ERS) or January 9, 2010 (PFRS), who generally contribute three percent (3%) to three and one half percent (3.5%) of their salary for their entire length of service. In addition, employee contribution rates under ERS Tier VI vary based on a sliding salary scale. The Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the system's fiscal year ending March 31<sup>st</sup>.

**PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS**

At March 31, 2016, the City reported a liability of \$906,795 (ERS \$497,099 and PFRS \$409,696) for its proportionate share of the net pension liability. The net pension liability was measured as of March 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At March 31, 2015, the City's proportion of the net pension liability was .0147147 percent for ERS and .14884 percent for PFRS.

For the year ended March 31, 2016, the City recognized pension expense of \$209,673. At March 31, 2016 the City's reported deferred outflows of resources and deferred inflows of resources related to pensions arose from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 65,320	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	223,889	-
Changes in proportion and differences between the City's contributions and proportionate share of contributions	<u>-</u>	<u>180,220</u>
Total	\$ <u>289,209</u>	\$ <u>180,220</u>
City's contributions subsequent to the measurement date	\$ <u>1,476,638</u>	\$ <u>-</u>

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 3 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)**

The amount of \$1,107,546 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended March 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended:	
2016	\$ 30,724
2017	30,724
2018	30,724
2019	30,724
2020	(13,907)
Thereafter	-

**ACTUARIAL ASSUMPTIONS**

The total pension liability as of the March 31, 2015 was determined by using an actuarial valuation as of April 1, 2014, with update procedures used to roll forward the total pension liability to March 31, 2015. The actuarial valuation used the following actuarial assumptions:

	<b><u>ERS</u></b>	<b><u>PFRS</u></b>
Inflation	2.7%	2.7%
Salary increases	4.9	6.0
Investment rate of return (net of investment expense, including inflation)	7.5	7.5

Annuitant mortality rates are based on April 1, 2005 – March 31, 2010 the System's experience with adjustments for mortality improvements based on the Society of Actuaries Scale MP-2014.

The actuarial assumptions used in the April 1, 2014 valuation are based on the results of an actuarial experience study for the period April 1, 2005 – March 31, 2010.

The long term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, Selection of Economic Assumptions for Measuring Pension Obligations. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for equities and fixed income as well as historical investment data and plan performance.



**CITY OF BATAVIA, NEW YORK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 3 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)**

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2015 are summarized below:

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Measurement Date		
<b>Asset Class:</b>		<u>PFRS and ERS</u> <u>March 31, 2015</u>
Domestic equities	38.0%	7.3%
International equities	13.0	8.6
Private equity	10.0	11.0
Real estate	8.0	8.3
Absolute return strategies	3.0	6.8
Opportunistic portfolio	3.0	8.6
Real assets	3.0	8.7
Bond and mortgages	18.0	4.0
Cash	2.0	2.3
Inflation-indexed bonds	2.0	4.0
Total	100.0%	

**DISCOUNT RATE**

The discount rate used to calculate the total pension liability was 7.5%. 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 determined. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods 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 following tables present the City's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate:

	<u>1% Decrease (6.5%)</u>	<u>Current Assumption (7.5%)</u>	<u>1% Increase (8.5%)</u>
<b>ERS</b>			
City's proportionate share of the net pension liability (asset)	\$3,313,382	\$ 497,099	(\$1,880,542)
<b>PFRS</b>			
City's proportionate share of the net pension liability (asset)	\$5,454,891	\$ 409,696	(\$3,818,482)



**CITY OF BATAVIA, NEW YORK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 3 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)**

**PENSION PLAN FIDUCIARY NET POSITION**

The components of the current-year net pension liability of the employers as of March 31, 2015 were as follows:

	ERS	PFRS (Dollars in Thousands)	Total
Employers' total pension liability	\$ 164,591,504	\$ 28,474,417	\$ 193,065,921
Plan net position	<u>161,213,259</u>	<u>28,199,157</u>	<u>189,412,416</u>
Employers' net pension liability	<u>\$ 3,378,245</u>	<u>\$ 275,260</u>	<u>\$ 3,653,505</u>
Ratio of Plan net position to the Employers' total pension liability	97.9%	99.0%	98.1%

**E. OTHER POST EMPLOYMENT BENEFIT OBLIGATIONS (OPEB)**

***City of Batavia Retiree Medical Plan (the Plan)***

**PLAN DESCRIPTION**

The City of Batavia (the City), administers the Plan as a single-employer defined benefit OPEB plan. The Plan provides for continuation of health insurance benefits for certain retirees and their spouses and can be amended by action of the City subject to applicable collective bargaining and employment agreements. The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

**FUNDING POLICY**

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

**ACCOUNTING POLICY**

The accrual basis of accounting is used. The fair market value of assets, if any, is determined by the market value of assets, if any, paid by a willing buyer to a willing seller.

