

NIAGARA FALLS WATER BOARD

**Basic Financial Statements,
Supplementary Information and
Independent Auditors' Report
December 31, 2017 and 2016**

NIAGARA FALLS WATER BOARD

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1 - 3
Management's Discussion and Analysis	4 - 10
Financial Statements:	
Statements of Net Position	11 - 12
Statements of Revenue, Expenses and Changes in Net Position	13
Statements of Cash Flows	14 - 15
Notes to Financial Statements	16 - 42
Other Supplementary Information:	
Schedule 1 - Niagara Falls Water Authority Statements of Net Position	43
Schedule 2 - Niagara Falls Water Authority Statements of Revenue, Expenses and Changes in Net Position	44
Required Supplementary Information:	
Schedule of Funding Progress Other Postemployment Benefits Plan	45
Schedule of Proportionate Share of the Net Pension Liability	46
Schedule of Employer Pension Contributions	47
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters, Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	48 - 49
Schedule of Findings and Responses	50
Status of Prior Year Audit Findings	51

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Niagara Falls Water Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the Niagara Falls Water Board (the Board) as of and for the years ended December 31, 2017 and 2016, and the related notes to financial statements, which collectively comprise the Board'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 an opinion on these financial statements based on our audits. We conducted our audits 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 audits 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 Board'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 Board'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Niagara Falls Water Board, as of December 31, 2017 and 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10, and the required supplementary information as listed in the table of contents on pages 45 to 47 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 Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Niagara Falls Water Board's basic financial statements. The accompanying other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information 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 audits of the 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 information 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 April 23, 2018, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Board's internal control over financial reporting and compliance.

EFPR Group, CPAs, PLLC

Williamsville, New York
April 23, 2018

NIAGARA FALLS WATER BOARD
Management's Discussion and Analysis
December 31, 2017 and 2016

As management of the Niagara Falls Water Board (the Board), we offer readers of the Board's financial statements this narrative and analysis of the financial activities of the Board for the years ended December 31, 2017 and 2016.

Following this Management's Discussion and Analysis (MD&A) are the financial statements of the Board together with the notes thereto. Please read the MD&A in conjunction with the Board's financial statements and the accompanying notes in order to obtain a full understanding of the Board's financial position and results of operations.

The Board was created by an Act of the State of New York, as more fully described in note 1 to the financial statements, and commenced operations on September 25, 2003. In accordance with an agreement with the City of Niagara Falls, New York (the City) the Board received all assets, liabilities and operating activities (including all personnel) of the City's former Water and Sewer Funds. In return, the Board issued debt, which was used to defease outstanding City bonded debt relating to its Water and Sewer Funds.

Financial Highlights

- The assets and deferred outflows of the Board exceeded its liabilities and deferred inflows by \$55,546,505 and \$57,593,867 (net position) at December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, \$1,679,945 and \$481,805 (unrestricted net position), respectively, may be used to meet the Board's ongoing obligations.
- The Board's operating income for the years ended December 31, 2017 and 2016 was \$937,446 and \$2,174,422, respectively.
- The Board's total bond indebtedness decreased by \$3,909,753 during the current fiscal year, as a result of principal payments made of \$3,780,000 and premium amortization of \$129,753.
- The Board reflected a liability for postemployment benefits of \$27,393,994 and \$24,142,395 at December 31, 2017 and 2016, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Board's basic financial statements which include the financial activities of the Board, and its blended component unit, the Niagara Falls Public Water Authority (the Authority). The reasons for blending the financial activities are explained in note 1 to the financial statements. An overview of the responsibilities of the Board and the Authority is presented as follows.

<u>Board</u>	<u>Authority</u>
* Owns the System	* Issues debt
* Operates and maintains the System	* Provides proceeds of debt for construction and improvements
* Responsible for System improvements	* Provides oversight regarding adequacy of revenues and System conditions
* Sets rates and collects revenues	
* Pays debt service on bonds	

NIAGARA FALLS WATER BOARD
Management's Discussion and Analysis, Continued

The financial statements are designed to provide readers with a broad overview of the Board's finances in a manner similar to a private-sector business, and are organized as follows:

- The statement of net position presents information on all of the Board's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.
- The statement of revenue, expenses and changes in net position presents information on how the Board's net position changed during the reporting period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows for future fiscal periods (e.g., uncollected water and sewer rents, earned but unused vacation and postemployment benefits).
- The statement of cash flows presents information depicting the Board's cash flow activities for the reporting period and the effect that these activities had on the Board's cash and equivalent balances.
- The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 16 through 42 of this report.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Board's financial position. Assets and deferred outflows exceeded liabilities and deferred inflows by \$55,546,505 at December 31, 2017, as compared to \$57,953,867 at December 31, 2016, as presented as follows:

	<u>December 31,</u>		<u>Increase/(Decrease)</u>	
	<u>2017</u>	<u>2016</u>	<u>Dollars</u>	<u>Percent</u>
Current assets	\$ 33,805,510	28,334,663	5,470,847	19.34%
Noncurrent assets	<u>152,388,407</u>	<u>159,604,658</u>	<u>(7,216,251)</u>	(4.52%)
Total assets	<u>186,193,917</u>	<u>187,939,321</u>	<u>(1,745,404)</u>	(0.93%)
Deferred outflows	<u>1,415,110</u>	<u>2,485,058</u>	<u>(1,069,948)</u>	(43.06%)
Current liabilities	9,890,152	8,866,689	1,023,463	11.54%
Noncurrent liabilities	<u>120,932,772</u>	<u>122,599,820</u>	<u>(1,667,048)</u>	(1.36%)
Total liabilities	<u>130,822,924</u>	<u>131,466,509</u>	<u>(643,585)</u>	(0.49%)
Deferred inflows	<u>1,239,598</u>	<u>1,364,003</u>	<u>(124,405)</u>	(9.12%)

NIAGARA FALLS WATER BOARD
Management's Discussion and Analysis, Continued

	December 31,		Increase/(Decrease)	
	<u>2017</u>	<u>2016</u>	<u>Dollars</u>	<u>Percent</u>
Net investment in capital assets	\$ 20,904,136	18,908,087	1,996,049	10.56%
Restricted	32,962,424	38,203,975	(5,241,551)	(13.72%)
Unrestricted	<u>1,679,945</u>	<u>481,805</u>	<u>1,198,140</u>	248.68%
Total net position	<u>\$ 55,546,505</u>	<u>57,593,867</u>	<u>(2,047,362)</u>	(3.55%)

The Board's net investment in capital assets, is a surplus net position of \$20,904,136 and \$18,908,087 at December 31, 2017 and 2016, respectively. This results from the timing of the amortization of the Board's capital debt, as outstanding principal for most of the Board's serial bonds is not paid until late into the life of the debt, while depreciation occurs annually.

The Board's unrestricted net position was \$1,679,945 and \$481,805 at December 31, 2017 and 2016, respectively. These assets are not limited as to how and for what they may be used. The restricted debt service portion of the Board's net position \$3,799,654 and \$22,906,531 at December 31, 2017 and 2016, respectively, represents funds that are set aside to be used towards debt service. The restricted capital projects portion of the Board's net position \$13,617,444 and \$15,297,444 at December 31, 2017 and 2016, respectively, represents funds that are set aside primarily for the reconstruction of the Falls Street Tunnel. The restricted debt reserve fund portion of the Board's net position \$8,822,394 and \$0 at December 31, 2017 and 2016, respectively, represents funds for future debt service payments. The restricted operating and maintenance reserve fund portion of the Board's net position was \$6,722,932 at December 31, 2017 and 2016, respectively, represents funds to pay the cost of extraordinary repairs to and maintenance of the system.

The Board's unrestricted net position is the remainder of total net position after taking net investment in capital assets, restricted for capital projects, restricted for operations and maintenance and restricted for debt related reserves into account. Unrestricted net position increased in 2017 by \$1,198,140 because of an increase in net investment in capital assets of \$1,996,049, a decrease of \$5,241,551 in restricted and a \$2,047,362 loss.

A comparison of current assets to current liabilities of the Board at December 31, 2017 and 2016 follows:

	<u>2017</u>	<u>2016</u>
Current assets	\$ 33,805,510	28,334,663
Current liabilities	<u>9,890,152</u>	<u>8,866,689</u>
Ratio of current assets to current liabilities	<u>3.42</u>	<u>3.20</u>

The Board's total net position decreased by \$2,047,362 during the year ended December 31, 2017, as compared to a decrease of \$1,324,667 for the year ended December 31, 2016. Key elements of the current year's decrease in net position are as follows:

NIAGARA FALLS WATER BOARD
Management's Discussion and Analysis, Continued

Niagara Falls Water Board's Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>Increase/ (decrease)</u>
Total operating revenue	\$ 30,152,829	30,380,370	(227,541)
Total operating expenses	<u>(29,215,383)</u>	<u>(28,205,948)</u>	<u>(1,009,435)</u>
Operating income	937,446	2,174,422	(1,236,976)
Total non-operating revenue (expenses)	<u>(2,984,808)</u>	<u>(3,499,089)</u>	<u>514,281</u>
Change in net position	\$ <u>(2,047,362)</u>	<u>(1,324,667)</u>	<u>(722,695)</u>

The Board's major sources of operating revenue are charges for water and sewer services which comprise approximately 98% of total operating revenue. These revenues combined comprise an approximate \$0.4 million decrease in operating revenue in 2017. These revenues are dependent upon rates charged for these services, with such rates being determined by the Board. Please see the section entitled "Economic Factors and Next Year's Rates" within this MD&A for a listing of the rates charged during 2017 and approved rates for 2018.

