

**AUDITED  
BASIC FINANCIAL STATEMENTS**

# **CITY OF BATAVIA, NEW YORK**

---

**MARCH 31, 2018**

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**CITY OF BATAVIA, NEW YORK**  
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## **FINANCIAL SECTION**

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## 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, 2018, 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, 2018, and the respective changes in financial position and when applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information, as listed in the table of contents, is 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 September 12, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Freed Maxick CPAs, P.C.*

Batavia, New York  
September 12, 2018



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

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

### **Fiscal Year ended March 31, 2018**

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, 2018. 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, 2018, 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 deligent 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**

- In the current year, there was an excess of revenues over expenditures of \$655,449 at March 31, 2018. After net transfers out of other financing sources in the amount of \$371,911, there was a positive net change in fund balance of \$283,538. This was due healthcare costs and retirement costs coming in lower than anticipated and several vacancies throughout the year.
- Factors contributing to the general fund's net change were primarily due to healthcare costs coming in below budget. In addition, state retirement costs came in below budget. The General Fund revenues were fairly on target with the adjusted budget. Expenditures were under budget, in addition to the above explanation, primarily due to the City experiencing several vacancies throughout the year causing lower than budgeted personnel and social security expenditures.

- The City utilized over \$900,000 of reserve and committed funding for capital equipment replacement, facility improvements, sidewalk improvements and retirement costs. The General Fund also budgeted \$271,205 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, 2018. However, since fiscal year ending March 31, 2011, New York State reduced AIM by 6% or \$112,656. Meanwhile, overall New York State retirement costs have increased 55.8% or \$604,711 since fiscal year ending March 31, 2009.

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 commits 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***

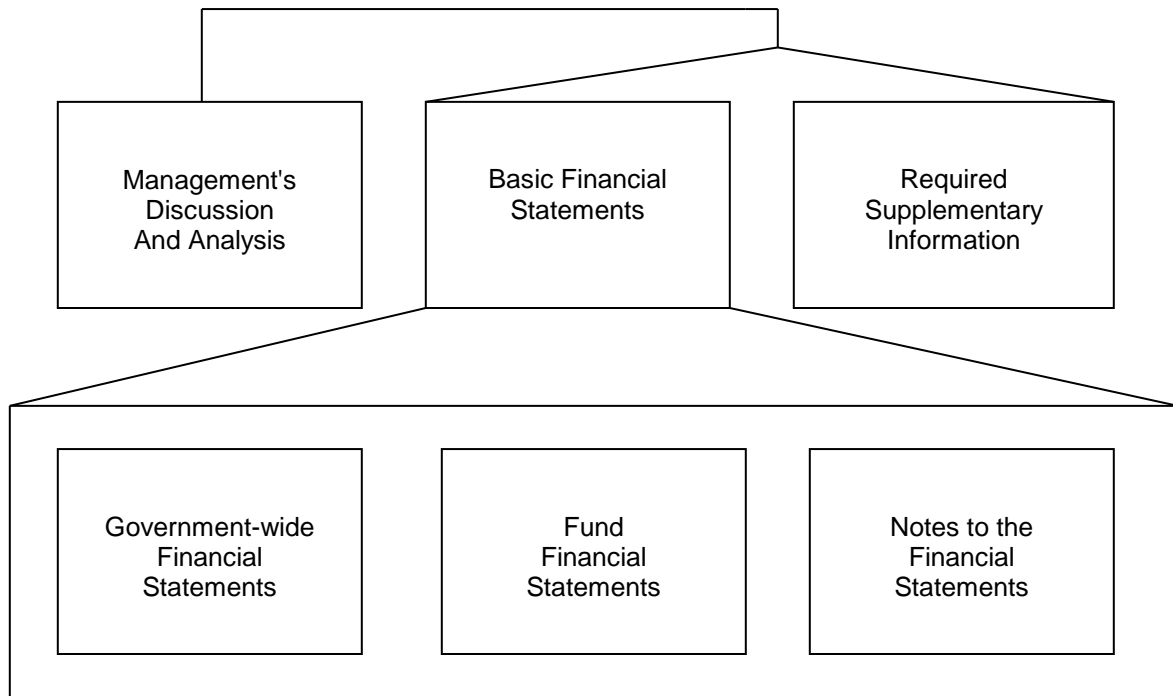


Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each 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 deferred outflows of resources and liabilities and deferred inflows of resources, both financial and capital, short-term and long-term
Type of inflow/out-flow information	All revenues and expenses during the 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 the 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, the year ending March 31, 2018, resulted in revenues exceeding expenditures by \$283,538. This was due to lower than expected personnel and retirement expenditures due to unexpected position vacancies throughout the City and lower than anticipated healthcare costs. It should be noted that these budget areas have and are subject to changes from year to year. Consistent with the City's budgeting practices of the past, the City should commit these surplus funds to decreasing debt or increasing reserve fund balances for future capital acquisitions 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, and 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 an increase in sales tax receipts for fiscal year ending March 31, 2018. This is the first increase since March 31, 2015, the City has experienced an increase in sales tax when compared to the prior year. In addition, healthcare expenditures were approximately \$295,903 under budget this year, after the prior two years being over budget. This demonstrates the inconsistency that continues in these major revenue and expense areas.

- Investment in City vehicles, equipment, infrastructure and facilities. The City has aggressively accomplished planned capital projects outlined in the Capital Infrastructure Plan (CIP). An Equipment Replacement Plan (ERP) has also been developed for use in guiding reserve funding and replacing the City's fleet. The City has also adopted a Parking Lot and Sports Surface Management Plan that provides a long-term financial projection for the maintenance of these facilities. In the year ending March 31, 2018, the City planned approximately \$1,600,000 of equipment improvements, sidewalk improvements, unexpected retirement and healthcare costs, and information technologies improvements. Continued planning and investment is needed for long-term stable operations, otherwise one-time equipment and emergency purchase, facilities 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. In 2017 the City's strategic plan was updated to focus on one foundational goal: to achieve \$100 million in additional investments – by the year 2022. While it is true that there is some new language usually associated with the private business world, such as return on investment or ROI, government is NOT and should not become a profit center; municipal officials must see themselves as accountable for wise and strategic investment of the public's trust and money. In 2017 the discussion of the return on citizen investment took shape in forms of dollars invested in infrastructure like roads, sidewalks, equipment and water supply, housing improvement programs and parks, as well as in external investment by residents, business owners and developers. The City's goal is that for every nickel our citizens contribute, they will receive a quarter back in City investment. There are four distinct priorities identified in order to achieve the foundational goal: FOCUS on growth, operational excellence, neighborhood investment and BIG Collaborative projects. We invite you to be "all in" on our shared journey to \$100 million.
- 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. The City was issued a fiscal stress score of 0% for each year from 2012 and 2017 the lowest (best) possible score. 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 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 of \$1,302,857. Fiscal year ending March 31, 2018 the City's total fund balance is \$7,388,913. 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 Vine, Elm & Chase Water and Sewer improvement project began in November 2016 and was completed September of 2017 at a cost of \$1,294,000. As part of the City's Water and Wastewater Capital program, these projects continued recent investments in the water and wastewater infrastructure of the City.

The City completed the design and bid of the Healthy Schools Transportation Alternative Program (TAP) sidewalk project. This project will result in a \$977,000 investment into the City's sidewalk system, providing improved pathways to several of the City's schools.

A \$278,000 investment into the City's Wastewater Treatment Plant included improvements to the screening and grit removal system, replacing/rebuilding original equipment that was almost 30 years old.

The City utilized over \$100,000 of reserve funds for a dehumidification project for the ice rink and \$210,000 to purchase a Caterpillar Loader. In addition the City utilized over \$128,000 of Consolidated Highway Improvement Program (CHIPs) funding for street resurfacing.

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

	Governmental Activities			Business-Type Activities		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
Current and other assets	\$ 12,093	\$ 11,331	\$ 762	\$ 16,797	\$ 16,190	\$ 607
Capital assets, net	23,040	23,583	(543)	28,048	27,631	417
Total assets	35,133	34,914	219	44,845	43,821	1,024
Deferred outflows of resources	4,175	7,143	(2,968)	530	1,134	(604)
Long-term liabilities	13,281	16,150	(2,869)	6,717	3,147	3,570
Other liabilities	2,783	2,838	(55)	808	4,389	(3,581)
Total liabilities	16,064	18,988	(2,924)	7,525	7,536	(11)
Deferred inflow of resources	1,110	1,296	(186)	153	172	(19)
Net investment in capital assets	19,365	19,438	(73)	22,727	23,531	(804)
Restricted	4,819	4,942	(123)	6,301	5,972	329
Unrestricted (deficit)	(2,050)	(2,607)	557	8,669	7,744	925
Total net position	\$ 22,134	\$ 21,773	\$ 361	\$ 37,697	\$ 37,247	\$ 450



Governmental activities experienced an increase in the City's net position by \$360,188. When compared to the prior years increase, this is a decrease of \$512,067. Key elements of this increase are as follows:

- Revenues decreased by 11.26% when compared to prior year. This was primarily due capital grants related to the Summitt Street reconstruction project in the prior year.
- Expenses decreased 9.06% when compared to the prior year. General Government, decreased \$972,534 when compared to the prior year due to the decrease in our Dwyer and Courthouse debt as they were paid off in the 17/18 fiscal year and a 2017 correction to capital assets which increased expense in the the 16/17 fiscal year.

#### Business-Type Activities

Business-type activities experienced an increase in the City's net position by \$450,224 compared to the prior years increase of \$379,317 due to increase water rents and capital improvement fee.

- Water rents decreased \$53,140 compared to the prior year due to lower water consumption than prior year larger volume users.
- The sewer fund revenue increased \$155,875 and expenses decreased \$169,323.

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

	Governmental Activities			Business-Type Activities		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
<b>Program Revenues:</b>						
Charges for services	\$ 786	\$ 678	\$ 108	5,275	5,503	\$ (228)
Operating grants and contributions	590	979	(389)	2,372	2,259	113
Capital grants and contributions	263	2,010	(1,747)	-	-	-
<b>General Revenues:</b>						
Property taxes, special assessments and property tax items	5,377	5,616	(239)	-	-	-
Non-property taxes	6,747	6,290	457	-	-	-
Interest earnings	73	63	10	21	16	5
State and federal sources	1,986	1,876	110	-	-	-
Miscellaneous	624	1,021	(397)	-	-	-
Total revenues	16,446	18,533	(2,087)	7,668	7,778	(110)
<b>Program Expenses:</b>						
General government	2,246	3,220	(974)	-	-	-
Police	4,348	4,462	(114)	-	-	-
Fire	4,212	4,215	(3)	-	-	-
Public safety	729	820	(91)	-	-	-
Health	21	22	(1)	-	-	-
Transportation	2,794	2,716	78	-	-	-
Economic assistance	368	299	69	-	-	-
Culture and recreation	1,005	1,144	(139)	-	-	-
Home and community service	402	894	(492)	6,942	7,068	(126)
Refuse and recycling	72	60	12	-	-	-
Interest on debt	164	140	24	-	-	-
Total expenses	16,361	17,992	(1,631)	6,942	7,068	(126)
Excess of revenues over expenses	85	541	(456)	726	710	16
Transfers	276	331	(55)	(276)	(331)	55
Change in net position	361	872	(511)	450	379	71
Net position-beginning	21,773	20,901	872	37,247	36,868	379
Net position-ending	\$ 22,134	\$ 21,773	\$ 361	\$ 37,697	\$ 37,247	\$ 450

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

The fiscal year ending March 31, 2018 concluded with an unassigned fund balance of \$1,743,435 after restrictions and assignments for encumbrance, reserves and other fund balance commitments. This is the ninth consecutive year the City has maintained a positive fund balance.