**ANNUAL OPEB COST AND NET OPEB OBLIGATION**

The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and the City's net OPEB obligation to the Plan at March 31, 2016.

Annual required contribution (ARC)	\$ 818,303
Interest on net OPEB obligation	121,451
Adjustment to ARC	<u>(175,588)</u>
Annual OPEB cost (expense)	764,168
Contributions for fiscal year ended March 31, 2016	<u>(542,768)</u>
Increase in net OPEB obligation	221,400
Net OPEB obligation - beginning of year	<u>3,712,610</u>
Net OPEB obligation - end of year	<u>\$ 3,934,010</u>
Percentage of expense contributed	71.03%

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 3 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)**

The City's annual OPEB cost, contribution, percentage of OPEB cost contributed, and net post employment benefit obligation for the Plan for the current fiscal year ended March 31, 2016 and the two preceding years are as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$ 764,168	\$ 542,768	71.03%	\$3,934,010
2015	764,166	314,727	41.19%	3,712,610
2014	762,166	537,269	70.49%	3,263,171

**FUNDED STATUS AND FUNDING PROGRESS**

As of April 1, 2013, the most recent actuarial valuation, the actuarial accrued liability for benefits was \$9,225,643, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was not available, and the ratio of the unfunded actuarial accrued liability to the covered payroll was not available. The total post employment health insurance cost to the city for 32 retirees was \$542,768 for the year ended March 31, 2016.

Actuarial valuations for OPEB involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. These actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presented immediately following the financial statements as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**METHODS AND ASSUMPTIONS**

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

The April 1, 2013 actuarial valuation utilized the entry age actuarial cost method. The actuarial valuation included a 4.0 percent investment rate of return (net of administrative expenses), which is the expected short-term investment rate of the City's own assets, and an annual healthcare cost trend of 19 percent initially, reduced by decrements to an ultimate rate of 5 percent after 4 years for participants under age 65 and 7 percent initially reduced by decrements to an ultimate rate of 5 percent after 4 years for participants over age 65. Both rates included a 2.5 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period is not to exceed thirty years.

**F. COMMITMENTS**

**ENCUMBRANCES**

As discussed in Note 1.E.1, Budgetary Information, Budgetary Basis of Accounting, encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year-end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were \$262,634 in the General Fund.

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 3 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)**

**CONSTRUCTION COMMITMENTS**

The City has ongoing construction capital projects related to various infrastructure throughout the City. The total of these commitments amounted to approximately \$2,400,000 at year end.

**COUNTY WATER AGREEMENT**

During the year ended March 31, 2008, the City entered into an agreement with Genesee County whereby the County has assumed responsibility for the production, treatment, operation, maintenance and/or supply of municipal water. Under the terms of the agreement, the County has agreed to lease the City's water supply and treatment facilities for a term not to exceed 10 years. The agreement also calls for the transfer of title to, access to, and/or rights to the County for certain machinery and equipment used in connection with the water supply and treatment facility. In addition, the City entered into an operational agreement with the County to operate and maintain the facilities.

In exchange, the City has agreed to purchase water from the County on a wholesale basis. The City rate for city water customers in effect for the fiscal year ended March 31, 2016 was \$4.62 per 1,000 gallons for the first 300,000 gallons and \$3.85 per 1,000 gallons over 300,000 gallons. This rate is subject to adjustment on April 1<sup>st</sup> of each subsequent year. Subsequent to year end, these rates were increased to \$4.78 per 1,000 gallons.