The Board's largest operating expense area relates to its employees. Together, personnel costs (salaries) and employee benefits approximate 49% of all operating expenses. In 2017, these costs totaled approximately \$14.2 million as compared to \$12.9 million in 2016, representing an approximate 10% increase in this area. This increase is due to the increase in personnel costs and related benefits.

Within the non-operating revenue (expenses) category, interest expense is by far the largest expense item and represents the cost of carrying serial bonds totaling \$95,295,000 and \$99,075,000 at December 31, 2017 and 2016, respectively.

The following is a summary of the Board's cash flow activities for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Cash flows provided by (used in):		
Operating activities	\$ 11,176,527	12,982,848
Capital and related financing activities	(10,866,428)	(14,898,155)
Investing activities	<u>5,701,260</u>	<u>(1,679,773)</u>
Net increase (decrease) in cash and equivalents	6,011,359	(3,595,080)
Cash and equivalents at beginning of year	<u>17,411,381</u>	<u>21,006,461</u>
Cash and equivalents at end of year	\$ <u>23,422,740</u>	<u>17,411,381</u>

The Board's available cash and equivalents increased by \$6,011,359 during the year ended December 31, 2017, as compared to a decrease of \$3,595,080 during the year ended December 31, 2016. Cash provided by operating activities reflected a positive balance of \$11,176,527 for the year ended December 31, 2017.

NIAGARA FALLS WATER BOARD
Management's Discussion and Analysis, Continued

Capital Assets and Debt Administration

Capital Assets - The Board's investment in capital assets (net of accumulated depreciation) as of December 31, 2017, amounted to \$119,425,983, as compared to \$121,400,683 at December 31, 2016. This includes land, plant and transmission (infrastructure type assets), machinery and equipment, and construction in progress. The Board's greatest investment in capital assets comes in the form of infrastructure. Significant factors affecting capital assets during the reporting period include:

- The Board recorded total additions to capital assets of \$4,611,681.
- Construction in progress increased by \$4,045,931, and decreased by \$4,521,106 which represents completed capital projects transferred to their applicable asset categories.
- The Board recorded total depreciation of \$6,111,206 and \$6,001,279 for the years ended December 31, 2017 and 2016, respectively.

A summary of capital assets, net of depreciation where applicable, is as follows:

	<u>2017</u>	<u>2016</u>
Nondepreciable assets:		
Land	\$ 463,713	463,713
Construction in progress	6,991,440	7,466,615
Depreciable assets:		
Plant and transmission assets (water system)	47,712,419	50,482,739
Plant and transmission assets (wastewater system)	60,173,970	58,965,883
Machinery and equipment	<u>4,084,441</u>	<u>4,021,733</u>
Total	\$ <u>119,425,983</u>	<u>121,400,683</u>

Construction in progress represents ongoing capital construction which will be transferred to the appropriate asset category (and begin to be depreciated) upon completion.

More detailed information about the Board's capital assets is presented in the notes to financial statements.

Serial Bonds - At December 31, 2017, the Board had outstanding serial bonds totaling \$95,295,000, as compared to \$99,075,000 at December 31, 2016. During the year ended December 31, 2017, the Board made principal payments of \$3,780,000 on these bonds.

The Board used bond debt to finance the original purchase of the assets (net of liabilities and including the water, sewer and storm water systems) from the City. In the future, the Board may utilize bond debt issuances as a primary source of funds for construction, renovations and system improvements.

Postemployment Benefits - Upon retirement, the Board's employees are entitled to continuous health insurance coverage. At December 31, 2017 and 2016, the liability recorded for these benefits amounted to \$27,393,994 and \$24,142,395, respectively. The unfunded actuarial accrued liability is \$64,724,770 and \$69,856,462 at December 31, 2017 and 2016, respectively.

NIAGARA FALLS WATER BOARD

Management’s Discussion and Analysis, Continued

Compensated Absences - Upon separation, Board employees are entitled to payment of unused sick and vacation time. The total liability relating to these payments at December 31, 2017 is \$701,680, compared to \$798,111 at December 31, 2016. The timing of the payments relating to compensated absences is dependent upon many factors, including the retirement or separation from service, and is therefore difficult to predict; however, the Board estimates that \$35,084 of such liability is current at December 31, 2017.

Economic Factors and Next Year’s Rates

As noted earlier, the Board’s largest sources of operating revenues are water and sewer rents from customers. These revenues result from rates charged based on water usage by the individual customer. Rates can be adjusted accordingly in order to help meet the expenses of the Board. When considering rate changes, the Board utilizes the services of a rate consultant to help forecast the magnitude and effects of potential changes. As required by law, the general public’s opinions are also taken into consideration, through public hearings, when contemplating a change in rates charged for services. Water rates charged for 2017 and approved rates to be charged for 2018 are as follows:

<u>Amount Consumed</u>	<u>2017</u>		<u>2018</u>	
	Amount to be charged (per 100 cubic feet)		Amount to be charged (per 100 cubic feet)	
	<u>Inside city</u>	<u>Outside city</u>	<u>Inside city</u>	<u>Outside city</u>
First 20,000 cubic feet per quarter	3.27	8.74	3.35	8.95
Next 60,000 cubic feet per quarter	2.83	7.63	2.90	7.81
Next 120,000 cubic feet per quarter	2.40	6.36	2.46	6.51
Over 200,000 cubic feet per quarter	1.99	5.35	2.04	5.48
Minimum charge for water consumption per quarter	42.51	113.62	43.53	116.35

NIAGARA FALLS WATER BOARD
Management's Discussion and Analysis, Continued

In addition to the above schedule of rates for water consumed, a demand charge is assessed for each user's meter, as set forth below:

<u>Size and Type</u>	<u>2017 Rate</u> (per quarter)	<u>2018 Rate</u> (per quarter)
Under 1" Disc	\$ 3.70	3.70
1" Disc	25.00	25.00
2" Disc	40.00	40.00
2" Compound	40.00	40.00
3" Compound	50.00	50.00
4" Compound	100.00	100.00
6" Compound	220.00	220.00
8" Compound	250.00	250.00
10" Compound	275.00	275.00
12" Compound	400.00	400.00

In addition to charging for water consumption and services, the Board also charges users with respect to sewer and wastewater services provided. All users have been divided into two "user classes" - Commercial/Small Industrial/Residential Users (CSIRU) and Significant Industrial Users (SIU).

Sewer rates for the CSIRU class are determined by the total metered water consumption in each quarter. Rates charged for 2017 and rates to be charged during 2018 are as follows:

<u>Amount Consumed</u>	<u>2017</u>	<u>2018</u>
Minimum charge per quarter (up to 1,300 cubic feet)	\$ 56.29	57.64
Additional usage in excess of 1,300 cubic feet (\$/cubic feet)	4.33	4.43

Sewer rates for the SIU class are determined each quarter based on the actual measured quantities and composition of wastewater flow. Such rates are determined by the Board and are based upon five representative 24-hour composite samples taken quarterly. Rates for the SIU class for the year ended December 31, 2017 and approved for 2018 were \$3,042 per million gallons for wastewater flow; \$0.98 per pound for all suspended solids discharged; and \$1.69 per pound for all soluble organic carbon compounds discharged. In addition, SIU's are charged fees, as needed, for certain other "substances of concern" which are discharged in their wastewater.

Contacting the Board's Financial Management

This financial report is designed to provide taxpayers, customers, and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ms. Kendra Walker, Michael O'Laughlin Municipal Water Plan, 5815 Buffalo Avenue, Niagara Falls, New York 14304.