#### **The General Fund**

Revenues for the General Fund decreased compared to last year by \$142,679. This was fairly in line with last year but individually, certain revenue areas increased and some decreased when compared to the prior year. For instance, real property taxes decreased \$190,109 and real property tax items decreased \$145,579 but sales tax increased \$457,246.

Total expenditures were \$1,845,418 lower than the prior year primarily due to over \$1,700,000 in additional capital expenditures, one outlier healthcare claim (\$330,000) and a one-time retirement benefit (\$100,000) for police as part of the collective bargaining agreement, all occurred in the prior year and not the current year..

#### **Water Fund**

The Water Fund, including depreciation, had a current year increase in net position of \$621,778, compared to last year's increase of \$287,517. Increases in charges for services (water rents) and capital improvement fees accounts for the most significant change from prior year, while decreases in the County contract expenses contributed to the Fund's improvement in net position.

#### **Sewer Fund**

The Sewer Fund, including depreciation, experienced an decrease in net position of \$171,554 compared to last years increase of \$91,800. Decreases in revenue of \$132,913 and increases in expenses of \$106,866 are the reason for the decrease in net position. Revenues have decreased due to a decrease in consumption. Sewer rates and meter charges have remained unchanged since 2008. Increases in expenses were due to all positions being fully staffed, an increase in electricity costs and an increase in depreciation from the assets place in service.

### **Self Insurance Fund**

This year's Self Insurance Fund balance (pg 66) increased by \$315,463. This is primarily due to less expenditures related to open claims. The City returned to a self-insured plan effective April 1, 2016 and has established a safety committee to review and assess claims.

### **Capital Projects Fund**

The Vine, Elm & Chase Water and Sewer improvement project was completed October of 2017. This capital improvement has been financed with general obligation bonds.

Healthy Schools Transportation Alternative Program (TAP) project has been in the design and engineering phase throughout the fiscal year ending March 31, 2018 with construction slated for the fiscal year ending March 31, 2019.

<b><i>Revenues, Expenditures/Expenses and Changes in Fund Balance/Net Assets - Governmental and Business-Type Activities Major Funds (in thousands of dollars)</i></b>			
	<b>Year Ended March 31, 2018</b>		
	<u>Revenues</u>	<u>Expenditures/ Expenses</u>	<u>Fund Balance/ Net Assets</u>
General Fund	\$ 16,015	\$ 15,731	\$ 7,389
Capital Projects Funds	263	360	257
Water Fund	4,974	2,748	10,257
Sewer Fund	2,673	4,093	27,441
	<b>Year Ended March 31, 2017</b>		
	<u>Revenues</u>	<u>Expenditures/ Expenses</u>	<u>Fund Balance/ Net Assets</u>
General Fund	\$ 16,211	\$ 17,595	\$ 7,105
Capital Projects Funds	2,010	2,020	104
Water Fund	4,962	4,675	9,635
Sewer Fund	2,816	2,724	27,612

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 a increase in fund balance over the prior year of \$283,538. This was primarily due to a decrease in expenses. The prior year had planned expenditures of reserve funds of over \$1,700,000 for budgeted capital equipment replacement, facility improvements, sidewalk improvements and unexpected retirement and healthcare costs. The City's unassigned fund balance remains stable providing 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 experienced some changes over the prior year. These revenues include:

- Sales tax revenue increased by 6.37%, or \$377,447, when compared to 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. Other than the years ending March 31, 2017, 2016 and 2010, where sales tax decreased lower than expected, the City has experienced steady growth since March 31, 2003.

Expenditures that experienced significant change over the prior year were:

- Health care expenditures decreased over last year by \$516,156. This was due to a one-time high claim in the prior year.
- In the prior year, due to the \$1 transfer of the former Della Penna property to the Batavia Development Corporation, the City experienced a loss on sale of property in the amount of \$262,770, therefore we saw a decrease in General Government expenses in the current year.
- Fire department expenditures also decreased over last year by \$737,684 due to the purchase of fire apparatus in the prior fiscal year.

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, 2018, the City funded General Fund reserves with an additional \$634,000. 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 \$900,000 of the reserve funds in the General Fund to purchase multiple equipment purchases, several additional facility improvements, install sidewalks and absorb one-time healthcare claims, thereby utilizing reserve funding instead of property tax increases or issuance of debt for these types of expenditures.

<b><i>Capital Assets Net of Depreciation</i></b> <b><i>(in thousands of dollars)</i></b>				
	Governmental Activities		Business -Type Activities	
	2018	2017	2018	2017
Land	\$ 1,135	\$ 1,135	\$ 42	\$ 42
Construction work in progress	2,615	5,893	2,276	3,662
Buildings	6,052	6,306	13,494	14,403
Machinery & equipment	3,538	3,456	633	568
Infrastructure	9,700	6,793	11,603	8,956
Total	<u>\$ 23,040</u>	<u>\$ 23,583</u>	<u>\$ 28,048</u>	<u>\$ 27,631</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 in 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.H, respectively.

<b><i>Outstanding Long-Term Obligations</i></b> <b><i>(in thousands of dollars)</i></b>				
	Governmental Activities		Business-Type Activities	
	2018	2017	2018	2017
General obligation debt backed by the City	\$ 3,215	\$ 3,582	\$ 5,281	\$ 1,068
Installment purchase debt	459	562	155	211
Other liabilities	280	288	-	-
Compensated absences	2,089	2,242	349	439
Net post employment benefit obligations	3,434	3,481	377	378
Net pension liability	3,803	5,995	555	1,051
Total	<u>\$ 13,280</u>	<u>\$ 16,150</u>	<u>\$ 6,717</u>	<u>\$ 3,147</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 make up approximately 43% of the General Fund revenues, has increased in growth 8.5% from last year. However, prior to this year, and with the exception of the year ending March 31, 2017 when there was a decrease of 2.7%, the growth in these revenues has been slow, at an average rate of less than 1% per year. 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.

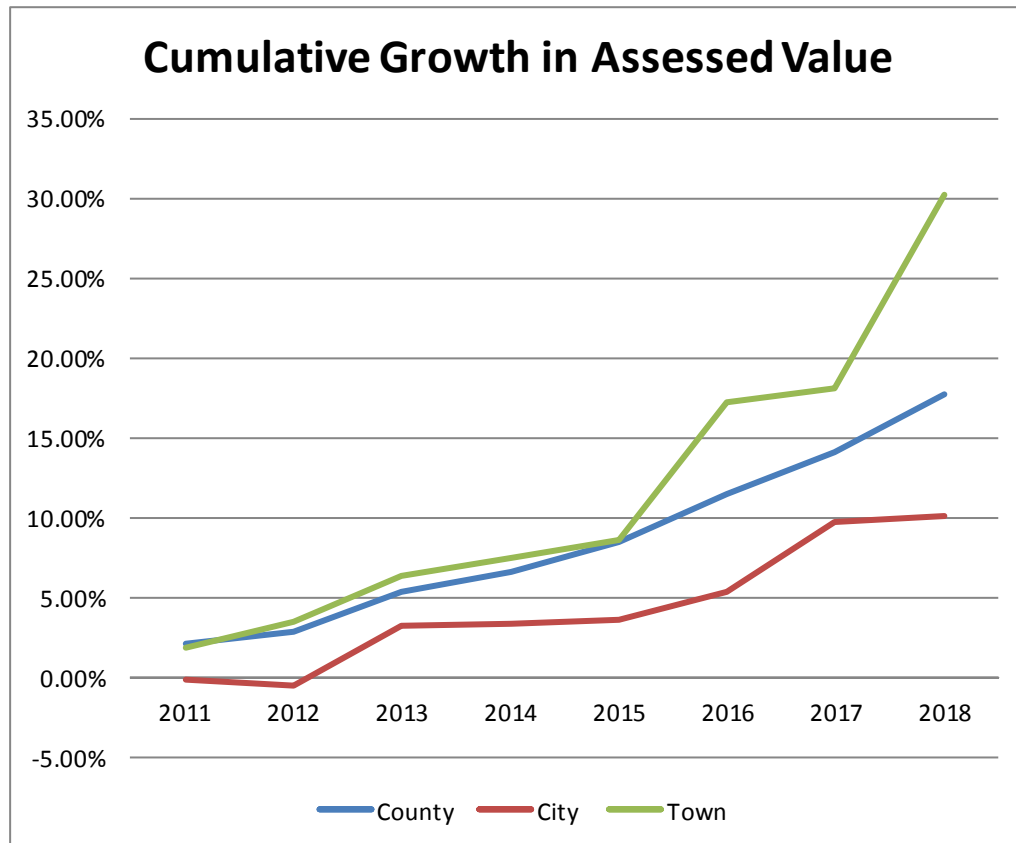
The City is currently in negotiations with Genesee County regarding the renewal of the water and sales tax agreements, however it is important to note that any percentage change in the City's share of sales tax (16%) that may limit or decrease the City's sales tax from its current position would be detrimental to the City's General Fund. Further contributing to the City's General Fund revenue challenges. It is expected that a long term extension will be finalized in the next fiscal year providing a level of stability.

- **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 2% or inflation, which ever is lowest. Over the past four years inflation has been under 2%. 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 face 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, 2018, the City utilized just over \$900,000 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.



- Facility Reserve – For the past five years City Council has restricted 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 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.
- Administrative Services Equipment and Software Reserve – In March 2015 the City Council created the Administrative Service Equipment and Software Reserve to assist with upgrading and meeting the City's information technology and records management needs. This includes replacing antiquated software utilized by the City, some more than 30 years old and operating on a DOS platform. Currently the City is working with a consultant to complete a needs assessment, develop and issue an RFP and assist the City with selecting the best software for replacing the existing system. It is expected that next year the City will be looking to upgrade all financial software including tax collection, utility billing, payroll, accounts payable, accounts receivable and general ledger in addition to code enforcement, planning and assessment software. Considering these upgrades are similar to capital purchases, utilizing reserve funds will allow these improvements to take place without impacting the City's operating budget. It is anticipated; however, that the software upgrades will be paid for with a combination of reserve funds and general obligation bonds.
- NYS Retirement Costs – Since FY 2009/10, annual fluctuations in actual retirement payments have ranged from single digit decreases to double digit increases. 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.
- Retiree Healthcare Costs – Retiree healthcare will continue to increase in the future. The total postemployment health insurance cost to the City for 27 retirees was \$420,904 for the year ending March 31, 2018. While this is a slight 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, 2016, amounted to \$6,015,804, all of which is unfunded. 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, three contract expire March 31, 2019. 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** – 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 averaged 1.22% 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 is significantly hampered. Considering taxable assessed value is the City's most stable source of revenue, the City needs to continue 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.



Growth in the City has been lagging 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 of which have had robust focuses on economic development over the past 15 years, and as a result the cumulative growth in taxable assessed value growth has been more than tripled the City's since 2010.