**G. RISK MANAGEMENT**

**RISK FINANCING AND RELATED INSURANCE**

**HEALTH INSURANCE PLAN**

The City independently self-insures costs related to an employee health insurance plan (the Plan). The Plan's objectives are to formulate, develop, and administer a health insurance program to obtain lower costs for coverage, and to develop a comprehensive loss control program. The Plan uses reinsurance agreements to reduce exposure to large losses on insured events. Reinsurance permits recovery of a portion of the losses from the reinsurer, although it does not discharge the liability of the Plan as a direct insurer of the risks reinsured.

Since actual claim costs depend on complex factors, the process of computing claim liabilities does not necessarily result in an exact amount. Such liabilities are based on the ultimate cost of claims (including future claim adjustment expenses) that have been incurred but not charged or credited to expense in the periods in which they are made. As of March 31, 2016, the City recorded liabilities in the amounts of \$101,826, \$10,622 and \$9,645 in the General, Water and Sewer Funds, respectively, for incurred but not reported insured events.

**WORKERS' COMPENSATION PLAN**

The City was previously independently self-insured for costs related to an employee workers' compensation plan (the Plan). However, during the fiscal year ended March 31, 2009, the City changed to a premium based plan. Any claims incurred during the period in which the City was independently self-insured continue to be the responsibility of the City. The formerly self-insured Plan's objectives were to formulate, develop, and administer a workers' compensation program to obtain lower costs for coverage, and to develop a comprehensive loss control program. The former Plan uses reinsurance agreements to reduce exposure to large losses on insured events. Reinsurance permits recovery of a portion of the losses from the reinsurer, although it does not discharge the liability of the Plan as a direct insurer of the risks reinsured.

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 3 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)**

Since actual claim costs depend on complex factors, the process of computing claim liabilities does not necessarily result in an exact amount. Such liabilities are based on the ultimate cost of claims (including future claim adjustment expenses) that have been incurred but not charged or credited to expense in the periods in which they are made. As of March 31, 2016, the City has recorded a liability for future costs associated with open claims of \$40,515. The City has not consulted an actuary and has not estimated a liability for incurred but not reported claim liabilities. Claim activity consists of open claims being revalued and payment on claims. Estimated claims as of March 31, 2014 and 2015 were \$41,513 and \$58,017, respectively.

**H. SHORT-TERM DEBT**

The purpose of all of the short-time borrowings was to provide resources for various capital construction or improvement projects. The form of financing used in all cases was bond anticipation notes (BAN). The amounts issued for governmental activities are accounted for in the capital projects fund. The amounts issued for business-type activities relate to two funds and are therefore reported in the sewer and water enterprise funds.

State law requires that bond anticipation notes issued for capital purposes be converted to long-term obligations within five years after the original issue date, if not completely repaid. However, bond anticipation notes issued for assessable improvement projects may be renewed for periods equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made.

The schedule below details the changes in short-term capital borrowings during the year ended March 31, 2016:

	<u>Original Issue</u>	<u>Interest Rate</u>	<u>Balance 04/1/15</u>	<u>Issued</u>	<u>Redemptions</u>	<u>Balance 03/31/16</u>
<b>Governmental Activities:</b>						
Highway Improvements	2014	1.00%	\$ <u>1,700,000</u>	\$ <u>      -      </u>	\$ <u>1,700,000</u>	\$ <u>      -      </u>
<b>Business-Type Activities:</b>						
Sanitary Sewer System Improvements	2015	1.00%	\$ <u>      -      </u>	\$ <u>3,720,000</u>	\$ <u>      -      </u>	\$ <u>3,720,000</u>
Replacement of Water Treatment Roof	2015	1.00%	\$ <u>      -      </u>	\$ <u>330,000</u>	\$ <u>      -      </u>	\$ <u>330,000</u>
Total business-type activities:			\$ <u>      -      </u>	\$ <u>4,050,000</u>	\$ <u>      -      </u>	\$ <u>4,050,000</u>

**I. LONG-TERM LIABILITIES**

**GENERAL OBLIGATION BONDS**

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds outstanding at March 31, 2016 are as follows:

<u>Issue Description</u>	<u>Original Issue Date</u>	<u>Original Borrowing</u>	<u>Interest Rates to Maturity</u>	<u>Final Maturity</u>	<u>Outstanding Balance 03/31/16</u>
<b>Governmental Activities</b>					
<b>General Obligation Bonds:</b>					
Dwyer and BID - Refunding	2011	\$ 1,200,000	2-3.125%	2020	\$ 645,000
City Centre - Refunding	2014	2,856,000	2-3.750%	2033	2,716,000
Various Projects	2005	1,795,000	4-5.000%	2021	550,000
					<u>\$3,911,000</u>

