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# **AGENDA**

## **Meeting of the Niagara Falls Public Water Authority**

June 13, 2019 at 5:00 p.m.  
Michael C. O’Laughlin Municipal Water Plant  
5815 Buffalo Avenue, Niagara Falls, NY 14304

### **1. Call to Order**

**Roll Call:** Sanquin Starks \_\_\_\_\_ Daniel Weiss \_\_\_\_\_ Jason Murgia \_\_\_\_\_

### **2. Public Speakers** (All speakers must register with Chairman prior to Roll Call and are limited to 3 minutes per person – total time for all speakers may not exceed one hour)

### **3. Items for Action from Secretary**

#### **A. Yearly Reorganization Meeting**

##### **a. Nomination of NFPWA Board Officers:**

- i. Chair;
- ii. Vice Chair;
- iii. Treasurer (does not need to be Authority member)
- iv. Secretary (does not need to be Authority member)

#### **B. Approval of Minutes June 14, 2018**

#### **C. RESOLUTION 2019-01 – Omnibus Resolution: Annual Adoption of Governance and Operational Policies and Statements**

##### **a. Packet of Supporting Documents**

- i. Authority By-Laws
- ii. Code of Ethics
- iii. Annual Evaluation Form
- iv. Financial Disclosure Form
- v. Draft Mission Statement and Measurement Form
- vi. Public Authorities Law Sections 2824, 2824-a, and 2825
- vii. 2018 Audit and Investment Report
- viii. 2017 Audit
- ix. 2016 Audit
- x. 2015 Audit
- xi. 2014 Audit
- xii. 2013 Audit
- xiii. 2012 Audit

#### **D. RESOLUTION 2019-02 – Authorizing the Issuance of the Authority’s Revenue Bonds and Notes and the Approval and Execution of Related Documents**

##### **a. Packet of Supporting Documents**

- i. Governor’s Office Press Release
- ii. Consent Order Listing Projects for \$27 million

- iii. Letter from DASNY Regarding Grant Award
- iv. NFWB Resolution 2019-05-010, Adopting Five Year Capital Plan
- v. Capital Improvement Plan 2019-2023
- vi. NFWB Resolution 2019-05-011, Requesting Authority Issue \$13.5 Million Bonds
- vii. Page from Rate Consultant's December 2018 Presentation

#### **4. Additional Items for Action**

#### **5. Unfinished Business**

#### **6. New Business & Additional Items**

#### **7. Adjournment of Meeting**

## **Niagara Falls Public Water Authority**

### **Notice of Public Meeting**

The Niagara Falls Public Water Authority will hold a meeting on **Thursday, June 13, 2019 at 5:00 pm** in the upstairs Conference Room at the Michael C. O’Laughlin Municipal Water Plant, 5815 Buffalo Ave., Niagara Falls, NY.

## **MINUTES**

### **Meeting of the Niagara Falls Public Water Authority**

June 14, 2018 at 5:00 p.m.  
Michael C. O’Laughlin Municipal Water Plant  
5815 Buffalo Avenue, Niagara Falls, NY 14304

#### **1. Call to Order**

**Roll Call** *Meeting was called to order at 5:00 p.m.*

Sanquin Starks \_\_\_*A*\_\_\_ Daniel Weiss\_\_\_*P*\_\_\_ Jason Murgia \_\_\_*P*\_\_\_

#### **2. Public Speakers** (All speakers must register with Chairman prior to Roll Call and are limited to 3 minutes per person – total time for all speakers may not exceed one hour)

*Nick Baio expressed appreciation for the Authority’s work and discussed the World’s Fair and Expo.*

#### **3. Items for Action from Secretary**

##### **1. Yearly Reorganization Meeting**

A. Nomination of NFPWA Board Officers – *slate election took place for the following appointment of the Water Authority Board Officers:*

- a. Chair; - *Jason Murgia*
- b. Vice Chair; - *Daniel Weiss*
- c. Treasurer (does not need to be Authority member) - *Jason Murgia*
- d. Secretary (does not need to be Authority member) – *Sean Costello*

*Motion by Mr. Weiss and seconded by Mr. Murgia to approve.  
Motion was passed 2-0.*

Sanquin Starks \_\_\_*A*\_\_\_ Daniel Weiss\_\_\_*Y*\_\_\_ Jason Murgia \_\_\_*Y*\_\_\_

##### **B. Approval of Minutes October 20, 2016**

*Motion by Mr. Weiss and seconded by Mr. Murgia to approve.  
Motion was passed 2-0.*

Sanquin Starks \_\_\_*A*\_\_\_ Daniel Weiss\_\_\_*Y*\_\_\_ Jason Murgia \_\_\_*Y*\_\_\_

#### **4. Additional Items for Action**

*There were no additional items for action at this time.*

## **5. Unfinished Business**

*Mr. Murgia discusses the NFWB's bonded monies.*

*Mr. Porter discusses the NFWB's 5 year capital improvement plan.*

## **6. New Business & Additional Items**

*There was no new business to discuss at this time.*

## **7. Adjournment of Meeting**

*Motion by Mr. Murgia and seconded by Mr. Weiss to adjourn at 5:25 p.m.*

*Motion was passed 2-0.*

Sanquin Starks \_\_\_*A*\_\_\_ Daniel Weiss \_\_\_*Y*\_\_\_ Jason Murgia \_\_\_*Y*\_\_\_

*NIAGARA FALLS PUBLIC WATER AUTHORITY RESOLUTION # 2019-01*

**OMNIBUS RESOLUTION  
ANNUAL ADOPTION OF GOVERNANCE  
AND OPERATIONAL POLICIES AND STATEMENTS**

**WHEREAS**, the Niagara Falls Public Water Authority (“Authority”) has conducted a review of its compliance with certain statutes, including the Public Authorities Law (“PAL”); and

**WHEREAS**, the Authority finds it appropriate and convenient to adopt by resolution various policies and statements required for the Authority’s compliance with statutes and to aid in the preparation and filing of reports with the Public Authorities Reporting Information System; and

**WHEREAS**, the Authority has no employees and relies upon Niagara Falls Water Board (“Water Board”) employees for its limited day-to-day operations;

**NOW THEREFORE BE IT**

1. **RESOLVED** that pursuant to Section 2824(4) of the PAL, the Authority hereby establishes an Audit Committee and designates as members of the Audit Committee all three sitting Authority Board members, making the Audit Committee a committee of the whole.
2. **RESOLVED** that pursuant to Section 2824(7) of the PAL, the Authority hereby establishes a Governance Committee and designates as members of the Governance Committee all three sitting Authority Board members, making the Governance Committee a committee of the whole.
3. **RESOLVED** that Pursuant to Section 2824(8) of the PAL, the Authority hereby establishes a Finance Committee and designates as members of the Finance Committee all three sitting Authority Board members, making the Finance Committee a committee of the whole.
4. **RESOLVED**, that the Authority has reviewed and hereby adopts the following Water Board policies and procedures to the extent that they may be applicable to the operations of the Authority for itself and as applicable for all agents, consultants, or contractors with which it conducts business:
  - a. Procurement Policy;
  - b. Policy on the Acquisition and Disposal of Property;
  - c. Salary and Compensation;
  - d. Time and Attendance;
  - e. Whistleblower Protection;
  - f. Investment Policy; and
  - g. Sexual Harassment Policy and Reporting Form.