*Projects completed as part of the 2011 Main Street Grant as well as Carr's Warehouse Building, Ellicott Station and the Newberry Building are all prime redevelopment examples that will improve taxable assessed value, establish new jobs for our residents and provide much needed modern housing options for downtown living. Building tax base is imperative to supporting and maintaining valuable City services at reasonable costs.*

A balanced approach to the City budget needs to include strong initiatives that will provide cost containment but also strategic direction that will improve quality of life. Growth in tax base and resident income are the lifeblood to supporting municipal services, as well as improved quality of life for City residents.

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. Recently, City of Batavia leadership expressed an "All In" rally-cry setting a goal to achieve \$100 million public-private investment by 2022, placing emphasis on the central business corridor. 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.

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**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF NET POSITION**  
**MARCH 31, 2018**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 8,254,836	\$ 14,236,745	\$ 22,491,581
Restricted cash and cash equivalents	-	115,497	115,497
Property taxes receivable, net	1,329,386	-	1,329,386
Accounts receivable, net	368,924	1,892,968	2,261,892
Loans receivable, net	136,140	-	136,140
State and federal receivables	537,231	-	537,231
Due from other governments	1,466,394	551,749	2,018,143
Capital assets not being depreciated	3,749,705	2,317,297	6,067,002
Capital assets, net of accumulated depreciation	19,290,709	25,730,480	45,021,189
Total assets	<u>35,133,325</u>	<u>44,844,736</u>	<u>79,978,061</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred pension outflows	<u>4,174,451</u>	<u>531,182</u>	<u>4,705,633</u>
Total deferred outflows of resources	<u>4,174,451</u>	<u>531,182</u>	<u>4,705,633</u>
<b>LIABILITIES</b>			
Accounts payable	250,095	643,074	893,169
Accrued liabilities	614,073	164,981	779,054
Accrued interest	41,200	-	41,200
Due to other governments	373,780	-	373,780
Unearned revenues	1,503,935	-	1,503,935
Long-term liabilities:			
Due and payable within one year	700,007	471,173	1,171,180
Due and payable after one year	12,581,034	6,245,729	18,826,763
Total liabilities	<u>16,064,124</u>	<u>7,524,957</u>	<u>23,589,081</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred pension inflows	<u>1,109,926</u>	<u>153,333</u>	<u>1,263,259</u>
Total deferred inflows of resources	<u>1,109,926</u>	<u>153,333</u>	<u>1,263,259</u>
<b>NET POSITION (DEFICIT)</b>			
Net investment in capital assets	19,364,887	22,727,155	42,092,042
Restricted for:			
Retirement contribution	272,190	-	272,190
Employee benefit accrued liability	50,189	-	50,189
Insurance	716,313	-	716,313
Capital projects	3,044,624	6,301,209	9,345,833
Repairs	168,797	-	168,797
Small cities	134,426	-	134,426
Special grant	432,035	-	432,035
Unrestricted (deficit)	<u>(2,049,735)</u>	<u>8,669,264</u>	<u>6,619,529</u>
Total net position (deficit)	<u>\$ 22,133,726</u>	<u>\$ 37,697,628</u>	<u>\$ 59,831,354</u>

See notes to basic financial statements.

**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED MARCH 31, 2018**

		Program Revenues			Net (Expense) Revenue and Changes in Net Postion		
	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	\$ 2,247,282	\$ 346,240	\$ -	\$ -	\$ (1,901,042)	\$ -	\$ (1,901,042)
Police	4,347,895	192,717	34,759	-	(4,120,419)	-	(4,120,419)
Fire	4,212,024	-	13,356	-	(4,198,668)	-	(4,198,668)
Public safety	729,653	72,294	102,150	-	(555,209)	-	(555,209)
Health	21,341	34,610	-	-	13,269	-	13,269
Transportation	2,793,822	2,170	378,650	263,271	(2,149,731)	-	(2,149,731)
Economic assistance	367,612	-	41,230	-	(326,382)	-	(326,382)
Culture and recreation	1,004,722	75,832	19,772	-	(909,118)	-	(909,118)
Home and community services	401,750	61,978	-	-	(339,772)	-	(339,772)
Refuse and recycling	71,573	-	-	-	(71,573)	-	(71,573)
Interest on debt	164,036	-	-	-	(164,036)	-	(164,036)
Total governmental activities	16,361,710	785,841	589,917	263,271	(14,722,681)	-	(14,722,681)
Business-type activities:							
Sewer	2,825,931	2,487,087	185,867	-	-	(152,977)	(152,977)
Water	4,116,460	2,787,900	2,186,181	-	-	857,621	857,621
Total business-type activities	6,942,391	5,274,987	2,372,048	-	-	704,644	704,644

See notes to basic financial statements.

**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED MARCH 31, 2018 (Continued)**

	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
Total governmental and business-type activities	\$ <u>23,304,101</u>	\$ <u>6,060,828</u>	\$ <u>2,961,965</u>	\$ <u>263,271</u>	(14,722,681)	704,644	(14,018,037)
General revenues:							
Real property taxes and tax items					5,376,756	-	5,376,756
Non-property taxes:							
Sales tax distribution					6,305,141	-	6,305,141
Gross utilities					185,041	-	185,041
Franchise fees					256,562	-	256,562
Interest earnings					73,452	21,280	94,732
State aid not restricted for a specific purpose					1,986,257	-	1,986,257
Other miscellaneous revenues					623,960	-	623,960
Transfers:							
Sewer					31,880	(31,880)	-
Water					243,820	(243,820)	-
Total general revenues and transfers					<u>15,082,869</u>	<u>(254,420)</u>	<u>14,828,449</u>
Change in net position					360,188	450,224	810,412
Net position - beginning					<u>21,773,538</u>	<u>37,247,404</u>	<u>59,020,942</u>
Net position - ending					<u>\$ 22,133,726</u>	<u>\$ 37,697,628</u>	<u>\$ 59,831,354</u>

See notes to basic financial statements.

**CITY OF BATAVIA, NEW YORK**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**MARCH 31, 2018**

	<b>General</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 6,619,170	\$ 1,635,666	\$ 8,254,836
Receivables (net of allowance for uncollectible receivables)			
Property taxes receivable	1,329,386	-	1,329,386
Accounts receivable	333,945	34,979	368,924
Loan receivables	-	136,140	136,140
State and federal receivables	336,269	200,962	537,231
Due from other governments	1,466,394	-	1,466,394
Due from other funds	200,000	128,327	328,327
Total assets	<u>\$ 10,285,164</u>	<u>\$ 2,136,074</u>	<u>\$ 12,421,238</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 200,117	\$ 49,978	\$ 250,095
Accrued liabilities	372,133	241,940	614,073
Due to other governments	373,780	-	373,780
Unearned revenues	1,503,935	-	1,503,935
Due to other funds	128,327	200,000	328,327
Total liabilities	<u>2,578,292</u>	<u>491,918</u>	<u>3,070,210</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue-property taxes	317,959	-	317,959
Total deferred inflows of resources	<u>317,959</u>	<u>-</u>	<u>317,959</u>
<b>FUND BALANCES</b>			
Restricted	4,252,113	566,461	4,818,574
Committed	339,450	-	339,450
Assigned	1,053,915	1,077,695	2,131,610
Unassigned	1,743,435	-	1,743,435
Total fund balances	<u>7,388,913</u>	<u>1,644,156</u>	<u>9,033,069</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 10,285,164</u>	<u>\$ 2,136,074</u>	

Amounts reported for governmental activities in the Statement of Net Position (page 44) 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.	23,040,414
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	(3,215,393)
Installment purchase debt	(460,134)
Due to other governments	(279,823)
Compensated absences	(2,089,192)
Net pension liabilities	(3,802,716)
Post employment benefits	(3,433,783)
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	317,959
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.	(41,200)
Deferred outflows and inflows are not assets or liabilities of the current period and therefore are not reported in the funds:	
Deferred outflows related to pensions	4,174,451
Deferred inflows related to pensions	<u>(1,109,926)</u>
Net position of governmental activities	<u>\$ 22,133,726</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, 2018**

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Real property taxes	\$ 4,991,962	\$ -	\$ 4,991,962
Real property tax items	239,320	-	239,320
Special assessments	-	171,526	171,526
Sales and other taxes	6,746,744	-	6,746,744
Departmental income	289,237	-	289,237
Use of money and property	66,850	6,602	73,452
Licenses and permits	85,033	-	85,033
Fines and forfeitures	144,017	-	144,017
Sale of property and compensation for loss	125,751	45,724	171,475
Miscellaneous local sources	547,529	984	548,513
Federal and state sources	2,576,174	263,271	2,839,445
	<u>15,812,617</u>	<u>488,107</u>	<u>16,300,724</u>
Total revenues			
<b>EXPENDITURES</b>			
Current:			
General government	1,823,287	17,500	1,840,787
Police	3,699,408	-	3,699,408
Fire	3,707,895	-	3,707,895
Public safety	318,322	-	318,322
Health	17,815	-	17,815
Transportation	2,113,606	-	2,113,606
Economic assistance	191,245	176,617	367,862
Culture and recreation	725,651	-	725,651
Home and community services	315,216	40,470	355,686
Refuse and recycling	71,870	-	71,870
Employee health benefits	1,581,911	112,809	1,694,720
Capital outlay:			
General government	-	88,455	88,455
Transportation	-	267,193	267,193
Home and community services	-	3,905	3,905
Debt service:			
Principal	464,609	-	464,609
Interest	126,333	-	126,333
	<u>15,157,168</u>	<u>706,949</u>	<u>15,864,117</u>
Total expenditures			
Excess (deficit) of revenues over expenditures	655,449	(218,842)	436,607
<b>OTHER FINANCING SOURCES (USES)</b>			
Interfund transfers in	201,998	649,609	851,607
Interfund transfers out	(573,909)	(1,998)	(575,907)
	<u>(371,911)</u>	<u>647,611</u>	<u>275,700</u>
Total other financing sources (uses)			
Net change in fund balances	283,538	428,769	712,307
Fund balances - beginning	7,105,375	1,215,387	8,320,762
Fund balances - ending	<u>\$ 7,388,913</u>	<u>\$ 1,644,156</u>	<u>\$ 9,033,069</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, 2018**

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**Net change in fund balances - total governmental funds (page 48)** **\$ 712,307**

Amounts reported for governmental activities in the Statement of Activities (page 42) 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 depreciation (\$1,269,480) exceeded capital outlays (\$4,381,257) excluding construction in progress placed in service (\$3,630,471) in the current period. (516,723)

The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trades) is to decrease net position. (25,679)

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. 145,474

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when paid. (41,200)

Change 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 revenues or expenditures in the governmental funds (ERS - \$680,688, PFRS - \$1,511,935). 2,192,623

Change in the proportionate share of the net deferred inflows and outflows 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 - \$817,260, PFRS - \$1,965,756). (2,783,016)

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

Repayment of serial bonds	\$	363,000	
Serial bond premium liability		3,497	
Repayment of installment purchase debt		101,609	
Due to other governments		7,920	
Change in compensated absences		153,075	
Change in other post employment benefits		47,301	
		676,402	676,402