NIAGARA FALLS WATER BOARD
 Statements of Net Position
 December 31, 2017 and 2016

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and equivalents	\$ 23,422,740	17,411,381
Accounts receivable, net of allowance for uncollectible accounts	8,669,935	8,921,060
Due from other governments	1,340,184	1,462,940
Prepaid expenses	372,651	367,060
Note receivable - current portion	-	172,222
Total current assets	<u>33,805,510</u>	<u>28,334,663</u>
Noncurrent assets:		
Restricted cash and investments - capital projects	13,617,444	15,297,444
Restricted cash and investments - debt service fund	3,799,654	22,906,531
Restricted cash and investments - debt service reserve fund	8,822,394	-
Restricted cash and investments - operating and maintenance reserve	6,722,932	-
Capital assets:		
Land	463,713	463,713
Waste and waste water system	170,159,589	166,218,980
Machinery and equipment	8,321,180	7,650,108
Construction in progress	6,991,440	7,466,615
Less accumulated depreciation	(66,509,939)	(60,398,733)
Total capital assets, net of accumulated depreciation	<u>119,425,983</u>	<u>121,400,683</u>
Total noncurrent assets	<u>152,388,407</u>	<u>159,604,658</u>
Total assets	<u>186,193,917</u>	<u>187,939,321</u>
<u>Deferred Outflows of Resources</u>		
Pensions	<u>1,415,110</u>	<u>2,485,058</u>

(Continued)

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD
Statements of Net Position, Continued

<u>Liabilities</u>	<u>2017</u>	<u>2016</u>
Current liabilities:		
Accounts payable	\$ 1,679,879	1,032,439
Accrued liabilities	2,262,617	1,936,566
Overpayments	3,000	-
Current portion of noncurrent liabilities:		
Compensated absences	35,084	76,550
Postemployment benefits	1,994,572	2,041,134
Bonds payable	<u>3,915,000</u>	<u>3,780,000</u>
Total current liabilities	<u>9,890,152</u>	<u>8,866,689</u>
Noncurrent liabilities:		
Compensated absences	666,596	721,561
Postemployment benefits	25,399,422	22,101,261
Bonds payable	93,575,003	97,619,756
Net pension liability - proportionate share - ERS System	<u>1,291,751</u>	<u>2,157,242</u>
Total noncurrent liabilities	<u>120,932,772</u>	<u>122,599,820</u>
Risk management and contingent liabilities (note 12)	<u> </u>	<u> </u>
Total liabilities	<u>130,822,924</u>	<u>131,466,509</u>
<u>Deferred Inflows of Resources</u>		
Pensions	207,754	271,163
Gain on refunding	<u>1,031,844</u>	<u>1,092,840</u>
Total deferred inflows of resources	<u>1,239,598</u>	<u>1,364,003</u>
<u>Net Position</u>		
Net investment in capital assets	20,904,136	18,908,087
Restricted for capital projects	13,617,444	15,297,444
Restricted for debt service fund	3,799,654	22,906,531
Restricted for debt service reserve fund	8,822,394	-
Restricted for operating and maintenance	6,722,932	-
Unrestricted	<u>1,679,945</u>	<u>481,805</u>
Total net position	<u>\$ 55,546,505</u>	<u>57,593,867</u>

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD
Statements of Revenue, Expenses and Changes in Net Position
Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenue:		
Water rents and charges	\$ 10,201,166	10,857,206
Sewer rents and charges	19,430,827	19,147,911
Licenses and permits	227,396	240,670
Other services	<u>293,440</u>	<u>134,583</u>
Total operating revenue	<u>30,152,829</u>	<u>30,380,370</u>
Operating expenses:		
Personnel costs	5,432,579	4,942,509
Contractual expenses	8,928,037	9,271,978
Employee benefits	8,743,561	7,990,182
Depreciation expense	<u>6,111,206</u>	<u>6,001,279</u>
Total operating expenses	<u>29,215,383</u>	<u>28,205,948</u>
Operating income	<u>937,446</u>	<u>2,174,422</u>
Non-operating revenue (expenses):		
Use of money and property	459,709	525,688
Gain on sale of property	11,039	33,974
Interest expense	(3,455,556)	(3,840,715)
Debt issuance costs	<u>-</u>	<u>(218,036)</u>
Total non-operating revenue (expenses)	<u>(2,984,808)</u>	<u>(3,499,089)</u>
Change in net position	(2,047,362)	(1,324,667)
Net position at beginning of year	<u>57,593,867</u>	<u>58,918,534</u>
Net position at end of year	<u>\$ 55,546,505</u>	<u>57,593,867</u>

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD
Statements of Cash Flows
Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 30,701,932	33,105,558
Payments to suppliers	(8,686,164)	(9,816,935)
Payments to employees	<u>(10,839,241)</u>	<u>(10,305,775)</u>
Net cash provided by operating activities	<u>11,176,527</u>	<u>12,982,848</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of bonds	-	20,130,000
Gain on sale of property	11,039	33,974
Disposal of capital assets	-	(30,102)
Acquisition of capital assets	(3,736,530)	(6,289,104)
Debt issuance costs	-	(218,036)
Acquisition of premium on capital debt	-	2,335,569
Acquisition of deferred gain on refunding	-	1,092,840
Amortization of deferred gain on refunding	(60,996)	-
Amortization of premium on capital debt	(129,753)	(845,789)
Principal paid on capital debt	(3,780,000)	(26,770,000)
Interest paid on capital debt	<u>(3,170,188)</u>	<u>(4,337,507)</u>
Net cash used in capital and related financing activities	<u>(10,866,428)</u>	<u>(14,898,155)</u>
Cash flows from investing activities:		
Interest earned	459,709	525,688
Change in restricted cash and investments - debt service reserve fund	19,106,877	(2,205,461)
Change in restricted cash and investments - capital projects	1,680,000	-
Change in restricted cash and investments - debt service reserve fund	(8,822,394)	-
Change in restricted cash and investments - operating and maintenance	<u>(6,722,932)</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>5,701,260</u>	<u>(1,679,773)</u>
Net change in cash and equivalents	6,011,359	(3,595,080)
Cash and equivalents at beginning of year	<u>17,411,381</u>	<u>21,006,461</u>
Cash and equivalents at end of year	<u>\$ 23,422,740</u>	<u>17,411,381</u>

(Continued)

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD
Statements of Cash Flows, Continued

	<u>2017</u>	<u>2016</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 937,446	<u>2,174,422</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	6,111,206	6,001,279
Changes in:		
Accounts receivable	251,125	3,494,798
Due from other governments	122,756	(968,780)
Prepaid expenses	(5,591)	87,014
Note receivable	172,222	201,069
Accounts payable	247,464	(131,971)
Accrued liabilities	40,683	(855,364)
Overpayments	3,000	(1,899)
Awards payable	-	(500,000)
Compensated absences	(96,431)	(38,603)
Postemployment benefits	3,251,599	3,257,635
Net pension liability	(865,491)	1,678,861
Deferred outflows - pensions	1,069,948	(1,686,776)
Deferred inflows - pensions	<u>(63,409)</u>	<u>271,163</u>
Total adjustments	<u>10,239,081</u>	<u>10,808,426</u>
Net cash provided by operating activities	<u>\$ 11,176,527</u>	<u>12,982,848</u>
Supplemental schedule of cash flow information - adjustment for capital assets financed by accounts payable	<u>\$ 873,196</u>	<u>473,220</u>

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD

Notes to Financial Statements

December 31, 2017 and 2016

(1) Summary of Significant Accounting Policies

The financial statements of the Niagara Falls Water Board (the Board) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. Included in the Board's reporting entity is a blended component unit, the Niagara Falls Public Water Authority (the Authority).

(a) Reporting Entity

The Board was created by Chapter 325 of the Laws of 2002 of the State of New York (the State), codified as Sections 1231-a of Title 10-C of Article 5 of the Public Authorities Law of the State, as amended (the Board Act). The Authority was created by Chapter 275 of the Laws of 2002 of the State, constituting the Niagara Falls Public Water Authority Act, codified as Sections 1230-a through 1230-aa of Title 10-B of Article 5 of the Public Authorities Law of the State, as amended (the Authority Act).

The Board is a corporate municipal instrument of the State consisting of five members primarily responsible for the jurisdiction, control, possession, supervision and use of water, wastewater and storm water systems within the City of Niagara Falls, New York (the City).

The Authority is a public benefit corporation consisting of three members and is primarily responsible for obtaining financing for water, wastewater and storm water systems within the City.

Board members for both the Board and Authority are appointed pursuant to the enabling legislation.

Pursuant to the Board Act and the Authority Act, the Board, the Authority and the City executed an acquisition agreement effective September 25, 2003 whereby the Authority issued bonds enabling the Board to purchase all of the assets, net of liabilities, of the City's public water, wastewater and storm water systems. The Board began operations of these systems on that date.

Currently there are approximately 19,535 residential, 329 commercial and 23 large industrial type customers. Total population served by the water system is estimated at 51,000. The average daily demand is 20.1 million gallons per day. The Board's wastewater system generally covers the same service area and customer base as the water system. The wastewater treatment plant processes approximately 29.3 million gallons of wastewater per day.

Blended Presentation of Component Unit - Although they are legally separate entities, blended component units are, in substance, part of the government's operations. The following is a brief description of the blended component unit included in the primary government.

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(a) Reporting Entity, Continued

Niagara Falls Public Water Authority - Among the powers given to the Authority is the ability to borrow money and issue negotiable or non-negotiable notes, bonds or other obligations for the acquisition, renovation and improvement to the regional water system.

The Authority may also apply for licenses, permits and approval of plans associated with the acquisition, renovation and improvement of the regional water system. In the process of borrowing funds to improve facilities, professional consultants may be retained to offer technical services and advice for the purpose and benefit of acquiring or improving the systems.

The Authority has entered into an agreement with the Board to make payments for the debt service required by these bonds. The Board is also required to make payments for Authority expenses. The obligation to make debt service is a general obligation to which its full faith and credit are pledged.

The Authority is considered a component unit since the Board is obligated to pay debt service and fund other accounts of the Authority. Thus, the Authority is “fiscally dependent” upon the Board to establish rates and collect fees necessary to pay these debts. Further, the Authority is “blended” with the Board in the financial statements because the Authority exists solely to provide services that predominantly benefit the Board.