5. **RESOLVED**, that the Authority adopts and is bound by the statutory Code of Ethics found at Public Authorities Law Section 1230-v.
6. **RESOLVED**, that all Authority Members complete and return to the Board Secretary an annual evaluation of Board performance by June 15, said evaluations to be kept confidential pursuant to State Law and Authorities Budget Office Policy Guidance No. 10-05.
7. **RESOLVED**, that the Authority has no staff or employees, and that from its inception through the date of this Resolution, the Authority has not paid compensation to any employee.
8. **RESOLVED**, with respect to acquisition and disposal of real or personal property that the Authority:
  - a. Has had no personal property acquisitions or disposals.
  - b. Has had no real property acquisitions or disposals.
  - c. Does not and never has owned any real property.
  - d. Shall not acquire or dispose of any real or personal property.
  - e. To the extent required by Section 2896(1) of the PAL, its Secretary hereby is designated as contracting officer shall be responsible for the Authority's compliance with this policy.
9. **RESOLVED**, pursuant to Section 2824(5) of the PAL, the Authority prohibits the extension of credit to Board Members and any other person performing services for the Authority.
10. **RESOLVED**, pursuant to Section 2825(3) of the PAL, the Authority directs all Board members and officers to file annual financial disclosure forms with the Niagara County Board of Ethics.
11. **RESOLVED**, pursuant to Section 2800(2)(1) of the PAL, the Authority hereby adopts its annual audit report and the following statement as its annual report on operations and accomplishments for the reporting period:

**In 2017, the Water Authority did not meet and was not requested by the Water Board to meet, or to issue or refinance any debt. The Authority made all required debt payments.**

**In 2018, the Water Authority conducted an annual business meeting, but was not requested to issue or refinance any debt. The Authority made all required debt payments.**

12. **RESOLVED**, pursuant to Section 2800(2)(9) of the PAL, the Authority has prepared the following assessments of the effectiveness of its internal controls:

**2017: The Authority has reviewed the 2017 independent auditors' report on internal control. It is not aware of any material weakness**

**in the internal controls over its financial reporting. It relies upon the expertise of the Water Board's Director of Financial Services and the Trustee of its accounts, and does not have any reason to believe that there are any material misstatements in any of its financial statements. The Authority has been advised of its failure to file PARIS reports and has determined to address this deficiency.**

**2018: The Authority has reviewed the 2018 independent auditors' report on internal control. It is not aware of any material weakness in the internal controls over its financial reporting. It relies upon the expertise of the Water Board's Director of Financial Services and the Trustee of its accounts, and does not have any reason to believe that there are any material misstatements in any of its financial statements. The Authority has been advised of its failure to file PARIS reports and has determined to address this deficiency.**

**13. RESOLVED**, with respect to the annual Independent Audit and Audit Report:

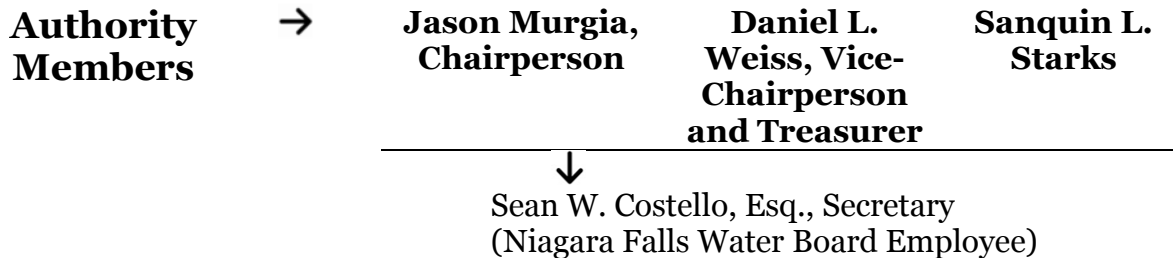
**The Authority is the subject of annual independent financial audits. It is audited at the same time as the Niagara Falls Water Board, and for audit purposes is considered a blended component unit of the Niagara Falls Water Board.**

**Although they are legally separate entities, blended component units are, in substance, part of the government entity's operations. The Authority is considered a component unit of the Water Board because the Water 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.**

**The Authority has received and accepted the independent auditors' reports of the audit of the years ended December 31: 2012, 2013, 2014, 2015, 2016, 2017 and 2018.**

14. **RESOLVED**, to adopt the following statement and Organizational Chart:

The Authority relies upon Water Board employees for its limited day-to-day operations. Its organizational chart is as follows:



15. **RESOLVED**, that whereas the Niagara Falls Water Board ultimately pays the Authority's expenses, the Authority recommends that the Water Board budget \$25,000 for Authority consultants and \$25,000 for Authority attorney fees, both being the estimated Authority expenses associated with bond issuances or refinancing in any given fiscal year.

16. **RESOLVED**, that upon consideration of the years' activities, the Authority adopts the following as its Annual Reports on Operations and Accomplishments:

**2018:** In 2018, the Water Authority conducted an annual business meeting, but was not requested to issue or refinance any debt. The Authority made all required debt payments.

**2017:** In 2017, the Water Authority was not requested to issue or refinance any debt. The Authority made all required debt payments.

17. **RESOLVED**, that pursuant to Section 2824-a of the PAL, the Authority adopts the following Mission Statement:

**In accordance with its enabling legislation, the mission of the Niagara Falls Public Water Authority is to finance the acquisition and improvement by the Niagara Falls Water Board of the water, wastewater, and stormwater systems serving the City of Niagara Falls. In this capacity, the Authority has been able substantially to reduce the burden of debt on users of the systems, and benefits the people of the City, the service area, and the State through the improvement of their health, welfare, and prosperity.**

18. **RESOLVED**, that pursuant to Section 2824-a of the PAL, the Authority adopts the following as its Performance Goals, and **IT IS FURTHER RESOLVED**, that the following constitute the Authority's 2017 and 2018 Performance Measurement Reports:

**a. Meeting annually, and within one month of any request by the Niagara Falls Water Board for a meeting of the Authority.**

2017 Result: Goal partially achieved inasmuch as no request by the Water Board for a meeting was received.

2018 Result: Goal achieved.

**b. Timely financing or refinancing of water, wastewater, and stormwater system acquisition or improvements upon the request of the Water Board.**

2017 Result: No financing or refinancing request received in 2018. Goal achieved.

2018 Result: No financing or refinancing request received in 2018. Goal achieved.

**c. Timely payment of all debt service and related amounts on obligations of the Authority.**

2017 Result: Goal achieved.

2018 Result: Goal achieved.

On June 13, 2019, the question of the adoption of the foregoing Resolution was duly put to a vote on roll call, which resulted as follows:

	<b>Yes</b>	<b>No</b>	<b>Abstain</b>	<b>Absent</b>
Daniel Weiss	[    ]	[    ]	[    ]	[    ]
Sanquin Starks	[    ]	[    ]	[    ]	[    ]
Jason Murgia	[    ]	[    ]	[    ]	[    ]
Signed By:			Vote Witnessed By:	