Change in net position of governmental activities **\$ 360,188**

**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF NET POSITION – ENTERPRISE FUNDS**  
**MARCH 31, 2018**

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 8,793,281	\$ 5,443,464	\$ 14,236,745
Restricted cash and cash equivalents	36,555	78,942	115,497
Accounts receivable	773,191	1,119,777	1,892,968
Due from other governments	-	551,749	551,749
Total current assets	<u>9,603,027</u>	<u>7,193,932</u>	<u>16,796,959</u>
Noncurrent assets:			
Capital assets not being depreciated	1,084,760	1,232,537	2,317,297
Capital assets, net of accumulated depreciation	<u>21,480,239</u>	<u>4,250,241</u>	<u>25,730,480</u>
Total noncurrent assets	<u>22,564,999</u>	<u>5,482,778</u>	<u>28,047,777</u>
Total assets	<u>32,168,026</u>	<u>12,676,710</u>	<u>44,844,736</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred pension outflows	<u>199,193</u>	<u>331,989</u>	<u>531,182</u>
Total deferred outflows of resources	<u>199,193</u>	<u>331,989</u>	<u>531,182</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 166,872	\$ 476,202	\$ 643,074
Accrued liabilities	106,134	58,847	164,981
Compensated absences	10,694	24,204	34,898
Installment purchase debt	35,732	21,669	57,401
Serial bond payables and bond premium	<u>321,037</u>	<u>57,837</u>	<u>378,874</u>
Total current liabilities	<u>640,469</u>	<u>638,759</u>	<u>1,279,228</u>
Noncurrent liabilities:			
Compensated absences	96,247	217,839	314,086
Installment purchase debt	38,205	59,415	97,620
Post employment benefits	177,534	199,423	376,957
Serial bond payables and bond premium	3,708,612	1,193,612	4,902,224
Net pension liability	<u>208,066</u>	<u>346,776</u>	<u>554,842</u>
Total noncurrent liabilities	<u>4,228,664</u>	<u>2,017,065</u>	<u>6,245,729</u>
Total liabilities	<u>4,869,133</u>	<u>2,655,824</u>	<u>7,524,957</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred pension inflows	<u>57,500</u>	<u>95,833</u>	<u>153,333</u>
Total deferred inflows of resources	<u>57,500</u>	<u>95,833</u>	<u>153,333</u>
<b>NET POSITION</b>			
Net investment in capital assets	18,497,968	4,229,187	22,727,155
Restricted for capital projects	3,616,449	2,684,760	6,301,209
Unrestricted	<u>5,326,169</u>	<u>3,343,095</u>	<u>8,669,264</u>
Total net position	<u>\$ 27,440,586</u>	<u>\$ 10,257,042</u>	<u>\$ 37,697,628</u>

See notes to basic financial statements.

**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2018**

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 2,487,087	\$ 2,787,900	\$ 5,274,987
County water agreement charges	-	1,411,937	1,411,937
Rental of real property	-	550,000	550,000
Other operating revenue	185,867	224,244	410,111
Total operating revenues	<u>2,672,954</u>	<u>4,974,081</u>	<u>7,647,035</u>
<b>OPERATING EXPENSES</b>			
Salaries, wages and employee benefits	833,066	1,319,673	2,152,739
Contractual expense	502,822	2,591,478	3,094,300
Depreciation	1,412,185	182,214	1,594,399
Total operating expenses	<u>2,748,073</u>	<u>4,093,365</u>	<u>6,841,438</u>
Operating income	<u>(75,119)</u>	<u>880,716</u>	<u>805,597</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment income	13,303	7,977	21,280
Interest expense	(77,858)	(23,095)	(100,953)
Total nonoperating revenues (expenses)	<u>(64,555)</u>	<u>(15,118)</u>	<u>(79,673)</u>
Income (loss) before operating subsidy to governmental funds	(139,674)	865,598	725,924
Operating subsidy to governmental funds	<u>(31,880)</u>	<u>(243,820)</u>	<u>(275,700)</u>
Change in net position	(171,554)	621,778	450,224
Net position - beginning	<u>27,612,140</u>	<u>9,635,264</u>	<u>37,247,404</u>
Net position - ending	<u>\$ 27,440,586</u>	<u>\$ 10,257,042</u>	<u>\$ 37,697,628</u>

See notes to basic financial statements.

**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF CASH FLOWS – ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2018**

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 2,482,701	\$ 2,845,303	\$ 5,328,004
Cash payments for contractual expenses	(422,166)	(2,720,605)	(3,142,771)
Cash payments to employees for services	(832,889)	(1,323,631)	(2,156,520)
Other operating revenue	185,867	2,186,181	2,372,048
Net cash provided by operating activities	<u>1,413,513</u>	<u>987,248</u>	<u>2,400,761</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Operating subsidy to governmental funds	(31,880)	(243,820)	(275,700)
Net cash used by noncapital financing activities	<u>(31,880)</u>	<u>(243,820)</u>	<u>(275,700)</u>
<b>CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(1,251,778)	(759,175)	(2,010,953)
Proceeds from serial bonds	3,439,600	936,400	4,376,000
Principal payments on debt	(3,585,860)	(202,725)	(3,788,585)
Interest paid on debt	(49,453)	(13,712)	(63,165)
Net cash used by capital and financing activities	<u>(1,447,491)</u>	<u>(39,212)</u>	<u>(1,486,703)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest on cash and investments	13,303	7,977	21,280
Net cash provided by investing activities	<u>13,303</u>	<u>7,977</u>	<u>21,280</u>
Net increase (decrease) in cash and cash equivalents	(52,555)	712,193	659,638
Cash and cash equivalents - beginning	<u>8,882,391</u>	<u>4,810,213</u>	<u>13,692,604</u>
Cash and cash equivalents - ending	<u>\$ 8,829,836</u>	<u>\$ 5,522,406</u>	<u>\$ 14,352,242</u>
<b><u>Reconciliation of cash and cash equivalents to the Statement of Net Position:</u></b>			
Cash and cash equivalents	\$ 8,793,281	\$ 5,443,464	\$ 14,236,745
Restricted cash and cash equivalents	36,555	78,942	115,497
Total cash and cash equivalents	<u>\$ 8,829,836</u>	<u>\$ 5,522,406</u>	<u>\$ 14,352,242</u>
<b><u>Reconciliation of operating income (loss) to net cash provided by operating activities:</u></b>			
Operating income (loss)	\$ (75,119)	\$ 880,716	\$ 805,597
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	1,412,185	182,214	1,594,399
Pension expense	29,228	58,179	87,407
Change in assets and liabilities			
Decrease (increase) in:			
Accounts receivable	(4,386)	75,327	70,941
Due from other governments	-	(17,924)	(17,924)
Increase (decrease) in:			
Accounts payable	77,380	(128,479)	(51,099)
Accrued liabilities	3,276	(648)	2,628
Compensated absences	(28,778)	(61,246)	(90,024)
Other post employment benefits	(273)	(891)	(1,164)
Net cash provided by operating activities	<u>\$ 1,413,513</u>	<u>\$ 987,248</u>	<u>\$ 2,400,761</u>

See notes to basic financial statements.

**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF NET POSITION – FIDUCIARY FUNDS**  
**MARCH 31, 2018**

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	<b>Private Purpose Trusts</b>	<b>Agency</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ -	\$ 211,824
Cash and cash equivalents - restricted	<u>21,523</u>	<u>-</u>
Total assets	<u>21,523</u>	<u><u>\$ 211,824</u></u>
<b>LIABILITIES</b>		
Agency liabilities	<u>-</u>	<u><u>\$ 211,824</u></u>
<b>NET POSITION</b>		
Restricted trust funds	<u><u>\$ 21,523</u></u>	

See notes to basic financial statements.

**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF CHANGES IN NET POSITION – FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2018**

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	<b>Private Purpose Trusts</b>
	<u>                    </u>
<b>ADDITIONS</b>	
Interest	\$ <u>          66          </u>
Total additions	<u>          66          </u>
Change in net position	66
Net position - beginning	<u>         21,457         </u>
Net position - ending	<u><u>         21,523         </u></u>

See notes to basic financial statements.

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**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. 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 Manager 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.

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.

**B. 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. 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.

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

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

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

## 2. FUND FINANCIAL STATEMENTS

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

### Governmental Funds:

Governmental funds are those through which most governmental functions are financed. The acquisition, use and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus of the governmental funds is based upon determination of financial position and changes in financial position. The following are the City's major governmental fund types:

General Fund – The General Fund is the general operating fund of the City. The fund is used to account for all financial resources except for those required to be accounted for in a separate fund.

Capital Projects Fund – This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by the Enterprise Funds.

The City reports the following nonmajor funds consolidated into the nonmajor governmental funds column:

### Special Revenue Funds:

These funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes or for which separate accounting is required by administrative action.

Special Grant Fund – This fund is 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 – This fund is used to account for the maintenance of the Batavia City Centre.

Small Cities Fund – This fund is 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 – This fund is used to account for the City's workers' compensation insurance activity.

### Enterprise Funds:

These funds are used to account for ongoing operations or activities, which are similar to those often found in the private sector. The measurement focus is based upon determination of net income, financial position and cash flows. The City applies all applicable GASB pronouncements, as well as, Financial Accounting Standards Board's (FASB) Accounting Standards Codification unless these standards conflict with or contradict GASB pronouncements.

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

### Other Fund Types:

#### Fiduciary Funds:

These funds are used to account for fiduciary activities, which are those in which the City acts as trustee or agent for resources that belong to others. These activities are not included in the government-wide financial statements because their resources do not belong to the City and are not available for use.

Private-Purpose Trust Fund – This fund is 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 – This fund is used to account for bid deposits, tax redemptions, joint liens and other assets and liabilities that are custodial in nature.

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.

### **C. 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 enterprise 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.

**D. 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 CASH AND CASH EQUIVALENTS**

Certain assets are classified on the balance sheet as restricted because their use is limited. Debt proceeds remaining after a project has been completed can only be used to pay down the related debt, and therefore are restricted in use.

**3. RECEIVABLES**

Receivables are carried at their net realizable value. Receivables are written-off as uncollectible after the likelihood of payment is considered remote by management. The allowance for uncollectible receivables has been established by management, using past history of uncollectible receivables. As of March 31, 2018, the provision for uncollectible receivables amounted to \$64,707 and \$13,279 in the Community Development and Small Cities Grant Funds, respectively.

**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>
Infrastructure	\$ 200,000	straight-line	25-50 years
Buildings	50,000	straight-line	25-50 years
Improvements	50,000	straight-line	10-50 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 has 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 only has one item that qualified for reporting in this category. This is related to pensions reported in the government-wide Statement of Net Position. In relation to the pension, this represents the effect of the net change in the City's proportion of the collective net pension liability and the difference during the measurement period between the City's contributions and its proportional share of total contributions to the pension system not included in pension expense. Also included is the City's contributions to the pension system subsequent to the measurement date. See details of deferred pension outflows in Note 3.D.

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 two types of items that qualify for reporting in this category. One item is related to pension activity 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 liability and difference during the measurement period between the City's contributions and its proportional share of total contributions to the pension system not included in pension expense. See details of deferred pension inflows in Note 3.D. The other item is unavailable revenue related to property taxes and is reported in the governmental funds Balance Sheet.

## **7. 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 enterprise 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

## **8. 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.

## **9. 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 City that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

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

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The City has adopted a formal fund balance policy in which it shall strive to attain and maintain an adequate fund balance in its general fund to provide flexibility and to mitigate current and future risks (e.g. revenue shortfalls and unanticipated expenditures), to ensure stable tax rates, to provide for one-time opportunities and to retain favorable credit ratings. The City will endeavor to maintain unassigned fund balances in its general fund of ten percent (10%) of regular general fund operating expenditures. This amount provides the liquidity necessary to accommodate the City's uneven cash flow, which is inherent in its periodic tax collection schedule, and to respond to contingent liabilities.