(b) Measurement Focus and Basis of Accounting

The financial statements of the Board have been prepared in accordance with GAAP as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting principles.

The activities of the Board are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, deferred outflows of resources, deferred inflows of resources, net position, revenues, and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

Revenues from providing water and sanitary sewer services are reported as operating revenues. Transactions which are capital, financing or investing related are reported as non-operating revenues. All expenses related to operating systems are reported as operating expenses. Interest expense and financing costs are reported as non-operating expenses.

(c) Budgets

The annual budget is the financial plan for the effective operation of the Board and the Authority. The Board uses the budget as a management tool for internal control purposes and to assist in setting of appropriate user charges.

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(d) Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

- Cash and Equivalents - The Board's cash and equivalents represent cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.
- Restricted Cash and Investments - Capital Projects - In 2007, the Board received \$19,000,000 from the New York State Power Authority (the Power Authority) which is restricted for capital improvement projects including, but not limited to, the Falls Street Tunnel. At December 31, 2017 and 2016, the total amount restricted for capital projects amounted to \$13,617,444 and \$15,297,444, respectively.
- Restricted Cash and Investments - Debt Service Fund - As a result of the purchase of the water and sewer systems from the City, certain bond covenants, as disclosed in note 6, were established requiring resources (consisting of cash and investments) to be maintained for specific purposes necessary to operate the water and sewer systems.

Cash has been deposited into various trust funds with a fiscal agent to satisfy certain covenants. Further, the amounts have been invested into various short-term investments in compliance with the Board's investment policy. Certain funds were used for their intended purposes and are no longer available for investment.

- Restricted Cash and Investments - Debt Service Reserve Fund - This fund was established to fulfill the debt service reserve requirements on the outstanding bonds as and when they become due.
- Restricted Cash and Investments - Operating and Maintenance - This fund is restricted to pay the cost of extraordinary repairs to and maintenance of the system.
- Fair Value Measurements and Disclosures
A framework has been established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:
 - Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Board has the ability to access.

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(d) Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, Continued

- Level 2 - Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the assets or liabilities; and
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodologies used at December 31, 2017.

The following is a description of the valuation methodologies used for assets measured at fair value.

Mutual funds and equities - Valued at the closing price reported on the active market in which the individual securities are traded.

Corporate and government bonds - Valued at the closing price reported on the active markets in which the individual securities are traded.

The Board assess the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with its accounting policy regarding the recognition of transfers between levels of the fair value hierarchy.

- Accounts Receivable - All receivables are reported at their gross values and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The Board has adopted a policy of recognizing water and sewer revenues in the period in which the services are provided. Billings to customers generally consist of revenues earned from the prior three months for quarterly billed customers, and revenues earned from the prior month for monthly billed customers.

The collection of current water and sewer charges is performed by the Board. The City, acting as collecting agent for the Board, collects delinquent water and sewer charges.

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(d) Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, Continued

- Prepaid Expenses - Prepaid expenses reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.
- Capital Assets - Capital assets acquired by the Board as part of the September 25, 2003 acquisition agreement with the City were reported at fair value on the acquisition date. Capital assets acquired by the Board subsequent to the initial acquisition are stated at cost including interest capitalized during construction, where applicable. Costs include material, direct labor and other items such as supervision, payroll taxes, employee benefits, transportation, and certain preliminary legal, engineering and survey costs. The costs of repairs and maintenance are expensed as incurred. Contributed fixed assets are recorded at fair market value at the date received.

Construction projects are conducted on a continuing basis in order to maintain or enhance the systems. Preliminary legal, engineering and survey costs include studies conducted prior to the actual construction period that directly result in specific construction projects. While capital projects are in process, all associated costs are recorded as construction in progress. Once completed, all costs, including legal, engineering, survey and construction costs, are reclassified to their respective asset categories and depreciated according to their useful lives.

Depreciation has been recorded using the straight-line method of depreciation. The estimated useful lives of the Board's major classes of depreciable assets are based on the utility of the respective assets. The estimated useful lives of depreciable fixed assets are as follows:

<u>Assets</u>	<u>Years</u>
Land	N/A
Plant and transmission assets	25 - 50
Machinery and equipment	5 - 20

- Compensated Absences - Board employees are granted vacation and sick leave and earn compensatory absences in varying amounts. In the event of termination or upon retirement, all union employees are entitled to payment for accumulated vacation and compensatory time limited to amounts defined under their respective collectively bargained agreements. All non-union employees are entitled to similar benefits as defined by their respective contracts with the Board.

Payments of vacation and sick leave and compensatory time are dependent upon many factors; therefore, the timing of future payments is not readily determinable. However, management believes that sufficient resources will be available for the payments of vacation leave and compensatory time when such payments become due.

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(d) Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, Continued

- Postemployment Benefits - In accordance with GASB Statement No. 45, the Board recognizes in its financial statements, the financial impact of postemployment benefits, principally employer funded health care costs. The impact on the Board's financial position and results of its operations is more adequately disclosed under note 8.
- Bond and Note Discounts/Premiums - Are presented as components of bonds payable. The discounts/premiums are amortized over the life of the bonds and notes on a method that approximates the effective interest method.
- Long-term Obligations - Long-term debt is reported as liabilities in the accompanying Statements of Net Position. Bond premiums are deferred and amortized over the life of the respective bonds.
- Retirement Plan - The Board provides retirement benefits for substantially all of its regular, full-time employees through contributions to the New York State Employees' and Local Employees' Retirement System (ERS). The ERS provides various plans and options, some of which require employee contributions, as described in note 9.
- Deferred Outflows and Inflows of Resources - In the Statement of Net Position, in addition to assets and liabilities, the Board will report separate sections for deferred outflows of resources and another for deferred inflows of resources. Deferred outflows of resources, represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Board has two items that qualify for reporting in this category. The first item is related to pensions reported in the Statement of Net Position. This represents the effect of the net change in the Board's proportion of the collective net pension liability and difference during the measurement period between the Board's contributions and its proportionate share of total contributions to the pension system not included in pension expense. The second item is the Board contributions to the pension systems subsequent to the measurement date.

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 future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Board has two items that qualify for reporting in this category. The first is related to pensions reported in the Statement of Net Position. This represents the effect of the net change in the Board's proportion of the collective net pension liability and difference during the measurement periods between the Board's contributions and its proportion share of total contributions to the pension systems not included in the pension expense. The second item is the deferred gain the Board incurred on its debt refunding transaction.

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(e) Use of Estimates

The preparation of the 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(f) Income Taxes

The Board is a public benefit corporation of the State of New York. As such, income earned in the exercise of its essential government functions is exempt from State and Federal income taxes.

(g) Subsequent Events

The Board has evaluated subsequent events through the date of the report which is the date the financial statements were available to be issued.

(2) Cash and Equivalents and Investments

The Board's investment policies are governed by State statute. Board monies must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the State. The Board is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, and obligations of the State or its localities.

Collateral is required for demand deposits and certificates of deposit in an amount equal to or greater than the amount of all deposits not covered by FDIC insurance coverage. Obligations that may be pledged as collateral are outlined in Chapter 623 of the laws of the State.

The Board's cash and equivalents at December 31, 2017 and 2016 include the following captions on the statements of net position:

	<u>2017</u>	<u>2016</u>
Cash and equivalents	\$ 23,422,740	17,411,381
Restricted cash and investments:		
Capital projects	13,617,444	15,297,444
Debt service fund	3,799,654	22,906,531
Debt service reserve fund	8,822,394	-
Operating and maintenance	<u>6,722,932</u>	<u>-</u>
Total	<u>\$ 56,385,164</u>	<u>55,615,356</u>

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(2) Cash and Equivalents and Investments, Continued

Cash and equivalents are comprised of the following:

	<u>2017</u>	<u>2016</u>
Petty cash (uncollateralized)	\$ 100	100
Deposits	47,461,390	45,914,035
Investments	<u>8,923,674</u>	<u>9,701,221</u>
Total	\$ <u>56,385,164</u>	<u>55,615,356</u>

Custodial Credit Risk - Deposits - In the case of deposits, this is the risk that, in the event of a bank failure, the Board's deposits may not be returned to it. As noted above, by State statute, all deposits in excess of FDIC insurance coverage must be collateralized. As of December 31, 2017 and 2016, all uninsured bank deposits were fully collateralized with securities held by the pledging financial institution's trust department or agent in the Board's name.

Custodial Credit Risk - Investments - For investments, this is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments that are in the possession of an outside party. At December 31, 2017 and 2016, all of the Board's restricted cash in the form of investments was registered in the Board's name and was invested in U.S. Government backed securities.

The Board's investments at December 31, 2017, consist of the following:

<u>Investments</u>	<u>Maturity</u>	<u>Fair Value</u>
U.S. Treasuries	3/1/18 - 11/1/41	\$ 1,229,466
Federal Home Mortgage Corp.	1/16/18 - 2/1/18	7,415,018
Federal Farm Credit Bank	3/20/18	<u>279,190</u>
Total investments		\$ <u>8,923,674</u>

These investments are classified as Level 1.