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Jason Murgia, Chairperson

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Sean W. Costello, Secretary to the Board

# Resolution 2019-01 Supporting Documents

1	04-08-2003 Authority By-Laws .....	2
2	1230-v Code of ethics .....	8
3	Annual Board Evaluation Form - Authority .....	10
4	Authority Financial Disclosure Form .....	11
5	Draft NFPWA 2019 Mission Statement and Measurement Form .....	15
6	Public Authorities Law Section 2824, 2824-a, and 2825 .....	17
7	2018 Audit and Investment Report .....	22
8	2017 Audit .....	86
9	2016 Audit .....	144
10	2015 Audit .....	200
11	2014 Audit .....	249
12	2013 Audit .....	288
13	2012 Audit .....	328

BY-LAWS

OF

NIAGARA FALLS PUBLIC WATER AUTHORITY

Pursuant to the authority contained in sections 1230-a through 1230-aa of Title 10-B of Article 5 of the Public Authorities Law, as set out in chapter two hundred seventy five of the Laws of Two Thousand Two of the State of New York (the "Authority Act"), the Niagara Falls Public Water Authority (the "Authority") hereby approves the following By-Laws for the regulation of its activities:

ARTICLE I  
SEAL

The official seal of the Authority shall be in the design circular in form bearing the words and dates as follows: Niagara Falls Public Water Authority 2002.

ARTICLE II  
OFFICE OF THE AUTHORITY

The principal office of the Authority shall be in the County of Niagara.

ARTICLE III  
FISCAL YEAR

The fiscal year of the Authority shall commence on January 1<sup>st</sup> of each calendar year and conclude at the close of business on December 31<sup>st</sup> of each calendar year. The fiscal year may be changed by resolution adopted at a regular or special meeting of the Authority.

ARTICLE IV  
MEMBERS OF THE AUTHORITY

SECTION 1. *Number.* The number of Members constituting the Authority shall be three (3).

SECTION 2. *Appointment.* One (1) Member shall serve by appointment of the Mayor of the City of Niagara Falls; one (1) Member shall serve by appointment of the Temporary President of the Senate at the recommendation of the Senator(s) representing all or a portion of the City of Niagara Falls; and one (1) Member shall serve by appointment of the Speaker of the Assembly at the recommendation of the Assembly member(s) representing all or a portion of the City of Niagara Falls.

SECTION 3. *Term.* The Member who shall serve by appointment of the Mayor of the City of Niagara Falls, shall be appointed for a term of office ending on December thirty-first of the third year following the year in which the Authority Act became law. The Member who shall serve

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by appointment of the Temporary President of the Senate, shall be appointed for a term ending on the thirty-first day of December of the fourth year following the year in which the Authority Act became law. The Member who shall serve by appointment of the Speaker of the Assembly, shall be appointed for a term ending on the thirty-first day of December of the fifth year following the year in which the Authority Act became law.

Subsequent appointments of Members shall be made for three (3) year terms ending in each instance on December thirty-first of the last year of such term. Members shall continue to hold office until their successors are appointed and qualify.

**SECTION 4. *Qualifications.*** All Members shall hold at a minimum, a bachelor's degree from an accredited college or university with concentration or a degree in one of the following areas of study and at least five (5) years of professional experience therein, or without such degree, such Member shall have at least ten (10) years of professional experience in one of the following fields: legal, environmental, financial, management, engineering, human resources or science.

**SECTION 5. *Residency.*** At all times, at least one Member shall be a resident of the City of Niagara Falls. Any Member fulfilling such requirement shall forfeit his/her Membership upon termination of residency in the City of Niagara Falls, which forfeiture shall create a vacancy.

**SECTION 6. *Vacancies.*** Vacancies on the Authority, created for any reason shall be filled in the manner provided for original appointment of Members. Any vacancy occurring other than by expiration of the term of office shall be filled by appointment for the unexpired term. Successor Members appointed under this Section shall hold office until their successors have been duly appointed and qualified.

**SECTION 7. *Removal.*** Members may be removed from office by the public officer or public body which is empowered by the Authority Act to appoint such Member, only for inefficiency, neglect of duty or misconduct in office, provided however, that such Member shall be given a copy of the charges against him/her and given an opportunity to be heard in person or by counsel, in his/her defense upon not less than ten (10) days notice.

**SECTION 8. *Compensation.*** Members shall receive no compensation for their services, but shall be reimbursed for their actual and necessary expenses incurred in connection with the carrying out of their duties on behalf of the Authority and the purposes of the Authority Act; provided however, that no Member shall be reimbursed for any expense of attending ordinary Authority meetings, or any other expense exceeding one thousand dollars (\$1,000) incurred with respect to any individual purpose, unless the Authority at a meeting duly called and held when all three (3) Members are present shall have authorized such expenditure by such Member.

#### ARTICLE V MEETINGS OF MEMBERS

**SECTION 1. *Annual Meeting.*** The Annual Meeting of the Members shall be held on the first day of March in each fiscal year, or if a legal holiday, on the next secular day, or on such date

and at such time as may be fixed by the Members for the transaction of business as may properly be brought before such meeting.

**SECTION 2. *Regular Meetings.*** Regular meetings of the Members shall be held at such times as the Members may from time to time determine. Each Member in each fiscal year shall attend at least seventy-five percent (75%) of all meetings of the Authority.

**SECTION 3. *Special Meetings.*** Special Meetings of the Members shall be held at any time, upon call by the Chair or of at least two-thirds (2/3rds) of the total number of Members.

**SECTION 4. *Place of Meetings.*** The Annual, regularly scheduled and Special Meetings of the Members shall be held at the principal office of the Authority or at such other place, within or without the State of New York, as the Members may from time to time determine.

**SECTION 5. *Notice of Meeting.*** Written or electronic notice of the place, day and hour of every regular and special meeting shall be given to each Member by delivering the same to such Member personally, or via facsimile, e-mail or other like transmission, at his/her residence or usual place of business, at least one (1) day before the meeting, or shall be sent regular or overnight to each Member, postage prepaid, and addressed to him/her at the last known Post Office address according to the records of the Authority, at least three (3) days before the meeting. No notice of any adjourned meeting of the Authority need be given other than by announcement at the meeting. All notices for Special Meetings shall state the purpose of the meeting and no business other than that stated in such notice shall be transacted at any Special Meeting, unless every qualified Member is present and it is unanimously agreed to consider matters other than those specifically provided for in notice of such Special Meeting.

**SECTION 6. *Waiver of Notice.*** Notice of a meeting need not be given to any Member who submits a signed written waiver thereof whether before, during or after the meeting nor to any Member who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such Member.

**SECTION 7. *Personal Attendance by Conference Communication Equipment.*** Anyone or more Members or any committee thereof may participate in a meeting of such Members by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear, or see and hear each other at the same time. Participation by such means shall constitute presence in person at the meeting.

**SECTION 8. *Conduct of Meetings.*** Meetings of the Members shall be presided over by the Chair of the Authority or in the absence of the Chair by the Vice Chair and in the absence of both a chair to be chosen at the meeting. The Secretary of the Authority shall act as Secretary of the meeting, if present.