If the unassigned fund balance falls below the 10% minimum fund balance percentage, the Audit Advisory Committee will evaluate current fund balance classifications in order to recommend the final distribution of fund balance in any fiscal year in consideration of estimated liabilities of the City and sound financial planning.

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 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.

**E. 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.

**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 Genesee County (County) on properties within the City. The City also enforces real property taxes of the Batavia City School District (District), which are unpaid at January 1<sup>st</sup>. The City pays the County the entire levy in two installments and the District the full amount of the property taxes collected on their behalf on a monthly basis. Any amounts which have been collected as of March 31<sup>st</sup> but have not yet been remitted to the 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 the fiscal 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 2017-18 year, the five-year average full valuation was \$551,189,763 allowing for a maximum tax limit of \$11,023,795 (includes allowance exclusions). The City tax levy was \$5,203,736 for the year ended March 31, 2018.

**3. 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 postemployment health insurance premiums. The compensated absences liability for the Governmental and Enterprise funds at the year-end totaled \$2,089,192 and \$348,984, respectively. A liability for those amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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.

#### **4. ENTERPRISE FUNDS – OPERATING AND NONOPERATING REVENUES AND EXPENSES**

Enterprise 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.

#### **F. 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 the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

#### **G. ACCOUNTING PRONOUNCEMENTS**

During the fiscal year ended March 31, 2018, the City adopted the provisions of Governmental Accounting Standards Board (GASB) 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, *Split-Interest Agreements*; and Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, 68 and 73*.

The primary objective of Statement No. 74 is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

The primary objective of Statement No. 80 is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units.

The primary objective of Statement No. 81 is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

The primary objective of Statement No. 82 is to address certain issues that have been raised with respect to GASB Statement No. 67, *Financial Reporting for Pension Plans*, Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68*.

The City has evaluated Statements No. 74, 80, 81, and 82 and have determined that they have no impact on the City's operations.

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

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The GASB has issued the following new pronouncements:

- Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits Other than Pensions*, which will be effective for the year ending March 31, 2019;
- Statement No. 83, *Certain Asset Retirement Obligations*, which will be effective for the year ending March 31, 2020;
- Statement No. 84, *Fiduciary Activities*, which will be effective for the year ending March 31, 2020;
- Statement No. 85, *Omnibus*, which will be effective for the year ending March 31, 2019;
- Statement No. 86, *Certain Debt Extinguishment Issues*, which will be effective for the year ending March 31, 2019;
- Statement No. 87, *Leases*, which will be effective for the year ending March 31, 2021;
- Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, which will be effective for the year ending March 31, 2020; and
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which will be effective for the year ending March 31, 2021.

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

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

**A. LEGAL COMPLIANCE - BUDGETS**

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

- No later than January 15<sup>th</sup>, the Budget Officer/City Manager submits a tentative budget to the City Council for the fiscal year commencing the following April 1<sup>st</sup>. The tentative budget includes proposed expenditures and the proposed means of financing for all funds except Capital Projects and the Fiduciary Funds.
- After public hearings are conducted to obtain taxpayer comments, no later than March 20<sup>th</sup>, the City Council adopts the budget.
- All modifications of the budget must be approved by the City Council, however, the Budget Officer/City Manager is authorized to transfer certain budgeted amounts within departments
- Budgets are prepared for Enterprise Funds to establish the estimated contributions required from other funds and to control expenditures.
- During the fiscal year, the City Council can legally amend the operating budgets and is empowered to implement supplemental appropriations. Budget amendments are required for the departmental budgetary control. All budget amendments require City Council approval.

**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 or authorized to do business in New York 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 and obligations issued by other than New York State rated in one of the three highest rating categories by at least one nationally recognized statistical rating organizations.



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

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The City's aggregate bank balances were fully collateralized at March 31, 2018.

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 \$36,555 and \$78,942 in the Sewer and Water Funds, respectively, from unexpended bond proceeds, and \$21,523 in the Private Purpose Trust Fund restricted for fire protection and assistance to citizens.

Investment and Deposit Policy

The City follows an investment and deposit policy, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conformance with federal, state and other legal requirements; and provide sufficient liquidity of invested funds in order to meet obligations as they become due. Oversight of investment activity is the responsibility of the 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 100% 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.
- Obligations issued by other than New York State rated in one of the three highest rating categories by at least one nationally recognized statistical rating organizations

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

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**B. RECEIVABLES**

Significant revenues accrued by the City at March 31, 2018, include the following:

Capital Fund:

Summit Street reimbursements	\$ 11,239
Preventative Maintenance reimbursements	36,565
Health Schools reimbursements	69,396
Pedestrian Way reimbursements	83,762
Total state and federal receivables	<u>\$ 200,962</u>

Water Fund:

Water rents receivable	\$ 1,103,464
Miscellaneous	16,313
Total receivables	<u>\$ 1,119,777</u>

Sewer Fund:

Sewer rents receivable	\$ 752,974
Miscellaneous	20,217
Total receivables	<u>\$ 773,191</u>

Due from other governments represents amounts due primarily from the County, and other governmental entities. Amounts accrued at March 31, 2018, consist of:

General Fund:

NYS sales tax	\$ 1,453,231
Fines and forfeitures	13,021
Finance Bureau travel and training	142
Total governmental activities due from other governments	<u>\$ 1,466,394</u>

Water Fund:

City/County water agreement	<u>\$ 551,749</u>
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**CITY OF BATAVIA, NEW YORK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**C. CAPITAL ASSETS**

Capital asset activity for the year ended March 31, 2018, was as follows:

**Governmental Activities:**

	Balance 04/01/17	Increases	Decreases	Balance 03/31/18
<u>Capital assets not being depreciated:</u>				
Land	\$ 1,134,588	\$ -	\$ -	\$ 1,134,588
Construction work in progress	5,892,523	353,065	3,630,471	2,615,117
Total capital assets not being depreciated	7,027,111	353,065	3,630,471	3,749,705
<u>Capital assets being depreciated:</u>				
Buildings and building improvements	10,105,905	-	-	10,105,905
Machinery, equipment & vehicles	6,820,333	486,355	229,832	7,076,856
Infrastructure	10,866,448	3,543,835	-	14,410,283
Total capital assets, being depreciated	27,792,686	4,030,190	229,832	31,593,044
<u>Less accumulated depreciation:</u>				
Buildings and building improvements	3,799,723	253,998	-	4,053,721
Machinery, equipment & vehicles	3,364,251	378,816	204,153	3,538,914
Infrastructure	4,073,007	636,693	-	4,709,700
Total accumulated depreciation	11,236,981	1,269,507	204,153	12,302,335
Total capital assets being depreciated, net	16,555,705	2,760,683	25,679	19,290,709
Governmental activities capital assets, net	\$ 23,582,816	\$ 3,113,748	\$ 3,656,150	\$ 23,040,414

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

**Governmental activities:**

General government	\$ 179,858
Public safety	181,193
Transportation	730,969
Culture and recreation	167,257
Home and community service	10,230
Total depreciation expense - governmental activities	\$ 1,269,507

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

**Business-Type Activities:**

	Balance 04/01/17	Increases	Decreases	Balance 03/31/18
<u>Capital assets not being depreciated:</u>				
Land	\$ 41,500	\$ -	\$ -	\$ 41,500
Construction work in progress	3,661,954	1,910,950	3,297,107	2,275,797
Total capital assets not being depreciated	3,703,454	1,910,950	3,297,107	2,317,297
<u>Capital assets being depreciated:</u>				
Buildings and building improvements	41,657,541	141,559	-	41,799,100
Machinery, equipment & vehicles	1,467,875	167,954	-	1,635,829
Infrastructure	16,101,618	3,087,597	-	19,189,215
Total capital assets, being depreciated	59,227,034	3,397,110	-	62,624,144
<u>Less accumulated depreciation:</u>				
Buildings and building improvements	27,254,090	1,051,057	-	28,305,147
Machinery, equipment & vehicles	899,991	102,205	-	1,002,196
Infrastructure	7,145,184	441,137	-	7,586,321
Total accumulated depreciation	35,299,265	1,594,399	-	36,893,664
Total capital assets being depreciated, net	23,927,769	1,802,711	-	25,730,480
Business-Type activities capital assets, net	<u>\$ 27,631,223</u>	<u>\$ 3,713,661</u>	<u>\$ 3,297,107</u>	<u>\$ 28,047,777</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**

The City participates in the New York State and Local Employees' Retirement System (ERS) and the Local Police and Fire Retirement System (PFRS), which are collectively referred to as New York State and Local Retirement System (the System). This is a cost-sharing multiple-employer defined benefit retirement system. The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in fiduciary net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. System benefits are established under the provisions of the New York State Retirement and Social Security Law (NYSRSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The 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 regard to benefit's 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**

**FUNDING POLICY**

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, 2018, the City reported the following liability for its proportionate share of the net pension liability to the System. The net pension liability was measured as of March 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2016. 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. This information was provided by the ERS and PFRS System in reports provided to the City.

	<u>ERS</u>	<u>PFRS</u>
Measurement date	March 31, 2017	March 31, 2017
Net pension liability	\$ 1,387,104	\$ 2,970,454
City's portion of the Plan's total net pension liability	0.01476240%	0.14331660%
Change in proportion since the prior measurement date	(0.00001214)	(0.00008075)

For the year ended March 31, 2018, the City recognized pension expense of \$2,278,137. At March 31, 2018 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>	
	<u>ERS</u>	<u>PFRS</u>	<u>ERS</u>	<u>PFRS</u>
Differences between expected and actual experience	\$ 34,760	\$ 389,672	\$ 210,640	\$ 513,229
Change of assumptions	473,886	1,463,418	-	-
Net difference between projected and actual earnings on pension plan investments	277,061	443,633	-	-
Changes in proportion and differences between the City's contributions and proportionate share of contributions	20,320	2,546	172,693	366,697
City's contributions subsequent to the measurement date	<u>521,928</u>	<u>1,078,409</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,327,955</u>	<u>\$ 3,377,678</u>	<u>\$ 383,333</u>	<u>\$ 879,926</u>

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

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

	<u>ERS</u>	<u>PFRS</u>
Year ended:		
2018	\$ 213,894	\$ 495,936
2019	213,894	495,936
2020	203,568	462,825
2021	(208,662)	(92,575)
2022	-	57,221
Thereafter	-	-

**ACTUARIAL ASSUMPTIONS**

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

	<u>ERS</u>	<u>PFRS</u>
Inflation	2.5 %	2.5 %
Salary increases	3.8	4.5
Investment rate of return (net of investment expense, including inflation)	7.0	7.0
Cost of living adjustments	1.3	1.3
Decrement tables	April 1, 2010 - March 2015	April 1, 2010 - March 2015

Annuitant mortality rates are based on April 1, 2010 – March 31, 2015 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, 2016 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

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

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2017 for both ERS and PFRS are summarized below:

<u>Asset Class:</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	36.0 %	4.6 %
International equity	14.0	6.4
Private equity	10.0	7.5
Real estate	10.0	5.6
Absolute return strategies	2.0	3.8
Opportunistic portfolio	3.0	5.7
Real assets	3.0	5.3
Bond and mortgages	17.0	1.3
Cash	1.0	(0.3)
Inflation-indexed bonds	4.0	1.3
Total	<u>100.0 %</u>	

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

DISCOUNT RATE

The discount rate used to calculate the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially 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 7.0%, 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 (6.0%) or 1-percentage point higher (8.0%) than the current rate:

	1% Decrease (6%)	Current Assumption (7%)	1% Increase (8%)
<u>ERS</u>			
City's proportionate share of the net pension liability (asset)	\$ 4,430,137	\$ 1,387,104	\$ (1,185,774)
<u>PFRS</u>			
City's proportionate share of the net pension liability (asset)	\$ 8,421,066	\$ 2,970,454	\$ (1,601,274)

PENSION PLAN FIDUCIARY NET POSITION

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

	(Dollars in Thousands)		
	ERS	PFRS	Total
Employers' total pension liability	\$ 177,400,586	\$ 31,670,483	\$ 209,071,069
Plan net position	168,004,363	29,597,830	197,602,193
Employers' net pension liability	\$ 9,396,223	\$ 2,072,653	\$ 11,468,876
Ratio of plan net position to the employers' total pension liability	94.7%	93.5%	94.5%

**E. OTHER POSTEMPLOYMENT 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.

The City provides postemployment 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 and the Batavia Police Benevolent Association. 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.