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 3 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)**

**Business-Type Activities**

<u>Issue Description</u>	<u>Original Issue Date</u>	<u>Original Borrowing</u>	<u>Interest Rates to Maturity</u>	<u>Final Maturity</u>	<u>Outstanding Balance 03/31/16</u>
<u>General Obligation Bonds:</u>					
State clean water and drinking water	1999	\$ 2,165,590	3.48-5.43%	2019	\$ 535,000
City Centre - Refunding	2014	714,000	2-3.750%	2033	679,000
					<u>\$1,214,000</u>

**LEGAL DEBT MARGIN**

The City is subject to a debt limit that is 9.0 percent of the five-year average of the full valuation of taxable real property. At March 31, 2016, that amount was \$48,674,534. As of March 31, 2016, the total outstanding debt applicable to the limit was \$4,446,000 which is 9.1 percent of the total debt limit.

**CHANGES IN LONG-TERM LIABILITIES**

Changes in the government's long-term liabilities for the year ended March 31, 2016 are as follows:

	<u>Balance 04/01/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 03/31/16</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>					
Bonds Payable					
General obligation bonds	\$ 4,296,000	\$ -	\$ 385,000	\$ 3,911,000	\$ 385,000
Unamortized premium	62,883	-	3,497	59,386	3,497
Total bonds payable	4,358,883	-	388,497	3,970,386	388,497
Due to other governments:					
Courthouse	184,500	-	90,000	94,500	94,500
Dwyer Stadium	186,328	-	34,810	151,518	-
Landfill	310,358	-	11,032	299,326	17,607
Total due to other governments	681,186	-	135,842	545,344	112,107
Installment purchase debt	547,590	181,073	70,422	658,241	96,747
Compensated absences	2,275,178	-	32,373	2,242,805	227,518
Net other post employment benefit obligation	3,345,184	721,053	512,145	3,554,092	-
Governmental activities long-term liabilities	<u>\$ 11,021,693</u>	<u>\$ 389,981</u>	<u>\$ 627,134</u>	<u>\$ 10,970,868</u>	<u>\$ 824,869</u>
<b>Business-Type Activities</b>					
Bonds Payable					
General obligation bonds	\$ 1,369,000	\$ -	\$ 155,000	\$ 1,214,000	\$ 160,000
Unamortized premium	15,721	-	873	14,848	874
Total bonds payable	1,384,721	-	155,873	1,228,848	160,874
Installment purchase debt	316,550	-	52,119	264,431	53,013
Compensated absences	385,981	50,428	-	436,409	43,641
Net other post employment benefit obligation	367,426	43,115	30,623	379,918	-
Business-type activities long-term liabilities	<u>\$ 2,454,678</u>	<u>\$ 62,920</u>	<u>\$ 207,992</u>	<u>\$ 2,309,606</u>	<u>\$ 257,528</u>

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 3 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)**

The debt service requirements for the government's bonds and installment purchase debt are as follows:

**Governmental Activities**

<u>Year ending</u> <u>May 31,</u>	<u>Bonds</u>		<u>Installment Purchase Debt</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 385,000	\$ 127,575	\$ 96,750	\$ 14,014
2018	363,000	115,475	113,674	10,232
2019	363,000	103,665	118,168	8,092
2020	362,000	91,930	119,188	5,870
2021	358,000	80,115	120,269	3,659
2022-2026	724,000	310,340	90,192	1,536
2027-2031	852,000	189,312	-	-
2032-2036	504,000	38,550	-	-
Total	<u>\$ 3,911,000</u>	<u>\$ 1,056,962</u>	<u>\$ 658,241</u>	<u>\$ 43,403</u>

<u>Year ending</u> <u>May 31,</u>	<u>Total Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 481,747	\$ 141,589
2018	476,674	125,707
2019	481,168	111,757
2020	481,188	97,800
2021	478,269	83,774
2022-2026	814,195	311,876
2027-2031	852,000	189,312
2032-2036	504,000	38,550
Total	<u>\$ 4,569,241</u>	<u>\$ 1,100,365</u>