**SECTION 9. *Voting.*** At all meetings of Members, each Member entitled to vote thereat shall have one (1) vote. The powers of the Authority shall be exercised by a majority of Members

present at any meeting at which a quorum is present, except as otherwise provided by law or these By-Laws.

SECTION 10. *Proxies.* There shall be no voting by proxy.

SECTION 11. *Quorum.* A majority of the duly appointed Members shall be necessary to constitute a quorum for the transaction of business at each meeting of the Authority; but if at any meeting there be less than a quorum present, a majority of those present may adjourn the meeting from time to time without notice other than by announcement at the meeting, until a quorum shall attend. At any adjournment, at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally called.

SECTION 12. *Committees.* The Authority may, in its discretion, by an affirmative vote of a majority of all Members appoint a Member or Members to serve as a Special Purpose Committee for the purpose of exploring and reviewing any issue as prescribed by the Chair. Any such committee shall consist of as many members as the Chair shall determine.

#### ARTICLE VI OFFICERS OF THE AUTHORITY

SECTION 1. *Appointment of Officers.* The officers of the Authority shall consist of a chair, a vice-chair, a treasurer and a secretary. Such secretary or treasurer need not be a Member of the Authority. Such officers shall be appointed by the Members of the Authority and shall serve in such capacities at the pleasure of the Authority. In addition to the secretary or treasurer, the Members may appoint, and at their pleasure remove such additional officers as it may deem necessary for the performance of the powers and duties of the Authority.

SECTION 2. *Tenure of Office.* All officers of the Authority shall hold office until their successors are chosen and qualify in their stead.

SECTION 3. *Removal.* Any Officer of the Authority may be removed with or without cause by a vote of the majority of the Members of the Authority at a meeting called for that purpose or whenever in the Member's judgment, the best interests of the Authority may be served thereby.

#### ARTICLE VII DUTIES OF OFFICERS

SECTION 1. *Chair of the Authority.* The Chair shall preside at all meetings of the Authority. The Chair shall be responsible for the discharge of the executive functions and powers of the Authority, but shall be empowered to delegate any one or more of such functions or powers, including, without limitation, that of appointment, discipline and removal of officers or employees, to one or more officers appointed by the Authority and shall perform such other duties as the Authority may direct. The Chair shall sign and execute, on behalf of the Authority, all contracts, instruments or other required documentation when so authorized by resolution of the Authority.

SECTION 2. *Vice Chair of the Authority.* The Vice Chair shall perform the duties of the Chair in the event the office of Chair is vacant, or in the event the Chair is unable to perform such duties by reason of illness, disability or absence and shall perform such other duties as may be designated by the Authority.

Section 3. *Secretary.* The Secretary shall attend and keep full minutes of all meetings of the Members in books provided for that purpose. He/she shall see that all notices are duly given in accordance with the provisions of these By-Laws or as required by law. He/she shall be the custodian of the records and of the Seal of the Authority. He/she shall affix the Seal to all documents, the execution of which on behalf of the Authority, under the Seal, is duly authorized by the Members and when so affixed may attest the same. He/she shall have such other powers and duties as may be properly designated by the Authority. The absence of a seal on a document, however, shall not invalidate such document.

SECTION 4. *Treasurer.* The Treasurer shall keep correct and complete books and records of account for the Authority. Subject to the control and supervision of the Authority, the Treasurer shall maintain banking arrangements to receive, have custody of and disburse the Authority's moneys and securities. He/she shall invest the Authority's funds as required, establish and coordinate policies for investment in pension and other similar trusts, and provide insurance coverage as required. He/she shall direct the granting of credit and the collection of accounts due the Authority. He/she shall have such other powers and duties as may be properly designated by the Authority. The Treasurer shall execute a bond, conditioned upon the faithful performance of the duties of his/her office. The amount and sufficiency of such bond shall be approved by the Authority and the premium therefor shall be paid for by the Authority.

SECTION 5. *Insurance.* The Authority may maintain insurance, at its expense, to protect itself, any officer, employee or agent of the Authority against any expense, liability or loss, whether or not the Authority would have the power to indemnify such person against such expense, liability or loss under this Article or applicable law.

#### ARTICLE VIII

##### DEFENSE AND INDEMNIFICATION OF OFFICERS AND MEMBERS

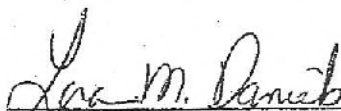
All of the Members and officers of the Authority are entitled to defense and indemnification from the Authority pursuant to and in accordance with section 18 of the New York Public Officers Law and shall not have personal liability resulting from the ownership, construction, maintenance or operation of any of the projects or properties of either the Authority or the Niagara Falls Water Board, or the carrying out of any of the powers of the Authority Act.

#### ARTICLE IX

##### AMENDMENTS

SECTION 1. *Power to Amend.* The Members shall have the power to adopt, amend or repeal the By-Laws of the Authority by a majority vote of the total number of Members, notwithstanding any vacancies.

Adopted: April 8, 2003



Name:

Title: Secretary

McKinney's Consolidated Laws of New York Annotated  
Public Authorities Law (Refs & Annos)  
Chapter 43-a. Of the Consolidated Laws  
Article 5. Public Utility Authorities  
Title 10-B. Niagara Falls Public Water Authority

McKinney's Public Authorities Law § 1230-v

§ 1230-v. Code of ethics

Effective: July 30, 2002

[Currentness](#)

1. As used in this section the term “employee” shall mean any member, officer, agent or employee of the authority or the water board.
2. No employee shall have any interest financial or otherwise, direct or indirect, or engage in any business or transaction or professional activity or incur any obligation of any nature, which is in substantial conflict with the proper discharge of his or her duties in the public interest.
3. Standards for such code of ethics shall be as follows:
  - (a) No employee shall accept other employment which will impair his or her independence of judgment in the exercise of his or her official duties.
  - (b) No employee shall accept employment or engage in any business or professional activity which will require the employee to disclose confidential information which he or she has gained by reason of his or her official position or authority.
  - (c) No employee shall disclose confidential information acquired by the employee in the course of his or her official duties nor use such information to further his or her personal interests.
  - (d) No employee shall use or attempt to use his or her official position to secure unwarranted privileges or exemptions for himself or herself or others.
  - (e) No employee shall engage in any transaction as representative or agent of the authority or water board with any person or business entity in which he or she has a direct or indirect financial interest that might reasonably tend to conflict with the proper discharge of his or her official duties.

(f) An employee shall not by his or her conduct give reasonable basis for the impression that any person can improperly influence such employee or unduly enjoy his or her favor in the performance of his or her official duties, or that he or she is affected by the kinship, rank, position or influence of any party or person.

(g) An employee shall abstain from making personal investments in enterprises which he or she has reason to believe may be directly involved in decisions to be made by the employee or which will otherwise create substantial conflict between his or her duty in the public interest and his or her private interest.

(h) An employee shall endeavor to pursue a course of conduct which will not raise suspicion among the public that he or she is likely to be engaged in acts that are in violation of his or her trust.

(i) No employee employed on a full-time basis nor any person, firm or association of which such an employee is a member, nor corporation a substantial portion of the stock of which is owned or controlled directly or indirectly by such employee, shall sell goods or services to any person, firm, corporation or association which is licensed or whose rates are fixed by the water board in which such employee serves or is employed.