Maturity Schedule

Less than one year	\$ 8,024,002
More than one year	<u>899,672</u>
	\$ <u>8,923,674</u>

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(2) Cash and Equivalents and Investments, Continued

The Board's investments at December 31, 2016, consist of the following:

<u>Investments</u>	<u>Maturity</u>	<u>Fair Value</u>
U.S. Treasuries	3/1/17 - 11/1/41	\$ 1,255,632
Federal Home Mortgage Corp.	1/11/17 - 6/20/17	8,041,174
Federal Farm Credit Bank	2/17/17 - 5/30/17	<u>404,415</u>
Total investments		\$ <u>9,701,221</u>

These investments are classified as Level 1.

Maturity Schedule

Less than one year	\$ 8,619,216
More than one year	<u>1,082,005</u>
	\$ <u>9,701,221</u>

Concentration Credit Risk - For investments, this is the risk of loss attributable to the quantity of the government's investment in a single issuer. Investments in single issuers that equal or exceed 5% of total investments have a reportable concentration of credit risk. At December 31, 2017, the Board held 83% and 14% of its investment balance in Federal Home Mortgage Corp. and U.S. Treasury notes, respectively.

(3) Receivables

Major revenues accrued by the Board at December 31, 2017 and 2016 include the following:

(a) Accounts Receivable

Accounts receivable primarily represents amounts due from customers for current and delinquent water and wastewater services provided, including penalties, unpaid bill charges, collection fees and shut-off charges.

Customers are billed either on a monthly or quarterly basis depending on the type of user (industrial or residential), and the level of water and sewer usage. Customers may make payments without penalty on current charges up until 20 days after receiving their bill. Any unpaid balances remaining after these 20 days are subject to a penalty of 6%, and those customers receive an unpaid bill notice. If balances still remain unpaid after 30 additional days, final unpaid notices are mailed. The customers are then given 10 days to remit payment, after which the property is tagged, and shut-off procedures begin.

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(3) Receivables, Continued

(a) Accounts Receivable, Continued

During the first week of December of every year, unpaid balances are transferred to the City tax roll for collections through the subsequent year's tax levy or in-rem property sales. Any amounts relating to unpaid water and wastewater balances collected by the City through these means are delivered to the Board.

As of December 31, 2017, \$1,278,723 was included in allowance for uncollectible accounts to account for receivable balances that may not be collected. As of December 31, 2016, \$1,102,478 was included in allowance for uncollectible accounts to account for receivable balances that may not be collected.

(b) Due from Other Governments

Due from other governments represents amounts due primarily from the City. Amounts accrued at December 31, 2017 and 2016 consist of:

	<u>2017</u>	<u>2016</u>
City of Niagara Falls - tax transfer	\$ 1,340,184	1,253,422
Due from Cascades Company	<u> -</u>	<u>209,518</u>
	<u>\$ 1,340,184</u>	<u>1,462,940</u>

The tax transfer represents uncollected water and sewer charges that have been turned over to the City for collection in conjunction with the City's property tax levy. The City remits these charges to the Board each January and July for collections it receives for the previous six-month period. This amount includes collected but not yet remitted charges at year-end. Charges from all previous years' water and sewer operations transferred to the City that are not collected totaled \$6,115,063 and \$6,062,119 at December 31, 2017 and 2016, respectively. Management has recorded an allowance for uncollectible accounts with respect to these balances of \$4,774,879 and \$4,599,179 at December 31, 2017 and 2016, respectively.

(4) Notes Receivable

Cascades Company

During 1987, Nitec Paper Corporation filed for bankruptcy with several years of outstanding taxes, water and sewer charges due to the City, the County of Niagara (the County), and the Niagara Falls Board of Education (the Board of Education). The City obtained the deed in lieu of foreclosure and sold the plant to Cascades Company for outstanding taxes and charges totaling \$5,400,000. Upon closing, \$100,000 was paid to the City with the remaining \$5,300,000 to be paid over 30 years as follows: Commencing November 1, 1988 through October 1, 1997, monthly payments of interest only at 3%; beginning on November 1, 1997 through October 1, 2017, monthly payments of interest and principal of \$29,394. The Board receives 59.4% of these monthly payments, with the remaining 40.6% split between the City (16.2%), the County (6.8%), and the Board of Education (17.6%).

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(4) Notes Receivable, Continued

Cascades Company, Continued

	<u>2017</u>	<u>2016</u>
Cascades Company	\$ -	172,222
Less current portion	<u>-</u>	<u>(172,222)</u>
Notes receivable - noncurrent portion	\$ <u>-</u>	<u>-</u>

(5) Capital Assets

The Board's capital assets activity for the years ended December 31, 2017 and 2016 is summarized as follows:

	<u>Balance</u> <u>1/1/2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2017</u>
Capital assets, not being depreciated:				
Land	\$ 463,713	-	-	463,713
Construction in progress	<u>7,466,615</u>	<u>4,045,931</u>	<u>(4,521,106)</u>	<u>6,991,440</u>
Total capital assets not being depreciated	<u>7,930,328</u>	<u>4,045,931</u>	<u>(4,521,106)</u>	<u>7,455,153</u>
Capital assets, being depreciated:				
Plant and transmission costs:				
Water system	87,488,822	121,390	-	87,610,212
Wastewater system	78,730,158	3,819,219	-	82,549,377
Machinery and equipment	<u>7,650,108</u>	<u>671,072</u>	<u>-</u>	<u>8,321,180</u>
Total capital assets being depreciated	<u>173,869,088</u>	<u>4,611,681</u>	<u>-</u>	<u>178,480,769</u>
Less accumulated depreciation:				
Plant and transmission costs:				
Water system	(37,006,083)	(2,891,710)	-	(39,897,793)
Wastewater system	(19,764,275)	(2,611,132)	-	(22,375,407)
Machinery and equipment	<u>(3,628,375)</u>	<u>(608,364)</u>	<u>-</u>	<u>(4,236,739)</u>
Total accumulated depreciation	<u>(60,398,733)</u>	<u>(6,111,206)</u>	<u>-</u>	<u>(66,509,939)</u>
Total being depreciated, net	<u>113,470,355</u>	<u>(1,499,525)</u>	<u>-</u>	<u>111,970,830</u>
Capital assets, net	\$ <u>121,400,683</u>	<u>2,546,406</u>	<u>(4,521,106)</u>	<u>119,425,983</u>

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(5) Capital Assets, Continued

	Balance <u>1/1/2016</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/2016</u>
Capital assets, not being depreciated:				
Land	\$ 463,713	-	-	463,713
Construction in progress	<u>1,545,362</u>	<u>6,211,254</u>	<u>(290,001)</u>	<u>7,466,615</u>
Total capital assets not being depreciated	<u>2,009,075</u>	<u>6,211,254</u>	<u>(290,001)</u>	<u>7,930,328</u>
Capital assets, being depreciated:				
Plant and transmission costs:				
Water system	87,488,822	-	-	87,488,822
Wastewater system	78,730,158	-	-	78,730,158
Machinery and equipment	<u>7,390,209</u>	<u>290,001</u>	<u>(30,102)</u>	<u>7,650,108</u>
Total capital assets being depreciated	<u>173,609,189</u>	<u>290,001</u>	<u>(30,102)</u>	<u>173,869,088</u>
Less accumulated depreciation:				
Plant and transmission costs:				
Water system	(34,113,319)	(2,892,764)	-	(37,006,083)
Wastewater system	(17,197,022)	(2,567,253)	-	(19,764,275)
Machinery and equipment	<u>(3,117,215)</u>	<u>(541,262)</u>	<u>30,102</u>	<u>(3,628,375)</u>
Total accumulated depreciation	<u>(54,427,556)</u>	<u>(6,001,279)</u>	<u>30,102</u>	<u>(60,398,733)</u>
Total being depreciated, net	<u>119,181,633</u>	<u>(5,711,278)</u>	<u>-</u>	<u>113,470,355</u>
Capital assets, net	\$ <u>121,190,708</u>	<u>499,976</u>	<u>(290,001)</u>	<u>121,400,683</u>

(6) Bond Indebtedness

The Authority issues debt to provide for the acquisition of the water and sewer systems and for the initial funding of operating and maintenance and debt reserves. During the year ended December 31, 2016, the Authority issued Series 2016A bonds amounting to \$20,130,000.

The proceeds of Series 2012B amounted to \$6,607,122 - Clean Water issue were used to payoff the EFC Note used to fund North Gorge Interceptor Capacity Restoration Project.

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(6) Bond Indebtedness, Continued

In 2013, the Board issued \$74,240,000 in general obligation bonds with an average interest rate of 4.72% and received an additional premium of \$142,002. The bonds were used for an advanced refunding of \$63,535,000 of 2003 Bonds with an average interest rate of 3.79%. The net proceeds of approximately \$64 million were deposited in a trust with an agent to provide for future debt service payments on the bonds. As a result, the bonds are considered defeased and the liability for those bonds has been removed from the Board's financial statements. The economic gain on the transaction (the difference between the present values of the debt service payments on the old and new debt) is approximately \$1.7 million.

During 2014 net proceeds of the Series B bonds were used to entirely refund the Series 2004 Serial Bonds of \$4,095,000, specifically reducing the interest to be paid by approximately \$610,000.