**Business Activities**

<u>Year ending</u> <u>May 31,</u>	<u>Bonds</u>		<u>Installment Purchase Debt</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 160,000	\$ 27,983	\$ 58,823	\$ 4,746
2018	162,000	25,562	55,585	3,728
2019	167,000	22,908	57,401	2,707
2020	173,000	20,028	42,744	1,652
2021	32,000	18,184	54,878	1,518
2022-2026	181,000	77,588	-	-
2027-2031	213,000	47,328	-	-
2032-2036	126,000	9,696	-	-
Total	<u>\$ 1,214,000</u>	<u>\$ 249,277</u>	<u>\$ 264,431</u>	<u>\$ 14,351</u>

<u>Year ending</u> <u>May 31,</u>	<u>Total Business-Type Activities</u>		<u>Total Primary Government Debt</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 213,824	\$ 32,729	\$ 695,571	\$ 174,288
2018	217,585	29,290	694,259	154,997
2019	224,401	25,615	705,569	137,372
2020	215,744	21,680	696,932	119,480
2021	86,879	19,702	565,148	103,476
2022-2026	181,000	77,588	995,195	389,464
2027-2031	213,000	47,328	1,065,000	236,640
2032-2036	126,000	9,696	630,000	48,246
Total	<u>\$ 1,478,433</u>	<u>\$ 263,628</u>	<u>\$ 6,047,674</u>	<u>\$ 1,363,993</u>

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 3 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)**

**J. FUND BALANCE**

DETAIL OF FUND BALANCES

As of March 31, 2016, fund balances were classified as follows:

	<u>General</u>	<u>Capital</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Restricted:</u>				
Retirement contribution	\$ 433,895	\$ -	\$ -	\$ 433,895
Employee benefit accrued liability	7,702	-	-	7,702
Insurance	770,359	-	-	770,359
Capital projects	3,384,263	-	-	3,384,263
Repairs	145,192	-	-	145,192
Other-EMS	7,691	-	-	7,691
Small cities	-	-	159,863	159,863
Special Grant	-	-	443,161	443,161
<u>Committed:</u>				
Vibrant Batavia	52,611	-	-	52,611
Comprehensive plan	100,000	-	-	100,000
<u>Assigned:</u>				
Encumbrances-				
General government	39,705	-	-	39,705
Public safety	100,453	-	-	100,453
Transportation	34,994	-	-	34,994
Culture and recreation	5,291	-	-	5,291
Home and community	6,342	-	-	6,342
Economic assistance and opportunity	75,849	-	-	75,849
Police equipment	50,000	-	-	50,000
Fire equipment	150,000	-	-	150,000
DPW equipment	200,000	-	-	200,000
Dwyer Stadium	125,000	-	-	125,000
Facilities	400,000	-	-	400,000
Sidewalk	150,000	-	-	150,000
Administrative services equipment and software	50,000	-	-	50,000
Employee benefits	75,000	-	-	75,000
Subsequent years' expenditures	275,000	-	-	275,000
Self insurance	-	-	466,502	466,502
Mall Maintenance	-	-	87,273	87,273
<u>Unassigned:</u>				
General Fund	1,849,567	-	-	1,849,567
Capital projects	-	(30,671)	-	(30,671)
Total	<u>\$8,488,914</u>	<u>\$ (30,671)</u>	<u>\$ 1,156,799</u>	<u>\$9,615,042</u>

The City adopted a formal spending policy, under the provisions of GASB Statement No. 54, stating the City Council will assess the current financial condition of the City and then determine the order of application of expenditures to which fund balance classifications will be charged.



**CITY OF BATAVIA, NEW YORK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 3 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)**

**K. INTERFUND RECEIVABLES AND PAYABLES**

The composition of interfund balances as of March 31, 2016 is as follows:

***Due from/to other funds:***

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Capital	\$ 1,700,639
General	Community Development	10,000
Total		<u>\$ 1,710,639</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**L. INTERFUND TRANSFERS**

The composition of interfund transfers as of March 31, 2016 is as follows:

***Interfund transfers:***

	<u>General</u>	<u>Water</u>	<u>Sewer</u>	<u>Total Transfers In</u>
General	\$ -	\$ 225,000	\$ -	\$ 225,000
Capital Projects	83,069	-	-	83,069
Community Development	125,000	-	-	125,000
Self-Insurance	398,230	54,070	39,330	491,630
<b>Total Transfers Out</b>	<u>\$ 606,299</u>	<u>\$ 279,070</u>	<u>\$ 39,330</u>	<u>\$ 924,699</u>

During the year, transfers were made per the adopted budget for various purposes.