(j) If any employee shall have a financial interest, direct or indirect, having a value of ten thousand dollars or more, in any activity which is subject to the jurisdiction of a regulatory agency, he or she shall file with the secretary of state and secretary of the water board a written statement that he or she has such a financial interest in such activity which statement shall be open to public inspection.

4. In addition to any penalty contained in any other provision of law, any such employee who shall knowingly and intentionally violate any of the provisions of this section may be fined, suspended or removed from office or employment in accordance with the rules and regulations of the water board. It shall be a misdemeanor for any such employee to be in any way or manner interested, directly or indirectly, in the furnishing of work, materials, supplies or labor, in any contract therefor which the authority or the water board is empowered to make by this title.

#### Credits

(Added [L.2002, c. 275, § 1, eff. July 30, 2002.](#))

McKinney's Public Authorities Law § 1230-v, NY PUB AUTH § 1230-v

Current through L.2019, chapter 31, 50-59. Some statute sections may be more current, see credits for details.

### Confidential Evaluation of Board Performance

Criteria	Agree	Somewhat Agree	Somewhat Disagree	Disagree
Board members have a shared understanding of the mission and purpose of the Water Auth.				
The policies, practices and decisions of the Board are always consistent with this mission.				
Board members comprehend their role and fiduciary responsibilities and hold themselves and each other to these principles.				
The Board has adopted policies, by-laws, and practices for the effective governance, management and operations of the Water Auth. and reviews these annually.				
The Board sets clear and measurable performance goals for the Water Auth. that contribute to accomplishing its mission.				
The decisions made by Board members are arrived at through independent judgment and deliberation, free of political influence, pressure or self-interest.				
Individual Board members communicate effectively with executive staff so as to be well informed on the status of all important issues.				
Board members are knowledgeable about the Water Authority programs, financial statements, reporting requirements, and other transactions.				
The Board meets to review and approve all documents and reports prior to public release and is confident that the information being presented is accurate and complete.				
The Board knows the statutory obligations of the Water Auth. and if the Water Auth. is in compliance with state law.				
Board and committee meetings facilitate open, deliberate and thorough discussion, and the active participation of members.				
Board members have sufficient opportunity to research, discuss, question and prepare before decisions are made and votes taken.				
Individual Board members feel empowered to delay votes, defer agenda items, or table actions if they feel additional information or discussion is required.				
The Board has identified the areas of most risk to the Water Auth. and works with management to implement risk mitigation strategies before problems occur.				
Board members demonstrate leadership and vision and work respectfully with each other.				

Date Completed: \_\_\_\_\_

# Niagara Falls Public Water Authority - Annual Financial Disclosure Form 2018

Adapted from:

## NIAGARA COUNTY ANNUAL FINANCIAL DISCLOSURE FORM – 2017 Name and Address

<b>First Name</b> Niagara Falls Public Water Authority	<b>Middle Name</b>	<b>Last Name</b> Authority Board Member
<b>Department/Agency or Committee</b> 5815 Buffalo Avenue, Niagara Falls, NY 14304		<b>Title</b> 716-283-9770
<b>Department Address</b>		<b>Phone</b>
<b>Residence Address</b>		<b>Phone</b>

### 1. Spouse and Dependent Children

Provide the name of your spouse (if married) and names of any dependent children:

Spouse	Child/Age
Child/Age	Child/Age

2. **Financial Interest: Note:** For questions 3 to 6, do not report the exact dollar amounts. Instead, report Categories of Amounts using the following:

<b>Category A:</b> Under \$5,000	<b>Category D:</b> \$25,000-50,000
<b>Category B:</b> \$5,001-10,000	<b>Category E:</b> \$50,001-100,000
<b>Category C:</b> \$10,001-25,000	<b>Category F:</b> Over \$100,000

- a. **Business Positions.** List any office, trusteeship, directorship, partnership or other position in any business, propriety or not-for-profit organization held by you and your spouse and dependent children, if any, and indicate whether these businesses are involved with the NFPWA

Name of Family Member	Position	Organization	Nature of Involvement

**b. Outside Employment.** Describe any outside occupation, employment, trade, business or profession providing more than \$1,000.00 for a year for you or your spouse and dependent children, if any, and indicate whether any such activities are regulated by any state or local agency.

Name of Family Member	Position	Name, Address Description of Organization	State or Local Agency	Category of Amount

**c. Future Employment.** Describe any contact, promise or other agreement between you and anyone else with respect to your employment after leaving your NFPWA office or position.


**d. Past Employment.** Identify the source and nature of any income in excess of \$1,000 per year from any prior employer including deferred income, contributions to pension or retirement fund, profit plan, severance pay or payments under a buy-out agreement.

Name & Address of Income Source	Description of Income (i.e., pension, deferred)	Category of Amount

**e. Investments.** Itemize and describe all investments in excess of \$5,000 or 5% of the value in any business, corporation, partnership or other assets including stocks, bonds, loans, pledged collateral or other investments for you, your spouse and dependent children, if any.

Name of Family Member	Name & Address of Real Estate	Description of Investment	Category of Amount

- f. **Trusts.** Identify each interest in a trust or estate or similar beneficial interest in any assets in excess of \$2,000 except form IRS eligible retirement plans or interest in an estate or trust of a relative for you and your spouse and dependent children.

Name of Family Member	Trustee/Executor	Description of Trust/Estate	Category of Amount

- g. **Other Income.** Identify the source and nature of any other income in excess of \$1,000 per year from any other source not described above,, including teaching income, lecture fees, consultant for contractual income or other income of any nature for you, your spouse and dependent children.

Name of Family Member	Name/Address of Source	Nature of Income	Category of Amount

3. **Gifts and Honorariums**

List source of all gifts aggregating in excess of \$250 received during the last year by you, your spouse or dependent children, excluding gifts from relatives. The term "gifts" includes gifts of cash, property, personal items, payments to third parties on your behalf, forgiveness of debt, honorariums and any other payments that are not reportable as income.

Name of Family Member	Name/Address of Donor	Category of Amount

4. **Third Party Reimbursements.**

Identify and describe the source of any third party reimbursement for travel related expenditures in excess of \$250 for any matter that relates to your official duties. The term "reimbursement" includes any travel related expenses provided by anyone other than the County for speaking engagements, conferences or fact finding events that relate to your official duties.

Source	Description	Category of Amount

**5. Debts.**

Describe all debts of you, your spouse and dependent children in excess of \$5,000.

Name of Family Member	Name/Address Creditor	Category of Amount
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**6. Interest in Contracts.**

Describe any interest of you, your spouse or dependent children in any contract involve the NFPWA or Niagara Falls Water Board.

Name of Family Member	Contract Description
-----------------------	----------------------


**8. Political Parties.**

List any position you held within the last five (5) years as an officer of any political party, political committee or political organization. The term "political organization" includes any independent or any organization that is affiliated with, or a subsidiary of a political party.