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

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 value of assets, if any, is determined by the fair 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, 2018:

Annual required contribution (ARC)	\$	488,703
Interest on net OPEB obligation		154,368
Adjustment to ARC		(214,595)
Annual OPEB cost (expense)		<u>428,476</u>
Contributions for fiscal year ended March 31, 2018		<u>(476,941)</u>
Decrease in net OPEB obligation		<u>(48,465)</u>
Net OPEB obligation - beginning of year		<u>3,859,205</u>
Net OPEB obligation - end of year	\$	<u><u>3,810,740</u></u>
Percentage of expense contributed		111.31%

The City's annual OPEB cost, percentage of OPEB cost contributed to the Plan, and net OPEB obligation for the Plan for the current fiscal year ended March 31, 2018 and the two preceding years were as follows:

Fiscal Year	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2018	\$ 428,476	\$ 476,941	111.31%	\$ 3,810,740
2017	495,924	500,585	117.57%	3,859,205
2016	764,168	542,768	71.03%	3,934,010

FUNDED STATUS AND FUNDING PROGRESS

As of April 1, 2016, the most recent actuarial valuation, the actuarial accrued liability for benefits was \$6,015,804, 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 postemployment health insurance cost to the City for 27 retirees was \$420,904 for the year ended March 31, 2018.

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.



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

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**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, 2016 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 7.5 percent initially, reduced by decrements to an ultimate rate of 3.9 percent for participants under age 65 and 6.5 percent initially reduced by decrements to an ultimate rate of 3.9 percent for participants over age 65. Both rates included a 2.25 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**

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

The City considers encumbrances to be significant for amounts that are encumbered in excess of \$50,000. As of March 31, 2018, there were no significant encumbrances. The City recorded encumbrances of \$203,915 in the General Fund.

**CONSTRUCTION COMMITMENTS**

The City has ongoing construction capital projects related to various infrastructure throughout the City. For the fiscal year ended March 31, 2018, the City had the following construction commitments outstanding:

<u>Vendor</u>	<u>Project</u>	<u>Remaining Balance</u>
Erdman Anthony	TAP Healthy	\$ 93,160
Roman Contstruction	TAP Healthy	721,566
Labella	TAP Pedestrian Way	200,964
Erdman Anthony	TIP - Preventative Mainentance	306,485
D&H Construction	TIP - Preventative Mainentance	2,008,790
GHD	Grit Cyclone	15,487
Hohl Industries	Grit Cyclone	79,195
Freed Maxick	Summit Street	10,000
GHD	Water System - Union	12,500
	<b>Total</b>	<b>\$ 3,448,147</b>

COUNTY WATER AGREEMENT

During the year ended March 31, 2008, the City entered into an agreement with the 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, 2018 was \$5.12 per 1,000 gallons for the first 300,000 gallons. The rate was increased to \$5.30 per 1,000 gallons effective for water usage subsequent to March 31, 2018.

**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.

Third party insurance is maintained by the City with a stop loss for the health insurance plan in the amount of \$150,000 per event for the plan's fiscal year.

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, 2018, the City recorded liabilities in the amounts of \$75,313, \$8,198 and \$6,576 in the General, Water and Sewer Funds, respectively, for incurred but not reported insured events.

WORKERS' COMPENSATION PLAN

The City is independently self-insured for costs related to an employee workers' compensation plan (the Plan). The self-insured Plan's objectives are to formulate, develop, and administer a workers' compensation program to obtain lower costs for coverage, and to develop a comprehensive loss control program.

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, 2018, the City has recorded a liability for future costs associated with open claims of \$241,620. 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.

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

Changes in the reported liability since March 31, 2016 resulted from the following:

	Health Insurance	Workers' Compensation	Total
Estimated claims March 31, 2016	\$ 122,093	\$ 40,515	\$ 162,608
Claims incurred 2016-17	1,871,228	287,344	2,158,572
Payments 2016-17	(1,856,363)	(40,515)	(1,896,878)
Estimated claims March 31, 2017	\$ 136,958	\$ 287,344	\$ 424,302
Claims incurred 2017-18	1,302,841	51,827	1,354,668
Payments 2017-18	(1,349,712)	(97,551)	(1,447,263)
Estimated claims March 31, 2018	\$ 90,087	\$ 241,620	\$ 331,707

**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, 2018:

	Original Issue Date	Interest rate	Balance 04/01/17	Issued	Redemptions	Balance 3/31/2018
<b>Business-Type Activities</b>						
Sanitary Sewer System Improvements	2015	1.00%	\$ 3,405,000	\$ -	\$ 3,405,000	\$ -
Replacement of Water Treatment Roof	2015	1.00%	166,000	-	166,000	-
Total business-type activities			\$ 3,571,000	\$ -	\$ 3,571,000	\$ -

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

**H. 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, 2018 are as follows:

**Governmental 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 3/31/2018</u>
<u>General Obligation Bonds:</u>					
Dwyer and BID - Refunding	2011	\$ 1,200,000	2.0-3.125%	2020	\$ 365,000
City Centre - Refunding	2014	2,856,000	2.0-3.750%	2033	2,468,000
Various Projects	2005	1,795,000	4.0-5.000%	2021	330,000
					<u>\$ 3,163,000</u>

**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 3/31/2018</u>
<u>General Obligation Bonds:</u>					
State clean water and drinking water	1999	2,165,590	3.5-5.430%	2019	275,000
City Centre - Refunding	2014	714,000	2.0-3.750%	2033	617,000
Various Projects	2017	4,376,000	2.5-3.000%	2037	4,376,000
					<u>\$ 5,268,000</u>

**LEGAL DEBT MARGIN**

The City is subject to a debt limit that is 7.0 percent of the five-year average of the full valuation of taxable real property. At March 31, 2018, that amount was \$38,583,283. As of March 31, 2018, the total outstanding debt applicable to the limit was \$7,186,100 which is 18.62% of the total debt limit.

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

CHANGES IN LONG-TERM LIABILITIES

Changes in the government's long-term liabilities for the year ended March 31, 2018 are as follows:

	Balance 04/01/17	Additions	Reductions	Balance 3/31/2018	Due Within One Year
<b>Governmental Activities</b>					
Bonds Payable:					
General obligation bonds	\$ 3,526,000	\$ -	\$ 363,000	\$ 3,163,000	\$ 363,000
Unamortized premium	55,890	-	3,497	52,393	3,497
Total bonds payable	3,581,890	-	366,497	3,215,393	366,497
Due to other governments - Landfill	287,743	-	7,920	279,823	17,489
Installment purchase debt	561,743	-	101,609	460,134	107,102
Compensated absences	2,242,267	805,518	958,593	2,089,192	208,919
Net other postemployment benefit obligation	3,481,084	418,181	465,482	3,433,783	-
Net pension liability*	5,995,339	-	2,192,623	3,802,716	-
Governmental activities long-term liabilities	<u>\$ 16,150,066</u>	<u>\$ 1,223,699</u>	<u>\$ 4,092,724</u>	<u>\$ 13,281,041</u>	<u>\$ 700,007</u>

	Balance 04/01/17	Additions	Reductions	Balance 3/31/2018	Due Within One Year
<b>Business-Type Activities</b>					
Bonds Payable:					
General obligation bonds	\$ 1,054,000	\$ 4,376,000	\$ 162,000	\$ 5,268,000	\$ 378,000
Unamortized premium	13,972	-	874	13,098	874
Total bonds payable	1,067,972	4,376,000	162,874	5,281,098	378,874
Installment purchase debt	210,606	-	55,585	155,021	57,401
Compensated absences	439,008	44,434	134,458	348,984	34,898
Net other postemployment benefit obligation	378,121	10,296	11,460	376,957	-
Net pension liability*	1,051,373	-	496,531	554,842	-
Governmental activities long-term liabilities	<u>\$ 3,147,080</u>	<u>\$ 4,430,730</u>	<u>\$ 860,908</u>	<u>\$ 6,716,902</u>	<u>\$ 471,173</u>

\*Reductions to net pension liability are shown net of additions

As of March 31, 2018 there was \$4,210,000 in authorized but unissued bonds. These bonds were authorized for repair and installation of certain city street improvements (\$2,560,000), installation and construction of certain sidewalk improvements (\$900,000) and purchase and installation of management systems computer software (\$750,000).

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

**Governmental Activities**

Year ending March 31,	Bonds		Premium on Bonds	Installment Purchase Debt	
	Principal	Interest		Principal	Interest
2019	\$ 363,000	\$ 103,665	\$ 3,497	\$ 107,102	\$ 8,857
2020	362,000	91,930	3,497	107,983	6,775
2021	358,000	80,115	3,497	108,923	5,003
2022	140,000	69,860	3,497	108,007	2,582
2023	144,000	66,360	3,497	28,119	471
2024-2028	764,000	266,952	17,483	-	-
2029-2033	924,000	126,930	16,221	-	-
2034-2036	108,000	8,100	1,204	-	-
Total	<u>\$ 3,163,000</u>	<u>\$ 813,912</u>	<u>\$ 52,393</u>	<u>\$ 460,134</u>	<u>\$ 23,688</u>

Year ending March 31,	Total Governmental Activities	
	Principal	Interest
2019	\$ 470,102	\$ 112,522
2020	469,983	98,705
2021	466,923	85,118
2022	248,007	72,442
2023	172,119	66,831
2024-2028	764,000	266,952
2029-2033	924,000	126,930
2034-2036	108,000	8,100
Total	<u>\$ 3,623,134</u>	<u>\$ 837,600</u>

**Business-Type Activities**

Year ending March 31,	Bonds		Premium on Bonds	Installment Purchase Debt	
	Principal	Interest		Principal	Interest
2019	\$ 378,000	\$ 166,450	\$ 874	\$ 57,401	\$ 2,707
2020	408,000	125,460	874	42,744	1,652
2021	267,000	118,416	874	27,696	1,015
2022	280,000	112,441	874	27,180	503
2023	286,000	106,085	874	-	-
2024-2028	1,506,000	426,554	4,371	-	-
2029-2033	1,686,000	211,937	4,055	-	-
2034-2038	457,000	41,624	302	-	-
Total	<u>\$ 5,268,000</u>	<u>\$ 1,308,967</u>	<u>\$ 13,098</u>	<u>\$ 155,021</u>	<u>\$ 5,877</u>

Year ending March 31,	Total Business-Type Activities		Total Primary Government Debt	
	Principal	Interest	Principal	Interest
2019	\$ 435,401	\$ 169,157	\$ 905,503	\$ 281,679
2020	450,744	127,112	920,727	225,817
2021	294,696	119,431	761,619	204,549
2022	307,180	112,944	555,187	185,386
2023	286,000	106,085	458,119	172,916
2024-2028	1,506,000	426,554	2,270,000	693,506
2029-2033	1,686,000	211,937	2,610,000	338,867
2034-2038	457,000	41,624	565,000	49,724
Total	<u>\$ 5,423,021</u>	<u>\$ 1,314,844</u>	<u>\$ 9,046,155</u>	<u>\$ 2,152,444</u>

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

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**COMPENSATED ABSENCES**

As explained in Note 1, the City records the value of governmental and enterprise type compensated absences. The annual budgets of the respective funds of which the employees' payroll is recorded provide funding for these benefits as they become payable throughout the year. Payments by the City to liquidate compensated absences are typically from the funds in which the individuals are employed. These operating funds include General, Sewer and Water funds. Since the payment of compensated absences is dependent upon many factors, the timing of future payments is not readily determinable. While the payments of compensated absences are dependent upon many factors, the City has estimated that \$208,919 and \$34,898 for the governmental activities and business-type activities will be due within one year, respectively.