During 2015, net proceeds of the Series D bonds were used to entirely refund the Series 2005A&B Serial Bonds of \$4,380,000 specifically reducing the interest to be paid by approximately \$550,000. As a result, the bonds are considered defeased and the liability for these bonds has been removed from the Board's financial statements. The economic gain on the transaction (the difference between the present values of the debt service payments on the old and new debt) is approximately \$450,000.

During 2016, net proceeds of the Series A bonds were used to entirely refund the Series 2005 bonds of \$23,115,000 specifically reducing the interest to be paid by approximately \$4,093,685. As a result, the bonds are considered defeased and the liability for these bonds has been removed from the Board financial statements. The economic gain on the transaction (the difference between the present values of the debt service payments on the old and new debt) is \$4,108,685.

Serial bond activity for the year ended December 31, 2017 is presented on the following page:

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(6) Bond Indebtedness, Continued

Serial Bond Activity:

	Year of Issue	Year of Maturity	Interest Rate %	Original Amount	Principal Outstanding 1/1/2017	Issued	Paid	Principal Outstanding 12/31/2017
Niagara Falls Public Water Authority Bonds:								
Series 2013A Bonds	2013	2034	3.0 - 5.0	\$ 36,060,000	35,495,000	-	295,000	35,200,000
Series 2013B Bonds	2013	2024	4.309	8,415,000	6,245,000	-	785,000	5,460,000
Series 2016A Bonds	2016	2034	3.13 - 5.0	20,130,000	20,130,000	-	-	20,130,000
New York State Environmental Facilities Corporation Water Revolving Funds Revenue Bonds:								
Series 2013B - Clean Water	2013	2033	3.88 - 5.05	14,030,000	12,425,000	-	560,000	11,865,000
Series 2013B - Drinking Water	2013	2023	4.75 - 4.91	5,580,000	5,580,000	-	-	5,580,000
Series 2013B - Drinking Water	2013	2019	5.14 - 5.59	6,770,000	3,440,000	-	1,200,000	2,240,000
Series 2013B - Drinking Water	2013	2019	5.14 - 5.59	3,385,000	1,720,000	-	600,000	1,120,000
Series 2015D - Drinking Water	2015	2034	3.81 - 4.57	4,380,000	4,220,000	-	165,000	4,055,000
Series 2014B - Drinking Water	2014	2021	5.40	4,095,000	4,095,000	-	-	4,095,000
Series 2012B - Clean Water	2012	2041	0.26 - 4.27	6,607,122	5,725,000	-	175,000	5,550,000
Totals				<u>\$ 109,452,122</u>	<u>99,075,000</u>	<u>-</u>	<u>3,780,000</u>	<u>95,295,000</u>
Reconciliation to statements of net position:								
Principal outstanding					\$ 99,075,000			95,295,000
Unamortized premium on bonds					2,324,756			2,195,003
					<u>\$ 101,399,756</u>			<u>97,490,003</u>
Current portion of bonds payable					3,780,000			3,915,000
Non-current portion of bonds payable					97,619,756			93,575,003
					<u>\$ 101,399,756</u>			<u>97,490,003</u>

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(6) Bond Indebtedness, Continued

The annual maturities of long-term debt as of December 31, 2017 are as follows:

<u>Year</u>	<u>Premium on bonds</u>	<u>Serial bonds</u>	<u>Total</u>
2018	\$ 129,754	3,915,000	4,044,754
2019	129,754	4,055,000	4,184,754
2020	129,754	4,135,000	4,264,754
2021	129,754	4,280,000	4,409,754
2022	129,754	4,430,000	4,559,754
2023-2027	648,769	25,860,000	26,508,769
2028-2032	648,769	31,935,000	32,583,769
2033-2037	248,695	15,190,000	15,438,695
2038-2041	-	1,495,000	1,495,000
	<u>\$ 2,195,003</u>	<u>95,295,000</u>	<u>97,490,003</u>

Annual interest payments due on serial bonds as of December 31, 2017 are as follows:

2018	\$ 3,486,817
2019	3,132,360
2020	3,228,716
2021	2,741,537
2022	2,939,642
2023-2027	12,115,798
2028-2032	6,689,777
2033-2037	1,052,494
2038-2041	<u>146,046</u>
Total	\$ <u>35,533,187</u>

Financing Agreement Covenants

The financing agreement between the Authority and the Board relating to all current and future bonding contain various covenants pertaining to the use and maintenance of the trust funds established from the proceeds of each bonding. At December 31, 2017, management believes the Board was in compliance with the following loan covenants:

The Board is required to establish and collect rates, fees and charges sufficient in each fiscal year at least equal to the sum of:

- (1) 115% of the estimated aggregate debt service and projected debt service payable in such fiscal year;
- (2) 100% of Board operating expenses and Authority expenses payable in such fiscal year; and
- (3) 100% of the amount necessary to pay the required deposits for such fiscal year.

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(6) Bond Indebtedness, Continued

The Board shall review the adequacy of fees, rates and charges at least semi-annually.

The Board shall enforce the payment of any and all amounts owed for the use of the systems.

The Board shall (unless required by law) not furnish or supply, or cause to be furnished or supplied, any product, use or service of the systems, free of charge.

The debt service fund balance, beginning with the first day of each calendar month, shall receive all revenues until the balance in the debt service fund equals the minimum monthly balance. The minimum monthly balance is defined as an amount equal to the sum of the aggregate amounts of debt service that have accrued with respect to all series of bonds, calculating the debt service that has accrued as an amount equal to the sum of:

- (1) The interest on the bonds that has accrued and is unpaid and that will have accrued by the end of the then calendar month; and
- (2) The portion of the next due principal installment for the bonds that would have accrued (as deemed to accrue in the manner interest accrues) by the end of the then calendar month.

(7) Compensated Absences

As explained in note 1, the Board reports the value of compensated absences as a liability. The annual budgets of the operating funds provide funding for these benefits as they become payable. The payment of compensated absences is dependent on many factors; therefore, the timing of future payments is not readily determinable. The current portion payable is estimated at 5% of the total compensated absences liability. Additionally, for the year ended December 31, 2016, the compensated absences for three individuals whose contracts were terminated in February 2017 are considered part of the current portion payable. The current portion of the liability amounted to \$35,084 and \$76,550 at December 31, 2017 and 2016, respectively. The long-term portion of the liability amounted to \$666,596 and \$721,561 at December 31, 2017 and 2016, respectively.

(8) Postemployment Benefits

The Board provides postemployment benefits to eligible retirees in the form of health insurance. The obligation of the Board and its employees to contribute to the cost of providing these benefits has been established pursuant to various collective bargaining agreements and Board policy for those individuals not included in one of the bargaining units. Under such agreements, participants are not required to contribute to the health care plan. In 2008, the Board adopted the requirements of GASB Statement No. 45. In conformance with the provisions of that statement, the Board recognizes the costs of postemployment health care in the year when the employees' services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the Board's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years commencing in 2008.

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(8) Postemployment Benefits, Continued

Plan Description - The Board provides continuation of medical, prescription drug, dental, vision and chiropractic coverage for employees who retire and are at least age 50 and have an age, plus years of service, of at least 70. All retirees and future retirees hired prior to June 1, 2006 have no contribution requirements for both individual and family coverage. All future retirees hired after June 1, 2006 are required to pay 20% of the individual and family premiums.

The Board provides certain health care benefits for retired employees. Substantially all of the employees may become eligible for these benefits if they reach the normal retirement age and have the required minimum age plus years of service working for the Board. The Board, on an annual basis, accrues the cost that represents the present value of these benefits to be paid over the estimated lives of the retirees. The annual other postemployment benefit cost (OPEB) charged to operations for the years ended December 31, 2017 and 2016 amounted to \$5,708,698 and \$5,465,210, respectively. At December 31, 2017 and 2016, the current portion of the postemployment benefits liability was \$1,994,572 and \$2,041,134, respectively. The non-current portion of the postemployment benefits liability amounted to \$25,399,422 and \$22,101,261 at December 31, 2017 and 2016, respectively.

The number of participants as of January 1, 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
Active employees	73	80
Retired employees	<u>89</u>	<u>75</u>
Total	<u>162</u>	<u>155</u>

Funding Policy - The Board currently pays for postemployment health care benefits on a pay-as-you-go basis. These financial statements assume that pay-as-you-go funding will continue.