\_\_\_\_\_  
Signed

\_\_\_\_\_  
Date

RETURN TO:      NIAGARA COUNTY BOARD OF ETHICS  
                         c/o Human Resources Office  
                         111 Main Street, Suite G2  
                         Lockport, New York 14094

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## Authorities Budget Office Policy Guidance



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### Authority Mission Statement and Performance Measurements

#### Name of Public Authority:

Niagara Falls Public Water Authority

#### Public Authority's Mission Statement:

In accordance with its enabling legislation, the mission of the Niagara Falls Public Water Authority is to finance the acquisition and improvement by the Niagara Falls Water Board of the water, wastewater, and stormwater systems serving the City of Niagara Falls. In this capacity, the Authority has been able substantially to reduce the burden of debt on users of the systems, and benefits the people of the City, the service area, and the State through the improvement of their health, welfare, and prosperity.

#### Date Adopted:

#### List of Performance Goals (If additional space is needed, please attach):

1. Meeting annually, and within one month of any request by the Niagara Falls Water Board for a meeting of the Authority.
2. Timely financing or refinancing of water, wastewater, and stormwater system acquisition or improvements upon the request of the Water Board.
3. Timely payment of all debt service and related amounts on obligations of the Authority.

**Additional questions:**

1. Have the board members acknowledged that they have read and understood the mission of the public authority?

Yes.

2. Who has the power to appoint the management of the public authority?

The Authority's enabling legislation provides that one member each of its governing board are appointed by the NYS Senate, NYS Assembly, and Mayor of the City of Niagara Falls. The Authority's enabling legislation does not specifically empower it to have employees, and pursuant to its financing agreement with the Niagara Falls Water Board, the Authority "may not employ any paid officers or employees" but may retain independent contractors. Therefore, the Authority utilizes the services of Water Board employees to manage the day-to-day operations of the Authority.

3. If the Board appoints management, do you have a policy you follow when appointing the management of the public authority?

Not applicable.

4. Briefly describe the role of the Board and the role of management in the implementation of the mission.

The Authority's governing board is vested with and exercises the powers of the Authority, including approval of all debt issuances, approval of Authority contracts, and authorizing such other actions as may be taken by the Authority. Water Board employees perform day-to-day management of the Authority's limited operations.

5. Has the Board acknowledged that they have read and understood the responses to each of these questions?

Yes.

McKinney's Consolidated Laws of New York Annotated  
Public Authorities Law (Refs & Annos)  
Chapter 43-a. Of the Consolidated Laws  
Article 9. General Provisions (Refs & Annos)  
Title 2. Boards of Public Authorities

McKinney's Public Authorities Law § 2824

§ 2824. Role and responsibilities of board members

Effective: March 1, 2010

[Currentness](#)

1. Board members of state and local authorities shall (a) execute direct oversight of the authority's chief executive and other management in the effective and ethical management of the authority; (b) understand, review and monitor the implementation of fundamental financial and management controls and operational decisions of the authority; (c) establish policies regarding the payment of salary, compensation and reimbursements to, and establish rules for the time and attendance of, the chief executive and management; (d) adopt a code of ethics applicable to each officer, director and employee that, at a minimum, includes the standards established in [section seventy-four of the public officers law](#); (e) establish written policies and procedures on personnel including policies protecting employees from retaliation for disclosing information concerning acts of wrongdoing, misconduct, malfeasance, or other inappropriate behavior by an employee or board member of the authority, investments, travel, the acquisition of real property and the disposition of real and personal property and the procurement of goods and services; (f) adopt a defense and indemnification policy and disclose such plan to any and all prospective board members; (g) perform each of their duties as board members, including but not limited to those imposed by this section, in good faith and with that degree of diligence, care and skill which an ordinarily prudent person in like position would use under similar circumstances, and may take into consideration the views and policies of any elected official or body, or other person and ultimately apply independent judgment in the best interest of the authority, its mission and the public; (h) at the time that each member takes and subscribes his or her oath of office, or within sixty days after the effective date of this paragraph if the member has already taken and subscribed his or her oath of office, execute an acknowledgment, in the form prescribed by the authority's budget office after consultation with the attorney general, in which the board member acknowledges that he or she understands his or her role, and fiduciary responsibilities as set forth in paragraph (g) of this subdivision, and acknowledges that he or she understands his or her duty of loyalty and care to the organization and commitment to the authority's mission and the public interest.

2. Individuals appointed to the board of a public authority shall participate in state approved training regarding their legal, fiduciary, financial and ethical responsibilities as directors of an authority within one year of appointment to a board. Board members shall participate in such continuing training as may be required to remain informed of best practices, regulatory and statutory changes relating to the effective oversight of the management and financial activities of public authorities and to adhere to the highest standards of responsible governance.

3. No chair who is also the chief executive officer shall participate in determining the level of compensation or reimbursement, or time and attendance rules for the position of chief executive officer.

4. Board members of each state and local authority, or subsidiary thereof, shall establish an audit committee to be comprised of not less than three independent members, who shall constitute a majority on the committee, and who shall possess the necessary skills to understand the duties and functions of the audit committee; provided, however, that in the event that a board has less than three independent members, the board may appoint non-independent members to the audit committee, provided that the independent members must constitute a majority of the members of the audit committee. The committee shall recommend to the board the hiring of a certified independent accounting firm for such authority, establish the compensation to be paid to the accounting firm and provide direct oversight of the performance of the independent audit performed by the accounting firm hired for such purposes.

5. Notwithstanding any provision of any general, special or local law, municipal charter or ordinance to the contrary, no board of a state or local authority shall, directly or indirectly, including through any subsidiary, extend or maintain credit, arrange for the extension of credit, or renew an extension of credit, in the form of a personal loan to or for any officer, board member or employee (or equivalent thereof) of the authority.

6. Members of the audit committee shall be familiar with corporate financial and accounting practices.

7. Board members of each state and local authority, or subsidiary thereof, shall establish a governance committee to be comprised of not less than three independent members, who shall constitute a majority on the committee, and who shall possess the necessary skills to understand the duties and functions of the governance committee; provided, however, that in the event that a board has less than three independent members, the board may appoint non-independent members to the governance committee, provided that the independent members must constitute a majority of the members of the governance committee. It shall be the responsibility of the members of the governance committee to keep the board informed of current best governance practices; to review corporate governance trends; to recommend updates to the authority's corporate governance principles; to advise appointing authorities on the skills and experiences required of potential board members; to examine ethical and conflict of interest issues; to perform board self-evaluations; and to recommend by-laws which include rules and procedures for conduct of board business.

8. Board members of each state and local authority, or subsidiary thereof which issues debt, shall establish a finance committee to be comprised of not less than three independent members, who shall constitute a majority on the committee, and who shall possess the necessary skills to understand the duties and functions of the committee; provided, however, that in the event that a board has less than three independent members, the board may appoint non-independent members to the finance committee, provided that the independent members must constitute a majority of the members of the finance committee. It shall be the responsibility of the members of the finance committee to review proposals for the issuance of debt by the authority and its subsidiaries and make recommendations.

#### Credits

(Added L.2005, c. 766, § 18, eff. Jan. 13, 2006. Amended L.2009, c. 505, §§ 10, 11, eff. Feb. 9, 2010, repealed by L.2009, c. 506, § 29, eff. March 1, 2010; L.2009, c. 506, §§ 10, 11, 11-e, eff. March 1, 2010.)