**OPEB OBLIGATION**

As explained in Note 3.E., the City records the value of other postemployment benefits. Payments by the City to liquidate other postemployment benefits are typically from the funds in which the individuals are employed. These operating funds include General, Sewer and Water Funds.

**NET PENSION LIABILITY**

The City reported a liability of \$3,802,716 and \$554,842 for the governmental activities and business-type activities, respectively for the year ended March 31, 2018 for its proportionate share of the net pension liability for the Police and Fire Retirement System and the Employee Retirement System. Refer to Note 3.D. for additional information related to the City's net pension liability. Payments by the City for retirement contributions are typically from funds in which the individuals are employed. These operating funds include General, Sewer and Water Funds.

**I. NET POSITION AND FUND BALANCE**

**NET POSITION**

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

*Net investment in capital assets* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and debt used to fund capital asset purchases reduce the balance in this category. The following presents a reconciliation of capital assets (net of accumulated depreciation), to net investment in capital assets:

	Governmental Activities	Business-type Activities
Capital assets, net of accumulated depreciation	\$ 23,040,414	\$ 28,047,777
Bonds payable used for capital assets	(3,163,000)	(5,268,000)
Unamortized debt premium	(52,393)	(13,098)
Installment purchase debt	(460,134)	(155,021)
Unspent debt proceeds	-	115,497
Net investment in capital assets	<u>\$ 19,364,887</u>	<u>\$ 22,727,155</u>

*Restricted net position* – This category presents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Restricted net position is consistent with restricted fund balances at March 31, 2018.

*Unrestricted net position* – This category represents net position of the City not restricted for any project or other purpose.

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

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**FUND BALANCE**

In the fund financial statements there are five classifications of fund balance:

Restricted – represents amounts with constraints placed on the use of resources and are either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

- *Restricted for retirement contribution* – represents funds set aside for any upcoming retirement contributions required of the City.
- *Restricted for employee benefit accrued liability* – represents funds set aside for compensated absences of City employees.
- *Restricted for insurance* – represents funds set aside for medical, workers' compensation and liability claims.
- *Restricted for capital projects* – represents funds to be used for construction, reconstruction and/or acquisition of capital improvements and equipment.
- *Restricted for repairs* – represents funds set aside to be used for repairs of Dwyer Stadium.
- *Restricted for Special Grant and Small Cities Funds* – represents funds that had restrictions externally imposed by the funding agency that provided funding for the loan programs administered by the City.

Committed – represents amounts that are subject to a purpose constraint imposed by a formal action of the City's highest level of decision-making authority.

Assigned – represents amounts that are constrained by the City's intent to be used for the specified purposes noted on next page, but are neither restricted nor committed.

Nonspendable – represents amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. As of March 31, 2018, the City had no nonspendable fund balances.

Unassigned – represents all amounts not included in other spendable classifications. The General Fund is the only fund that would report a positive amount in unassigned fund balance. Residual deficit amounts of other governmental funds would also be reported as unassigned.



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

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**DETAIL OF FUND BALANCES**

As of March 31, 2018, fund balances were classified as follows:

	General	Nonmajor Funds	Total
<u>Restricted:</u>			
Retirement contribution	\$ 272,190	\$ -	\$ 272,190
Employee benefit accrued liability	50,189	-	50,189
Insurance	716,313	-	716,313
Capital projects	3,044,624	-	3,044,624
Repairs	168,797	-	168,797
Small cities	-	134,426	134,426
Special grant	-	432,035	432,035
<u>Committed:</u>			
Master plan	100,000	-	100,000
BAN issuance costs	20,000	-	20,000
Vibrant Batavia	31,211	-	31,211
Habitat architect plans	17,400	-	17,400
Ellicott trail project	170,839	-	170,839
Creek Park	15,000	-	15,000
<u>Assigned:</u>			
Encumbrances:			
General government	61,934	-	61,934
Public safety	65,300	-	65,300
Transportation	9,298	-	9,298
Home and community	4,000	-	4,000
Economic assistance and opportunity	63,383	-	63,383
Subsequent years' expenditures	250,000	-	250,000
DPW equipment	150,000	-	150,000
Sidewalks	25,000	-	25,000
Administrative services equipment and software	75,000	-	75,000
Workers compensation	50,000	-	50,000
Police	5,000	-	5,000
Fire	40,000	-	40,000
Dwyer stadium	10,000	-	10,000
Facilities	50,000	-	50,000
Compensated absences	80,000	-	80,000
Retirement	75,000	-	75,000
Parking Lot	25,000	-	25,000
Self insurance	-	795,771	795,771
Mall maintenance	-	24,806	24,806
Capital projects	-	257,118	257,118
<u>Unassigned:</u>			
General fund	1,743,435	-	1,743,435
Total	\$ 7,388,913	\$ 1,644,156	\$ 9,033,069

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

**J. INTERFUND RECEIVABLES AND PAYABLES**

The composition of interfund balances as of March 31, 2018 is as follows:

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

Receivable Fund	Payable Fund	Amount
General	Capital	\$ 200,000
Capital	General	128,327
	Total	<u>\$ 328,327</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.

**K. INTERFUND TRANSFERS**

The composition of interfund transfers as of March 31, 2018, is as follows:

***Interfund transfers:***

Transfer out:	Transfer in:			
	General	Capital	Self Insurance	Total
General	\$ -	\$ 251,219	\$ 322,690	\$ 573,909
Water	200,000	-	43,820	243,820
Sewer	-	-	31,880	31,880
Capital	1,998	-	-	1,998
Total	<u>\$ 201,998</u>	<u>\$ 251,219</u>	<u>\$ 398,390</u>	<u>\$ 851,607</u>

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

**L. 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.

**M. AGENCY FUND**

An agency fund exists for the temporary deposit of funds that are custodial in nature. The following is a summary of changes in assets and liabilities for the year ended March 31, 2018:

	Balance 04/01/2017	Additions	Deductions	Balance 03/31/2018
<b>ASSETS</b>				
Cash and cash equivalents	\$ <u>200,678</u>	\$ <u>30,128</u>	\$ <u>18,982</u>	\$ <u>211,824</u>
<b>LIABILITIES</b>				
Agency liabilities	\$ <u>200,678</u>	\$ <u>30,128</u>	\$ <u>18,982</u>	\$ <u>211,824</u>

**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.

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 \$373,097. 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 \$279,823. As of March 31, 2018, a liability has been recorded in the Governmental activities funds for future maintenance and operation costs.

**NOTE 4 – TAX ABATEMENTS**

The Genesee Industrial Economic Development Agency d/b/a Genesee County Economic Development Corporation (the Agency), created by Chapter 565 of the Laws of 1970 of the State of New York pursuant to Title I of Article 18-A of General Municipal Law of the State of New York (collectively "the Act"), has seventeen real property tax abatement agreements with various businesses in the City under Section 412-a of the New York State Real Property Tax Law and Section 874 of the Act for the purpose of economic development in the City.

Generally, these agreements provide for a 100 percent abatement of real property taxes in exchange for a payment in lieu of taxes (PILOT) based on the requirements noted in said individual agreements. Should the property owner not comply with the policies and laws as set forth in each agreement, the PILOT will discontinue as outlined in each agreement.

As a result of these tax abatement agreements, for the year ended March 31, 2018, the City's total tax revenues were reduced by \$80,310.

Copies of the agreements may be obtained from the City Hall, One Batavia City Centre, Batavia, NY 14020.

**NOTE 5 – SUBSEQUENT EVENTS**

On May 3, 2018, the City issued a BAN in the amount of \$4,100,000. BAN proceeds to be used to fund repair and installation of certain city street improvements (\$2,550,000), installation and construction of certain sidewalk improvements (\$800,000) and purchase and installation of management systems computer software (\$750,000).

Management has evaluated subsequent events through September 12, 2018 which is the date the financial statements are available for issuance, and have determined there are no subsequent events, other than the event mentioned above, that require disclosure under generally accepted accounting principles.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

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**CITY OF BATAVIA, NEW YORK**  
**SCHEDULE OF FUNDING PROGRESS FOR RETIREE HEALTH PLAN**  
**FOR THE YEAR ENDED MARCH 31, 2018**

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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]
4/1/2016	\$ -	\$ 6,015,804	\$ 6,015,804	0.00%	Not available	Not available
4/1/2013	\$ -	\$ 9,225,643	\$ 9,225,643	0.00%	Not available	Not available
4/1/2010	\$ -	\$ 7,147,986	\$ 7,147,986	0.00%	Not available	Not available
4/1/2008	\$ -	\$ 9,222,599	\$ 9,222,599	0.00%	Not available	Not available

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

**CITY OF BATAVIA, NEW YORK**  
**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY –**  
**EMPLOYEES' AND POLICE AND FIRE RETIREMENT SYSTEMS**  
**LAST FOUR FISCAL YEARS\***

**EMPLOYEES' RETIREMENT SYSTEM**

	Year Ended March 31,			
	2015	2016	2017	2018
Mesurement date	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017
City's proportion of the net pension liability	0.0147147%	0.0147147%	0.0159768%	0.0147624%
City's proportionate share of the net pension liability	<u>\$ 664,938</u>	<u>\$ 497,099</u>	<u>\$ 2,564,323</u>	<u>\$ 1,387,104</u>
City's covered payroll	\$ 3,302,510	\$ 3,622,026	\$ 3,511,306	\$ 3,586,226
City's proportionate share of the net pension liability as a percentage of its covered payroll	20.13%	13.72%	73.03%	38.68%
Plan fiduciary net position as a percentage of the total pension liability	97.2%	97.9%	90.7%	94.7%

**POLICE AND FIRE RETIREMENT SYSTEM**

	Year Ended March 31,			
	2015	2016	2017	2018
Mesurement date	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017
City's proportion of the net pension liability	0.1488400%	0.1488400%	0.1513918%	0.1433166%
City's proportionate share of the net pension liability	<u>619,635</u>	<u>409,696</u>	<u>4,482,389</u>	<u>2,970,454</u>
City's covered payroll	4,612,109	4,182,948	4,432,386	4,722,442
City's proportionate share of the net pension liability as a percentage of its covered payroll	13.43%	9.79%	101.13%	62.90%
Plan fiduciary net position as a percentage of the total pension liability	100.7%	111.5%	90.2%	93.5%

\*Pension Schedules in the Required Supplemental Information are intended to show information for ten years, additional years' information will be displayed as it becomes available.