**M. AGENCY FUND**

An agency fund exists for employee withholding and temporary deposit funds. The following is a summary of changes in assets and liabilities for the year ended March 31, 2016:

	<u>Balance 04/01/2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 03/31/2016</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 121,383	\$ 49,107	\$ 40,845	\$ 129,645
<b>LIABILITIES</b>				
Agency liabilities	\$ 121,383	\$ 49,107	\$ 40,845	\$ 129,645

**N. CONTINGENCIES**

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



**CITY OF BATAVIA, NEW YORK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 3 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)**

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

**O. LANDFILL CLOSURE COSTS**

The City has been identified by the United States Environmental Protection Agency (EPA) as a responsible party which can be held liable for a portion of the long-term maintenance and operation of a landfill site in the Town of Batavia.

The cost for the long-term maintenance and operation of the landfill has been estimated to be approximately \$427,820. All parties designated as potentially responsible parties by the EPA participated in a Pilot Allocation Program. As a result of the Pilot Allocation Program, 75% of the long-term operation and maintenance costs have been allocated to the City, or \$299,326. As of March 31, 2016, a liability has been recorded in the Governmental activities funds for future maintenance and operation costs.

**P. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through August 22, 2016 which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles other than the City elected to become self-insured related to workmans' compensation subsequent to the fiscal year end.

**NOTE 4 - RESTATEMENT OF FUND BALANCE/NET POSITION**

Net Position

For the fiscal year ended March 31, 2016, the City implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – Amendment to GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of Statements No. 68 and No. 71 resulted in the reporting of deferred outflow of resources, a pension liability and deferred inflow of resources related to the City's participation in the New York State and Local Employees' Retirement System (ERS) and the New York State and Local Police and Fire Retirement System (PFRS). The City's net position has been restated as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net position beginning of year, as previously stated	\$ 18,468,007	\$ 36,471,515
GASB Statement No. 68 and No. 71 implementation:		
Beginning System liability	(1,011,948)	(272,624)
Beginning deferred outflows of resources for contributions subsequent to the measurement date	<u>1,582,406</u>	<u>263,781</u>
Net position beginning of year, as restated	<u>\$ 19,038,465</u>	<u>\$ 36,462,672</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF BATAVIA, NEW YORK**  
**SCHEDULE OF FUNDING PROGRESS FOR RETIREE HEALTH PLAN**  
**FOR THE YEAR ENDED MARCH 31, 2016**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
04/01/13	\$ -	\$ 9,225,643	\$ 9,225,643	0.00%	Not available	Not available
04/01/10	-	7,147,986	7,147,986	0.00%	Not available	Not available
04/01/08	-	9,222,599	9,222,599	0.00%	Not available	Not available

Schedule of Employer Contributions

<u>Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
March 31, 2014	818,303	537,269	65.66%
March 31, 2015	818,303	314,727	38.46%
March 31, 2016	818,303	542,768	66.33%