McKinney's Public Authorities Law § 2824, NY PUB AUTH § 2824

Current through L.2019, chapter 34, 50-59. Some statute sections may be more current, see credits for details.

McKinney's Consolidated Laws of New York Annotated  
Public Authorities Law (Refs & Annos)  
Chapter 43-a. Of the Consolidated Laws  
Article 9. General Provisions (Refs & Annos)  
Title 2. Boards of Public Authorities

McKinney's Public Authorities Law § 2824-a

§ 2824-a. Mission statement and measurement report

Effective: March 1, 2010

[Currentness](#)

Each state authority shall submit to the authorities budget office on or before March thirty-first, two thousand ten, and each local authority shall submit to the authorities budget office on or before March thirty-first, two thousand eleven, a proposed authority mission statement and proposed measurements which the authorities budget office shall post on its website. The proposed authority mission statement and proposed measurements shall have the following components: a brief mission statement expressing the purpose and goals of the authority, a description of the stakeholders of the authority and their reasonable expectations from the authority, and a list of measurements by which performance of the authority and the achievement of its goals may be evaluated. Each authority shall reexamine its mission statement and measurements on an annual basis, and publish a self-evaluation based on the stated measurements; provided, however, such reexamination may be waived pursuant to a determination by the director of the authorities budget office that such undertaking is unnecessary for an individual authority.

**Credits**

(Added L.2009, c. 506, § 12, eff. March 1, 2010.)

McKinney's Public Authorities Law § 2824-a, NY PUB AUTH § 2824-a

Current through L.2019, chapter 34, 50-59. Some statute sections may be more current, see credits for details.

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McKinney's Consolidated Laws of New York Annotated  
Public Authorities Law (Refs & Annos)  
Chapter 43-a. Of the Consolidated Laws  
Article 9. General Provisions (Refs & Annos)  
Title 2. Boards of Public Authorities

McKinney's Public Authorities Law § 2825

§ 2825. Membership on authorities and commissions; independence; and financial disclosure

Effective: October 13, 2010

[Currentness](#)

Notwithstanding the provisions of any general, special or local law, municipal charter or ordinance: 1. No public officer or employee shall be ineligible for appointment as a trustee or member of the governing body of a state or local authority, as defined in [section two](#) of this chapter, and any public officer or employee may accept such appointment and serve as such trustee or member without forfeiture of any other public office or position of public employment by reason thereof.

2. Except for members who serve as members by virtue of holding a civil office of the state, the majority of the remaining members of the governing body of every state or local authority shall be independent members; provided, however, that this provision shall apply to appointments made on or after the effective date of chapter seven hundred sixty-six of the laws of two thousand five which added this subdivision. The official or officials having the authority to appoint or remove such remaining members shall take such actions as may be necessary to satisfy this requirement and further, shall consider the prospective diversity of the members of a state authority when making their determinations to appoint any member. For the purposes of this section, an independent member is one who:

- (a) is not, and in the past two years has not been, employed by the public authority or an affiliate in an executive capacity;
- (b) is not, and in the past two years has not been, employed by an entity that received remuneration valued at more than fifteen thousand dollars for goods and services provided to the public authority or received any other form of financial assistance valued at more than fifteen thousand dollars from the public authority;
- (c) is not a relative of an executive officer or employee in an executive position of the public authority or an affiliate; and
- (d) is not, and in the past two years has not been, a lobbyist registered under a state or local law and paid by a client to influence the management decisions, contract awards, rate determinations or any other similar actions of the public authority or an affiliate.

3. Notwithstanding any other provision of any general, special or local law, municipal charter or ordinance to the contrary, board members, officers, and employees of a state authority shall file annual financial disclosure statements as required by [section seventy-three-a of the public officers law](#). Board members, officers, and employees of a local public authority shall file annual financial disclosure statements with the county board of ethics for the county in which the local public authority has its primary office pursuant to article eighteen of the general municipal law.

### Credits

(Formerly § 1851, added L.1954, c. 74, § 1, eff. March 3, 1954. Renumbered § 2501, L.1956, c. 925, § 1. Renumbered § 2525, L.1957, c. 914, § 19. Renumbered § 2825, L.1983, c. 838, § 16. Amended L.2005, c. 766, § 19, eff. Jan. 13, 2006; L.2009, c. 505, § 13, eff. Feb. 9, 2010, repealed by L.2009, c. 506, § 29, eff. March 1, 2010; L.2009, c. 506, § 13, eff. March 1, 2010; L.2010, c. 174, § 1, eff. Oct. 13, 2010.)

McKinney's Public Authorities Law § 2825, NY PUB AUTH § 2825

Current through L.2019, chapter 34, 50-59. Some statute sections may be more current, see credits for details.

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NIAGARA FALLS WATER BOARD

Basic Financial Statements,  
Supplementary Information and  
Independent Auditors' Report  
December 31, 2018 and 2017

# NIAGARA FALLS WATER BOARD

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## 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, 2018 and 2017, 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, 2018 and 2017, 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.

### Other Matters

As described in note 1(d) to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," during the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

### 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 44 through 46 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 audits 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.

The other supplementary 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary 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 15, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Board's internal control over financial reporting and compliance.

EFPR Group, CPAs, PLLC

Williamsville, New York  
April 15, 2019

NIAGARA FALLS WATER BOARD  
Management's Discussion and Analysis  
December 31, 2018 and 2017

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, 2018 and 2017.

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 \$(4,121,136) and \$55,546,505 (net position) at December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, \$(62,040,700) and \$1,679,945 (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, 2018 and 2017 was \$2,049,284 and \$937,446, respectively.
- The Board's total bond indebtedness decreased by \$4,044,754 during the current fiscal year, as a result of principal payments made of \$3,915,000 and premium amortization of \$129,754.
- The Board reflected a liability for postemployment benefits of \$87,609,060 and \$27,393,994 at December 31, 2018 and 2017, respectively.
- The Board implemented Governmental Accounting Standards Board (GASB) Statement No 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." This resulted in a restatement of net position of \$58,986,686.

### **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.

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

<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	

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 41 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 \$(4,121,136) at December 31, 2018, as compared to \$55,546,505 at December 31, 2017, as presented as follows:

<b><u>Niagara Falls Water Board's Net Position</u></b>				
	<u>December 31,</u>		<u>Increase/(Decrease)</u>	
	<u>2018</u>	<u>2017</u>	<u>Dollars</u>	<u>Percent</u>
Current assets	\$ 31,479,515	33,805,510	(2,325,995)	(6.9%)
Noncurrent assets	<u>152,335,662</u>	<u>152,388,407</u>	<u>(52,745)</u>	(0.1%)
Total assets	<u>183,815,177</u>	<u>186,193,917</u>	<u>(2,378,740)</u>	(1.3%)
Deferred outflows	<u>1,821,720</u>	<u>1,415,110</u>	<u>406,610</u>	28.7%