**CITY OF BATAVIA, NEW YORK**  
**SCHEDULE OF THE CITY'S CONTRIBUTIONS –**  
**EMPLOYEES' AND POLICE AND FIRE RETIREMENT SYSTEMS**  
**LAST TEN FISCAL YEARS FOR THE YEAR ENDED MARCH 31, 2018**

<b>EMPLOYEES' RETIREMENT SYSTEM</b>										
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Contractually required contribution	**	**	\$ 362,460	\$ 469,774	\$ 606,689	\$ 692,924	\$ 649,211	\$ 612,804	\$ 520,421	\$ 745,907
Contributions in relation to the contractually required contribution	**	**	\$ 362,460	\$ 469,774	\$ 606,689	\$ 692,924	\$ 649,211	\$ 612,804	\$ 520,421	\$ 745,907
Contribution deficiency (excess)	**	**	-	-	-	-	-	-	-	-
City's covered-employee payroll	**	**	\$ 3,567,469	\$ 3,371,941	\$ 3,495,890	\$ 3,302,510	\$ 3,622,026	\$ 3,511,306	\$ 3,586,226	\$ 3,704,225
Contributions as a percentage of covered-employee payroll	**	**	10%	14%	17%	21%	18%	17%	15%	20%
<b>POLICE AND FIRE RETIREMENT SYSTEM</b>										
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Contractually required contribution	**	**	\$ 900,035	\$ 740,124	\$ 1,156,334	\$ 677,447	\$ 1,213,742	\$ 877,335	\$ 1,023,988	\$ 1,532,230
Contributions in relation to the contractually required contribution	**	**	\$ 900,035	\$ 740,124	\$ 1,156,334	\$ 677,447	\$ 1,213,742	\$ 877,335	\$ 1,023,988	\$ 1,532,230
Contribution deficiency (excess)	**	**	-	-	-	-	-	-	-	-
City's covered-employee payroll	**	**	\$ 4,536,284	\$ 4,804,995	\$ 4,517,179	\$ 4,612,109	\$ 4,182,948	\$ 4,432,386	\$ 4,722,442	\$ 4,922,438
Contributions as a percentage of covered-employee payroll	**	**	20%	15%	26%	15%	29%	20%	22%	31%

\*Pension Schedules in the Required Supplemental Information are intended to show information for ten years, additional years' information will be displayed as it becomes available.

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

**CITY OF BATAVIA, NEW YORK**  
**BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND**  
**FOR THE YEAR ENDED MARCH 31, 2018**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance From Final Budget</b>
<b>REVENUES</b>				
Real property taxes	\$ 5,223,422	\$ 5,223,422	\$ 4,991,962	\$ (231,460)
Real property tax items	285,840	285,840	239,320	(46,520)
Sales and other taxes	6,510,000	6,510,000	6,746,744	236,744
Departmental income	229,464	235,464	289,237	53,773
Use of money and property	49,730	49,730	66,850	17,120
Licenses and permits	71,750	71,750	85,033	13,283
Fines and forfeitures	145,500	145,500	144,017	(1,483)
Sale of property and compensation for loss	2,900	2,900	125,751	122,851
Miscellaneous local sources	478,300	528,300	547,529	19,229
Federal and state sources	2,373,252	2,875,886	2,576,174	(299,712)
Total revenues	15,370,158	15,928,792	15,812,617	(116,175)
<b>EXPENDITURES</b>				
Current:				
General government	2,502,580	2,017,827	1,823,287	194,540
Public safety	8,764,710	8,256,425	7,725,625	530,800
Health	19,430	17,815	17,815	-
Transportation	2,487,629	2,397,364	2,113,606	283,758
Economic assistance	145,000	264,230	191,245	72,985
Culture and recreation	910,755	772,483	725,651	46,832
Home and community services	396,445	515,513	315,216	200,297
Refuse and recycling	64,990	71,871	71,870	1
Employee health benefits	9,140	1,818,311	1,581,911	236,400
Debt service:				
Principal	463,748	465,747	464,609	1,138
Interest	126,336	126,336	126,333	3
Total expenditures	15,890,763	16,723,922	15,157,168	1,566,754
Excess (deficit) of revenues over expenditures	(520,605)	(795,130)	655,449	1,450,579
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers in	200,000	200,000	201,998	1,998
Interfund transfers out	(322,690)	(571,005)	(573,909)	(2,904)
Total other financing sources (uses)	(122,690)	(371,005)	(371,911)	(906)
Net change in fund balance *	(643,295)	(1,166,135)	283,538	1,449,673
Fund balance - beginning of year	7,105,375	7,105,375	7,105,375	-
Fund balance - end of year	\$ 6,462,080	\$ 5,939,240	\$ 7,388,913	\$ 1,449,673

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

**BUDGETARY INFORMATION**

**1. BUDGETARY BASIS OF ACCOUNTING**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the General Fund and the special revenue funds (Self Insurance Fund, a nonmajor fund). The Capital Projects Fund is appropriated on a project-length basis. Budgetary comparison schedules are presented for the General Fund and for each major special revenue funds, however, budgetary information for the nonmajor funds is not considered required supplementary information and, therefore, is not presented. The Capital Projects Fund is appropriated on a project-length basis and the permanent fund do not have appropriated budgets since other means control the use of these resources (e.g., grant awards and endowment requirements), which 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. The City considers encumbrances to be significant for amounts that are encumbered in excess of \$50,000. As of March 31, 2018, there were no significant encumbrances.

**2. FACTORS AFFECTING TRENDS IN PENSIONS AND RETIREE HEALTH PLAN**

The City's proportionate share of the net pension liability of the pension systems is significantly dependent on the performance of the stock market and the funds that the retirement system invests in. In addition to this factor the discount factor has varied from 7.5% to 7.0% over the past four years. The City's retiree health plan most significant factor affecting the AAL is that the healthcare ultimate rate trend has decreased from a rate of 5.0% to 3.9% as of the most recent actuarial valuation. Inflation factor has decreased from 2.5% to 2.25%.

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## **SUPPLEMENTARY INFORMATION**

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**CITY OF BATAVIA, NEW YORK**  
**COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS**  
**MARCH 31, 2018**

		<b>Special Revenue Funds</b>				<b>Total</b>
	<b>Capital Projects</b>	<b>Self Insurance</b>	<b>Mall Maintenance Fund</b>	<b>Small Cities Fund</b>	<b>Special Grant Fund</b>	<b>Nonmajor Governmental Funds</b>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 146,600	\$ 1,042,152	\$ 16,593	\$ 67,933	\$ 362,388	\$ 1,635,666
Accounts receivable	-	146	34,833	-	-	34,979
Loan receivables (net of allowance for uncollectible accounts)	-	-	-	66,493	69,647	136,140
State and federal receivables	200,962	-	-	-	-	200,962
Due from other funds	128,327	-	-	-	-	128,327
Total assets	<u>\$ 475,889</u>	<u>\$ 1,042,298</u>	<u>\$ 51,426</u>	<u>\$ 134,426</u>	<u>\$ 432,035</u>	<u>\$ 2,136,074</u>
<b>LIABILITIES</b>						
Accounts payable	\$ 18,771	\$ 4,907	\$ 26,300	\$ -	\$ -	\$ 49,978
Accrued liabilities		241,620	320	-	-	241,940
Due to other funds	200,000	-	-	-	-	200,000
Total liabilities	<u>218,771</u>	<u>246,527</u>	<u>26,620</u>	<u>-</u>	<u>-</u>	<u>491,918</u>
<b>FUND BALANCES</b>						
Restricted	-	-	-	134,426	432,035	566,461
Assigned	257,118	795,771	24,806	-	-	1,077,695
Total fund balances	<u>257,118</u>	<u>795,771</u>	<u>24,806</u>	<u>134,426</u>	<u>432,035</u>	<u>1,644,156</u>
Total liabilities and fund balances	<u>\$ 475,889</u>	<u>\$ 1,042,298</u>	<u>\$ 51,426</u>	<u>\$ 134,426</u>	<u>\$ 432,035</u>	<u>\$ 2,136,074</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, 2018**

	<b>Special Revenue Funds</b>					<b>Total Nonmajor Governmental Funds</b>
	<b>Capital Projects</b>	<b>Self Insurance</b>	<b>Mall Maintenance Fund</b>	<b>Small Cities Fund</b>	<b>Special Grant Fund</b>	
<b>REVENUES</b>						
Special assessments	\$ -	\$ -	\$ 171,526	\$ -	\$ -	\$ 171,526
Sale of property and compensation for loss	-	45,724	-	-	-	45,724
Use of money and property	128	1,658	522	1,333	2,961	6,602
Miscellaneous local sources	-	-	-	984	-	984
Federal and state sources	263,271	-	-	-	-	263,271
	<u>263,399</u>	<u>47,382</u>	<u>172,048</u>	<u>2,317</u>	<u>2,961</u>	<u>488,107</u>
Total revenues	263,399	47,382	172,048	2,317	2,961	488,107
<b>EXPENDITURES</b>						
Current:						
General government	-	17,500	-	-	-	17,500
Economic assistance and opportunity	-	-	176,617	-	-	176,617
Home and community services	-	-	-	15,051	25,419	40,470
Employee benefits	-	112,809	-	-	-	112,809
Capital outlay:						
General government	88,455	-	-	-	-	88,455
Transportation	267,193	-	-	-	-	267,193
Home and community services	3,905	-	-	-	-	3,905
	<u>359,553</u>	<u>130,309</u>	<u>176,617</u>	<u>15,051</u>	<u>25,419</u>	<u>706,949</u>
Total expenditures	359,553	130,309	176,617	15,051	25,419	706,949
Excess (deficit) of revenues over expenditures	<u>(96,154)</u>	<u>(82,927)</u>	<u>(4,569)</u>	<u>(12,734)</u>	<u>(22,458)</u>	<u>(218,842)</u>
<b>OTHER FINANCING SOURCES</b>						
Interfund transfers in	251,219	398,390	-	-	-	649,609
Interfund transfers out	(1,998)	-	-	-	-	(1,998)
	<u>249,221</u>	<u>398,390</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>647,611</u>
Total other financing sources	249,221	398,390	-	-	-	647,611
Net change in fund balances	153,067	315,463	(4,569)	(12,734)	(22,458)	428,769
Fund balances - beginning	<u>104,051</u>	<u>480,308</u>	<u>29,375</u>	<u>147,160</u>	<u>454,493</u>	<u>1,215,387</u>
Fund balances - ending	<u>\$ 257,118</u>	<u>\$ 795,771</u>	<u>\$ 24,806</u>	<u>\$ 134,426</u>	<u>\$ 432,035</u>	<u>\$ 1,644,156</u>



## **INTERNAL CONTROL AND COMPLIANCE**

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**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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 12, 2018.

**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 City'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  
September 12, 2018

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