	<u>2017</u>	<u>2016</u>
<u>Benefit Obligations and Normal Costs</u>		
Actuarial accrued liability (AAL)	\$ <u>64,724,770</u>	<u>69,856,462</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u>64,724,770</u>	<u>69,856,462</u>
Normal costs at beginning of year	1,200,026	1,153,871
Interest on normal cost	<u>26,967</u>	<u>46,155</u>
	\$ <u>1,226,993</u>	<u>1,200,026</u>

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(8) Postemployment Benefits, Continued

	<u>2017</u>	<u>2016</u>
<u>Level Dollar Amortization</u>		
Calculation of ARC under projected Unit Credit Method:		
Amortization of UAAL over 30 years with interest to end of year	\$ 4,332,789	3,407,824
Interest on amortization payment	148,916	857,360
Normal costs with interest to end of year	<u>1,226,993</u>	<u>1,200,026</u>
Annual required contribution (ARC)	\$ <u>5,708,698</u>	<u>5,465,210</u>
 <u>Annual OPEB Cost Contribution</u>		
Contributions made for years ended December 31, 2017 and 2016	2,457,099	2,207,575
Contributions as a percentage of required contribution	43.0%	40.4%
 <u>Annual OPEB Cost and Net OPEB Obligation</u>		
Annual required contribution (OPEB cost)	5,708,698	5,465,210
Contributions made on a pay-as-you-go basis	<u>(2,457,099)</u>	<u>(2,207,575)</u>
Increase in net OPEB obligation	3,251,599	3,257,635
Net OPEB obligation at beginning of year	<u>24,142,395</u>	<u>20,884,760</u>
Net OPEB obligation at end of year	\$ <u>27,393,994</u>	<u>24,142,395</u>
Current	1,994,572	2,041,134
Noncurrent	<u>25,399,422</u>	<u>22,101,261</u>
	\$ <u>27,393,994</u>	<u>24,142,395</u>
 Actuarial methods and assumptions:		
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Discount rate	4%	4%
2017 trend rate (Medical)	8.00%	8.50%
2016 trend rate (Medical)	7.50%	8.00%
Yearly decrease after year 2	0.50%	0.50%
Years until ultimate rate	5 years	5 years
The remaining amortization period at December 31, 2017 and 2016	21 years	22 years

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(9) Pension Plans

(a) Plan Descriptions and Benefits Provided

Employees' Retirement System (ERS)

The Board participates in the New York State and Local Employees' Retirement System (ERS). This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Authority (the Authority), which was established to hold all net assets and record changes in plan net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Board and is the administrative head of the System. System benefits are established under the provision of the New York State Retirement and Social Security Law (RSSL). 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 Board 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 benefits provided, may be found at www.osc.state.ny.us/retire/publications/inex.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, New York 12244.

The System is noncontributory except for employees who joined after July 27, 1976, who contribute 3 percent of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 who generally contribute 3.0 to 3.5 percent 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 Systems fiscal year ending March 31.

Contributions for the current year and two preceding years were equal to 100 percent of the contributions required, and were as follows:

	<u>ERS</u>
2017	\$ 659,383
2016	646,238
2015	725,071

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(9) Pension Plans, Continued

(b) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017 and 2016, the Board reported the following liability for its proportionate share of the net pension liability for ERS. The net pension liability was measured as of March 31, 2017 and 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation. The Board's proportionate share of the net pension liability was based on a projection of the Board's long-term share of contributions to the System relative to the projected contributions of all participating members, actuarially determined. This information was provided by ERS in reports provided to the Board.

Measurement date	3/31/2017	3/31/2016
Net pension liability	\$ 1,291,751	2,157,242
Board's proportion of the Plan's net pension liability	0.0137476%	0.0134405%

For the year ended December 31, 2017 and 2016, the Board recognized pension expense of \$800,430 and \$902,036 for ERS, respectively. At December 31, 2017 and 2016 the Board's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2017</u>		<u>2016</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 32,370	196,160	10,901	255,705
Changes of assumptions	441,309	-	575,271	-
Net difference between projected and actual earnings on pension plan investments	258,015	-	1,279,794	-
Changes in proportion and differences between the Board's contributions and proportionate share of contributions	185,704	11,594	134,079	15,458
Board's contributions subsequent to the measurement date	<u>497,712</u>	<u>-</u>	<u>485,013</u>	<u>-</u>
Total	\$ <u>1,415,110</u>	<u>207,754</u>	<u>2,485,058</u>	<u>271,163</u>

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

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(9) Pension Plans, Continued

(b) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued

Year ended	<u>ERS</u>
2018	\$ 304,988
2019	304,988
2020	249,875
2021	(150,207)
2022	-
Thereafter	<u>-</u>
	\$ <u>709,644</u>

(c) Actuarial Assumptions

The total pension liability as of the measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuations used the following actuarial assumptions:

Significant actuarial assumptions used in the valuations were as follows:

Measurement date	March 31, 2017
Actuarial valuation date	April 1, 2016
Interest rate	7.0%
Salary scale	3.8% Average
Decrement tables	April 1, 2010 - March 31, 2015 System's Experience
Inflation rate	2.5%

Annuitant mortality rates are based on April 1, 2010 - March 31, 2015 System's experience with adjustments for mortality improvements based on Society of Actuaries Scale MP-2014.

The actuarial assumptions used in the April 1, 2016 valuation are based on the results of an actuarial experience study for the period April 1, 2010 - March 31, 2015.

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

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(9) Pension Plans, Continued

(c) Actuarial Assumptions, Continued

Measurement date	March 31, 2017	
	Long-term expected real rate of return	Target allocation
Asset type:		
Domestic equity	4.55%	36.00%
International equity	6.35%	14.00%
Private equity	7.75%	10.00%
Real estate	5.80%	10.00%
Absolute return strategies	4.00%	2.00%
Opportunistic portfolio	5.89%	3.00%
Real assets	5.54%	3.00%
Bonds and mortgages	1.31%	17.00%
Cash	(0.25%)	1.00%
Inflation - indexed bonds	1.50%	4.00%

* The real rate of return is net of the long-term inflation assumption of 2.50%.

(d) Discount Rate

The discount rate used to calculate the total pension liability was 7.0% in 2017 and 2016. 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.

(e) Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate

The following presents the Board's proportionate share of the net pension liability calculated using the discount rate of 7.0%, as well as what the Board'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 (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Employer's proportionate share of the net pension (asset) liability	\$ <u>4,125,596</u>	<u>1,291,751</u>	<u>(1,104,260)</u>

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(9) Pension Plans, Continued

(f) Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of all participating employers as of the respective measurement dates, were as follows:

	(Dollars in Millions)	
Measurement date	3/31/2017	3/31/2016
Employers' total pension liability	\$(177,400)	(172,303)
Plan net position	<u>168,004</u>	<u>156,253</u>
Employers' net pension liability	\$ <u>(9,396)</u>	<u>(16,050)</u>
Ratio of plan net position to the Employers' total pension liability	94.7%	90.7%

(g) Contributions to the Pension Plan

Employer contributions are paid annually based on the System's fiscal year which ends on March 31st. Retirement contributions as of December 31, 2017 and 2016 represent the projected employer contribution for the period of April 1, 2017 through March 31, 2018 and April 1, 2016 through March 31, 2017, respectively based on paid ERS wages multiplied by the employer's contribution rate, by tier. This amount has been recorded as deferred outflows of resources in the accompanying financial statements.

(10) Net Position

The Board's financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted for debt service, restricted for capital projects and unrestricted.

Net Investment in Capital Assets - This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

The Board's investment in capital assets, net of related debt is in a surplus position of \$20,904,136 and \$18,908,087 at December 31, 2017 and 2016, respectively. The surplus results from the amortization of the Board's capital debt, as outstanding principal for the majority of Board's serial bonds is not paid until late into the life of the debt while depreciation occurs ratably over the life of the assets.

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(10) Net Position, Continued

Restricted Net Position - This category represents 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 for Capital Projects:

Amounts restricted for capital projects is \$13,617,444 and \$15,297,444 at December 31, 2017 and 2016, respectively. In 2007, the Board received \$19,000,000 from the Power Authority under a "Relicensing Settlement Agreement." The Agreement provided for the creation of a "Niagara Falls Water Board Capital Improvement Fund." These funds are restricted for future use related to capital improvements of the Board including but not limited to any specific project including the Falls Street Tunnel project.

Restricted for Debt Service Fund:

Board restrictions at December 31, 2017 and 2016 of \$3,799,654 and \$22,906,531, respectively, are for debt service. In 2017, the Board reallocated funds based on investigation of reserves.

Restricted for Debt Service Reserve Fund:

Amounts restricted for the debt service reserve fund is \$8,822,394 at December 31, 2017. These funds are controlled by bond trustee. The required minimum balance is the less of maximum future annual debt service requirement or 125% of the average future annual debt service requirements for all outstanding bonds. The required minimum balance was \$7,179,698 at December 31, 2017. This resulted in excess reserves of \$1,642,696 at December 31, 2017.

Restricted for Operations and Maintenance:

Amounts restricted for operations and maintenance is \$6,722,932 at December 2017. These reserves may be used to pay the cost of extraordinary repairs to and replacements of the system. Surplus amounts on deposit at the end of the fiscal year may be used for any purpose determined by the Board to be beneficial for the system unless the Authority notifies the Board that it does not concur with such application of surplus and expenditures. At December 31, 2017 there was excess reserves of \$2,021,941. The required minimum balance is 1/6th of prior year operating expenses which equates to \$4,700,991.

Unrestricted Net Position - This category represents net position of the Board not restricted for any project or other purpose. Additions of \$1,996,049 net investment in capital assets and decreases of \$5,241,551 of restrictions for debt service increased unrestricted net position by \$3,245,502. The total loss for the year of \$2,047,362 also decreased unrestricted net position.

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(11) Labor Relations

The majority of the Board's employees are represented by various unions under four collective bargaining units agreements, with the balance governed by Board policies. Contracts for all of the bargaining units covered a six year term which expired on December 31, 2010. The Board has negotiated new contracts with the bargaining units as of June 2017.