**CITY OF BATAVIA, NEW YORK**  
**BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND**  
**FOR THE YEAR ENDED MARCH 31, 2016**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance From Final Budget</b>
<b>REVENUES:</b>				
Real property taxes	\$ 5,070,713	\$ 5,070,713	\$ 5,434,357	\$ 363,644
Real property tax items	239,590	239,590	416,561	176,971
Sales and other taxes	6,570,000	6,570,000	6,441,305	(128,695)
Departmental income	299,449	299,449	275,356	(24,093)
Use of money and property	51,500	51,500	66,071	14,571
Licenses and permits	85,300	85,300	84,622	(678)
Fines and forfeitures	108,108	108,108	154,983	46,875
Sale of property and compensation for loss	3,300	26,565	117,812	91,247
Miscellaneous local sources	75,370	515,870	596,312	80,442
Federal and state sources	2,255,142	2,582,274	2,486,758	(95,516)
Total revenues	14,758,472	15,549,369	16,074,137	524,768
<b>EXPENDITURES:</b>				
General government	2,495,917	2,084,992	1,780,112	304,880
Public safety	8,165,815	7,580,720	6,926,042	654,678
Health	18,960	18,640	17,120	1,520
Transportation	2,453,778	2,323,182	2,033,546	289,636
Economic assistance	20,000	164,922	75,365	89,557
Culture and recreation	899,580	866,889	777,400	89,489
Home and community services	359,620	330,016	263,529	66,487
Refuse and recycling	62,430	62,430	51,569	10,861
Employee health benefits	12,030	1,658,640	1,758,451	(99,811)
Debt service:				
Principal	545,421	545,422	545,422	-
Interest	171,680	171,680	112,650	59,030
Total expenditures	15,205,231	15,807,533	14,341,206	1,466,327
Excess (deficit) of revenues over expenditures	(446,759)	(258,164)	1,732,931	1,991,095
<b>OTHER FINANCING SOURCES (USES):</b>				
Interfund transfers in	230,500	230,500	225,000	(5,500)
Interfund transfers out	(599,533)	(1,162,782)	(606,299)	556,483
Appropriated fund balance	815,792	1,190,446	-	(1,190,446)
Total other financing sources (uses)	446,759	258,164	(381,299)	(639,463)
Net change in fund balance	-	-	1,351,632	1,351,632
Fund balance - beginning of year	-	-	7,137,282	7,137,282
Fund balance - end of year	\$ -	\$ -	\$ 8,488,914	\$ 8,488,914

**CITY OF BATAVIA, NEW YORK**  
**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**EMPLOYEES' AND POLICE AND FIRE RETIREMENT SYSTEMS**  
**MARCH 31, 2016**

	<u>ERS</u>	<u>PFRS</u>
Mesurement date	March 31, 2015	March 31, 2015
City's proportion of the net pension liability	0.0147147%	0.1488400%
City's proportionate share of the net pension liability (asset)	\$ 497,099	\$ 409,696
City's covered-employee payroll	\$ 6,192,701	\$ 7,397,078
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	8.03%	5.54%
Plan fiduciary net position as a percentage of the total pension liability	97.9%	99.0%

**CITY OF BATAVIA**  
**SCHEDULE OF CITY'S CONTRIBUTIONS - EMPLOYEES'**  
**AND POLICE AND FIRE RETIREMENT SYSTEMS**  
**LAST 10 FISCAL YEARS**  
**MARCH 31,**

	EMPLOYEES' RETIREMENT SYSTEM									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Contractually required contribution	**	**	**	**	\$ 362,460	\$ 469,774	\$ 606,689	\$ 692,924	\$ 649,211	\$ 612,804
Contributions in relation to the contractually required contribution	**	**	**	**	\$ 362,460	\$ 469,774	\$ 606,689	\$ 692,924	\$ 649,211	\$ 612,804
Contribution deficiency (excess)	**	**	**	**	-	-	-	-	-	-
City's covered-employee payroll	**	**	**	**	\$ 3,567,469	\$ 3,371,941	\$ 3,495,890	\$ 4,214,806	\$ 3,748,962	\$ 6,192,701
Contributions as a percentage of covered-employee payroll	**	**	**	**	10%	14%	17%	16%	17%	10%

	POLICE AND FIRE RETIREMENT SYSTEM									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Contractually required contribution	**	**	**	**	\$ 900,035	\$ 740,124	\$ 1,156,334	\$ 677,447	\$ 1,213,742	\$ 877,335
Contributions in relation to the contractually required contribution	**	**	**	**	\$ 900,035	\$ 740,124	\$ 1,156,334	\$ 677,447	\$ 1,213,742	\$ 877,335
Contribution deficiency (excess)	**	**	**	**	-	-	-	-	-	-
City's covered-employee payroll	**	**	**	**	\$ 4,536,284	\$ 4,804,995	\$ 4,517,179	\$ 3,542,840	\$ 4,249,199	\$ 7,397,078
Contributions as a percentage of covered-employee payroll	**	**	**	**	20%	15%	26%	19%	29%	12%