(12) Risk Management and Contingent Liabilities

Risk management and contingent liabilities at December 31, 2017 and 2016 are detailed as follows:

(a) Insurance

The Board is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; injuries to employees; and natural disasters, for which the Board carries commercial insurance. There were no settlements that significantly exceeded insurance coverage for the years ended December 31, 2017 and 2016.

(b) Litigation

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

(13) Significant Events

(a) Management Restructuring

In February 2017 the Board underwent significant management restructuring. As part of the restructuring three Directors and general counsel to the Board were replaced. Additionally, the Director of Financial Services resigned prior to December 31, 2016 and was replaced in 2017.

(b) New York Office of the State Comptroller Audit

The New York Office of the State Comptroller (OSC) released an audit of the Water Board for the period of January 1, 2013 through April 30, 2015. Issues noted by OSC were addressed through the additions of schedule 1 and 2 on pages 43 - 44 and reserves analysis noted in note 10.

(c) Environmental

As a result of alleged discharges from the waste water treatment plant during the Summer of 2017, the New York State Department of Environmental Conservation (NYSDEC) and the Board entered into a Consent Order on December 19, 2017 (R9-20170906-129). This Consent Order required the Board to pay a civil penalty in the amount of \$50,000 and to implement a schedule of enumerated actions over the following fifteen (15) months. The Board is now in the process of implementing these actions under the supervision of the NYSDEC.

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(15) Accounting Standards Issued But Not Yet Implemented

GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." This Statement, issued in June 2015, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This Statement is effective for fiscal years beginning after June 15, 2017, which is the fiscal year beginning January 1, 2018 for the Board. This Statement is being evaluated for its effect on the financial statements of the Board.

GASB Statement No. 83 - "Certain Asset Retirement Obligations." This Statement, issued in November 2016, addresses accounting and financial reporting for certain asset retirement obligations (AROs). Governments that have legal obligations to perform certain future asset retirement activities related tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, which is the fiscal year beginning January 1, 2019 for the Board. This Statement is not expected to have a material effect on the financial statements of the Board.

GASB Statement No. 84 - "Fiduciary Activities." This Statement, issued in January 2017, established criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This Statement is effective for reporting periods beginning after December 15, 2018, which is the fiscal year beginning January 1, 2019 for the Board. This Statement is not expected to have a material effect on the financial statements of the Board.

GASB Statement No. 85 - "Omnibus 2017." This Statement, issued in March 2017, addresses issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017, which is the fiscal year beginning January 1, 2018 for the Board. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the Board.

GASB Statement No. 86 - "Certain Debt Extinguishment Issues." This Statement, issued in May 2017, addresses issues related to in substance defeasances occurring through repayment of debt from existing resources. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017, which is the fiscal year beginning January 1, 2018 for Board. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of Board.

NIAGARA FALLS WATER BOARD
Notes to Financial Statements, Continued

(15) Accounting Standards Issued But Not Yet Implemented

GASB Statement No. 87 - "Leases." This Statement, issued in June 2017, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019, which is the fiscal year beginning January 1, 2020 for the Board. Management is in process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the Board.

NIAGARA FALLS WATER BOARD
 Niagara Falls Water Authority (a Blended Component Unit)
 Other Supplementary Information
 Statements of Net Position
 December 31, 2017 and 2016

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Current assets - cash and equivalents	\$ 78,959	78,959
Noncurrent assets - due from Water Board	<u>98,787,551</u>	<u>102,758,300</u>
Total assets	<u>98,866,510</u>	<u>102,837,259</u>
<u>Liabilities</u>		
Current liabilities - bonds payable	<u>3,915,000</u>	<u>3,780,000</u>
Noncurrent liabilities - bonds payable	<u>93,575,003</u>	<u>97,619,756</u>
Risk management and contingent liabilities (note 12)	<u> </u>	<u> </u>
Total liabilities	<u>97,490,003</u>	<u>101,399,756</u>
<u>Deferred Inflows of Resources</u>		
Gain on refunding	<u>1,031,844</u>	<u>1,092,840</u>
<u>Net Position</u>		
Unrestricted	<u>\$ 344,663</u>	<u>344,663</u>

NIAGARA FALLS WATER BOARD
Niagara Falls Water Authority (a Blended Component Unit)
Other Supplementary Information
Statements of Revenue, Expenses and Changes in Net Position
Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating expenses - contractual expenses	\$ <u> -</u>	<u> 3,871</u>
Change in net position	-	(3,871)
Net position at beginning of year	<u> 344,663</u>	<u> 348,534</u>
Net position at end of year	<u> 344,663</u>	<u> 344,663</u>

NIAGARA FALLS WATER BOARD
 Required Supplementary Information
 Schedule of Funding Progress
 Other Postemployment Benefits Plan
 Last three fiscal years

Fiscal year ended <u>December 31,</u>	Actuarial			Unfunded actuarial accrued <u>liability</u>	Funded <u>ratio</u>	Covered <u>payroll</u>	Unfunded liability as a percentage of covered <u>payroll</u>
	Valuation Date <u>January 1,</u>	Value of <u>assets</u>	Accrued <u>liability</u>				
2017	2017	\$ -	64,724,770	64,724,770	0%	5,183,944	1249%
2016	2014	-	69,856,462	69,856,462	0%	4,994,649	1399%
2015	2014	-	67,708,721	67,708,721	0%	3,649,206	1855%

NIAGARA FALLS WATER BOARD
 Required Supplementary Information
 Schedule of Proportionate Share of the Net Pension Liability
 Years ended December 31, 2017 and 2016

NYSERS Pension Plan			
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Board's proportion of the net pension liability	0.0137476%	0.0134405%	0.0141606%
Board's proportionate share of the net pension liability	\$ 1,291,751	\$ 2,157,242	\$ 478,381
Board's covered payroll	\$ 4,719,361	\$ 4,397,005	\$ 4,082,614
Board's proportionate share of the net pension liability as a percentage of its covered - employee payroll	27.37%	49.06%	11.72%
Plan fiduciary net position as a percentage of the total pension liability	94.70%	90.70%	97.95%

* This schedule is presented to illustrate the requirements to show information for 10 years. However, information is presented for those years that are available.

NIAGARA FALLS WATER BOARD
 Required Supplementary Information
 Schedule of Employer Pension Contributions
 Years ended December 31, 2017 and 2016

	NYSERS Pension Plan				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 659,383	646,238	725,071	864,054	900,289
Contributions in relation to the contractually required contribution	<u>659,383</u>	<u>646,238</u>	<u>725,071</u>	<u>864,054</u>	<u>900,289</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Board's covered employee payroll	\$ 4,719,361	4,397,005	4,082,614	4,483,962	4,442,277
Contributions as a percentage of covered employee payroll	13.97%	14.70%	17.76%	19.27%	20.27%

* This schedule is presented to illustrate the requirements to show information for 10 years. However, information is presented for those years that are available.

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

The Board of Directors
Niagara Falls Water Board:

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 Niagara Falls Water Board (the Board), as of and for the year ended December 31, 2017, and the related notes to financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated April 23, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including Investment Guidelines for Public Authorities and Board's Investment Guidelines, 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 an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and responses as item 2017-001.

The Board's Response to Finding

The Board's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Board'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 Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

EFPR Group, CPAs, PLLC

Williamsville, New York
April 23, 2018

NIAGARA FALLS WATER BOARD
Schedule of Findings and Responses
Year ended December 31, 2017

(2017-001) PARIS Filing

Condition - The Board did not file the independent audit report within 90 days after the end of the fiscal year ended December 31, 2017 via the Public Authorities information System (PARIS).

Criteria - Pursuant to Section 2800 of Public Authorities Law, the Board is required to submit their annual report via PARIS within 90 days after the end of each fiscal year.

Effect - The Authorities Budget Office has the authority to “publicly warn and censure authorities for non-compliance” with this requirement and to recommend the “suspension or dismissal of officers or directors, based on information that is, or is made, available to the public under law.”

Cause - The auditors could not complete their work within the required timeframe because the Board was unable to obtain all information necessary for capital assets timely enough to allow filing by the statutory filing deadline.

Recommendation - We recommend that the Board submit the independent audit report to PARIS as soon as possible.

Management’s Correction Action - The Board has approved the independent audit report and will file with PARIS upon receipt of the final reports.

NIAGARA FALLS WATER BOARD
Status of Prior Year Audit Findings
Year ended December 31, 2017

(2016-001) PARIS Filing

Condition - The Board did not file the independent audit report within 90 days after the end of the fiscal year ended December 31, 2016 via the Public Authorities information System (PARIS).

Cause - Prior to the beginning of the audit fieldwork for the year ended December 31, 2016 three Directors had their employment contracts terminated. Additionally, before year-end the Director of Financial Services resigned. This caused the timing of the audit fieldwork to be moved back as well as a learning curve for new accounting personnel to produce essential reports needed to complete the audit.

Status - The PARIS filing deadline was not met for the year ended December 31, 2017 due to the timeliness of capital assets accounting was not completed to allow the independent auditors to complete their work.