\*\* Information unavailable

**SECTION B**

**SUPPLEMENTAL SCHEDULES**

**CITY OF BATAVIA, NEW YORK**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**  
**MARCH 31, 2016**

	<b>Self Insurance</b>	<b>Mall Maintenance Fund</b>	<b>Small Cities Fund</b>	<b>Special Grant Fund</b>	<b>Total Nonmajor Governmental Funds</b>
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 417,066	\$ 62,841	\$ 95,025	\$ 337,800	\$ 912,732
Accounts receivable	89,951	41,704	-	-	131,655
Loan receivables (net of allowance for uncollectible accounts)	-	-	64,838	115,361	180,199
State and federal receivables	-	-	-	32,795	32,795
Total assets	<u>\$ 507,017</u>	<u>\$ 104,545</u>	<u>\$ 159,863</u>	<u>\$ 485,956</u>	<u>\$ 1,257,381</u>
<b>LIABILITIES:</b>					
Accounts payable	\$ -	\$ 17,045	\$ -	\$ 32,795	\$ 49,840
Accrued liabilities	40,515	227	-	-	40,742
Due to other funds	-	-	-	10,000	10,000
Total liabilities	<u>40,515</u>	<u>17,272</u>	<u>-</u>	<u>42,795</u>	<u>100,582</u>
<b>FUND BALANCES:</b>					
Restricted	-	-	159,863	443,161	603,024
Assigned	466,502	87,273	-	-	553,775
Total fund balances	<u>466,502</u>	<u>87,273</u>	<u>159,863</u>	<u>443,161</u>	<u>1,156,799</u>
Total liabilities and fund balances	<u>\$ 507,017</u>	<u>\$ 104,545</u>	<u>\$ 159,863</u>	<u>\$ 485,956</u>	<u>\$ 1,257,381</u>



**CITY OF BATAVIA, NEW YORK**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2016**

	<u>Self Insurance</u>	<u>Mall Maintenance Fund</u>	<u>Small Cities Fund</u>	<u>Special Grant Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<b>REVENUES:</b>					
Special assessments	\$ -	\$ 199,976	\$ -	\$ -	\$ 199,976
Sale of property and compensation for loss	107,528	-	-	-	107,528
Use of money and property	610	511	972	4,062	6,155
Miscellaneous local sources	-	-	4,578	934	5,512
Federal and state sources	-	-	-	321,522	321,522
	<u>108,138</u>	<u>200,487</u>	<u>5,550</u>	<u>326,518</u>	<u>640,693</u>
Total revenues					
	108,138	200,487	5,550	326,518	640,693
<b>EXPENDITURES:</b>					
General government	503,504	-	-	-	503,504
Economic assistance and opportunity	-	183,463	-	-	183,463
Home and community services	-	-	10,000	405,882	415,882
Employee benefits	20,225	-	-	-	20,225
	<u>523,729</u>	<u>183,463</u>	<u>10,000</u>	<u>405,882</u>	<u>1,123,074</u>
Total expenditures					
	523,729	183,463	10,000	405,882	1,123,074
Excess (deficit) of revenues over expenditures	<u>(415,591)</u>	<u>17,024</u>	<u>(4,450)</u>	<u>(79,364)</u>	<u>(482,381)</u>
<b>OTHER FINANCING SOURCES:</b>					
Interfund transfers in	491,630	-	-	125,000	616,630
	<u>491,630</u>	<u>-</u>	<u>-</u>	<u>125,000</u>	<u>616,630</u>
Total other financing sources					
	491,630	-	-	125,000	616,630
Net change in fund balances	76,039	17,024	(4,450)	45,636	134,249
Fund balances - beginning	<u>390,463</u>	<u>70,249</u>	<u>164,313</u>	<u>397,525</u>	<u>1,022,550</u>
Fund balances - ending	\$ <u><u>466,502</u></u>	\$ <u><u>87,273</u></u>	\$ <u><u>159,863</u></u>	\$ <u><u>443,161</u></u>	\$ <u><u>1,156,799</u></u>

**SECTION C**

**INTERNAL CONTROL AND COMPLIANCE**



**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**

**INDEPENDENT AUDITOR'S REPORT**

The President and Member of the Council of the City of Batavia  
Batavia, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Batavia, New York (the City), as of and for the year ended March 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 22, 2016.

**Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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 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 the 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 City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Purpose of this Report

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

*Freed Maxick CPAs, P.C.*

Batavia, New York  
August 22, 2016