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

	December 31,		Increase/(Decrease)	
	<u>2018</u>	<u>2017</u>	<u>Dollars</u>	<u>Percent</u>
Current liabilities	\$ 11,710,927	9,890,152	1,820,775	18.4%
Noncurrent liabilities	<u>175,566,392</u>	<u>120,932,772</u>	<u>54,633,620</u>	45.2%
Total liabilities	<u>187,277,319</u>	<u>130,822,924</u>	<u>56,454,395</u>	43.2%
Deferred inflows	<u>2,480,714</u>	<u>1,239,598</u>	<u>1,241,116</u>	100.1%
Net investment in capital assets	26,040,626	20,904,136	5,136,490	24.6%
Restricted	31,878,938	32,962,424	(1,083,486)	(3.3%)
Unrestricted	<u>(62,040,700)</u>	<u>1,679,945</u>	<u>(63,720,645)</u>	(3,793.0%)
Total net position	\$ <u>(4,121,136)</u>	<u>55,546,505</u>	<u>(59,667,641)</u>	(107.4%)

The Board's net investment in capital assets, is a surplus net position of \$26,040,626 and \$20,904,136 at December 31, 2018 and 2017, 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 \$(62,040,700) and \$1,679,945 at December 31, 2018 and 2017, 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 \$4,795,231 and \$3,799,654 at December 31, 2018 and 2017, respectively, represents funds that are set aside to be used towards debt service. The restricted capital projects portion of the Board's net position \$12,672,427 and \$13,617,444 at December 31, 2018 and 2017, 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 \$9,182,488 and \$8,822,394 at December 31, 2018 and 2017, respectively, represents funds for future debt service payments. The restricted operating and maintenance reserve fund portion of the Board's net position was \$5,228,792 and \$6,722,932 at December 31, 2018 and 2017, 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 decreased in 2018 by \$63,720,645 because of an increase in net investment in capital assets of \$5,136,490, a decrease of \$1,083,486 in restricted, a loss of \$680,955 and a restatement for other postemployment benefits of \$59,986,686.

A comparison of current assets to current liabilities of the Board at December 31, 2018 and 2017 follows:

	<u>2018</u>	<u>2017</u>
Current assets	\$ 31,479,515	33,805,510
Current liabilities	<u>11,710,927</u>	<u>9,890,152</u>
Ratio of current assets to current liabilities	2.69	<u>3.42</u>

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

The Board's total net position decreased by \$59,667,641 during the year ended December 31, 2018, as compared to a decrease of \$2,047,362 for the year ended December 31, 2017. Key elements of the current year's decrease in net position are as follows:

<b><u>Niagara Falls Water Board's Changes in Net Position</u></b>			
	<u>2018</u>	<u>2017</u>	Increase/ (decrease)
Total operating revenue	\$ 31,259,913	30,152,829	1,107,084
Total operating expenses	(29,210,629)	(29,215,383)	4,754
Operating income	2,049,284	937,446	1,111,838
Total non-operating revenue (expenses)	(2,730,239)	(2,984,808)	254,569
Change in net position, before restatement	(680,955)	(2,047,362)	1,366,407
GASB No.75 implementation	(58,986,686)	-	(58,986,686)
Change in net position, after restatement	\$ (59,667,641)	(2,047,362)	(57,620,279)

The Board's major sources of operating revenue are charges for water and sewer services which comprise approximately 99% of total operating revenue. These revenues combined comprise an approximate \$1.1 million increase in operating revenue in 2018. 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 2018 and approved rates for 2019.

The Board's largest operating expense area relates to its employees. Together, personnel costs (salaries) and employee benefits approximate 44% of all operating expenses. In 2018, these costs totaled approximately \$12.9 million as compared to \$14.2 million in 2017, representing an approximate \$1.3 million decrease in this area. This decrease is due to amortization of other postemployment benefits liability in 2017.

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 \$91,380,000 and \$95,295,000, at December 31, 2018 and 2017, respectively.

The following is a summary of the Board's cash flow activities for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Cash flows provided by (used in):		
Operating activities	\$ 10,269,567	11,176,527
Capital and related financing activities	(14,032,042)	(10,866,428)
Investing activities	<u>1,731,313</u>	<u>5,701,260</u>
Change in cash and equivalents	(2,031,162)	6,011,359
Cash and equivalents at beginning of year	<u>23,422,740</u>	<u>17,411,381</u>
Cash and equivalents at end of year	\$ <u>21,391,578</u>	<u>23,422,740</u>

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

The Board's available cash and equivalents decreased by \$2,031,162 during the year ended December 31, 2018, as compared to an increase of \$6,011,359 during the year ended December 31, 2017. Cash provided by operating activities reflected a positive balance of \$10,269,567 for the year ended December 31, 2018.

**Capital Assets and Debt Administration**

**Capital Assets** - The Board's investment in capital assets (net of accumulated depreciation) as of December 31, 2018, amounted to \$120,456,724, as compared to \$119,425,983 at December 31, 2017. 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 \$7,483,243.
- Additions to construction in progress totaled \$7,483,243. Completed capital projects transferred to depreciable asset categories totaled \$11,290,530.
- The Board recorded total depreciation of \$6,452,502 and \$6,111,206 for the years ended December 31, 2018 and 2017, respectively.

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

	<u>2018</u>	<u>2017</u>
Nondepreciable assets:		
Land	\$ 463,713	463,713
Construction in progress	3,184,153	6,991,440
Depreciable assets:		
Plant and transmission assets (water system)	46,875,435	47,712,419
Plant and transmission assets (wastewater system)	64,822,543	60,173,970
Machinery and equipment	<u>5,110,880</u>	<u>4,084,441</u>
Total	\$ <u>120,456,724</u>	<u>119,425,983</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, 2018, the Board had outstanding serial bonds totaling \$91,380,000 as compared to \$95,295,000 at December 31, 2017. During the year ended December 31, 2018, the Board made principal payments of \$3,915,000 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.

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

**Postemployment Benefits** - Upon retirement, the Board's employees are entitled to continuous health insurance coverage. At December 31, 2018 and 2017, the liability recorded for these benefits amounted to \$87,609,060 and \$27,393,994, respectively. This increase is due to the implementation of GASB Statement No. 75.

**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, 2018 is \$709,411, compared to December 31, 2017 is \$701,680. 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 \$35,471 of such liability is current at December 31, 2018.

**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 2018 and approved rates to be charged for 2019 are as follows:

	<u>2018</u>		<u>2019</u>	
	Amount to be charged (per 100 cubic feet)		Amount to be charged (per 100 cubic feet)	
<u>Amount Consumed</u>	<u>Inside city</u>	<u>Outside city</u>	<u>Inside city</u>	<u>Outside city</u>
First 20,000 cubic feet per quarter	3.35	8.95	3.42	9.13
Next 60,000 cubic feet per quarter	2.90	7.81	2.96	7.97
Next 120,000 cubic feet per quarter	2.46	6.51	2.51	6.64
Over 200,000 cubic feet per quarter	2.04	5.48	2.08	5.59
Minimum charge for water consumption per quarter	43.55	116.35	44.40	118.68

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>2018 Rate (per quarter)</u>	<u>2019 Rate (per quarter)</u>
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 2018 and rates to be charged during 2019 are as follows:

<u>Amount Consumed</u>	<u>2018</u>	<u>2019</u>
Minimum charge per quarter (up to 1,300 cubic feet)	\$ 57.64	58.79
Additional usage in excess of 1,300 cubic feet (\$/cubic feet)	4.43	4.52

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, 2018 and approved for 2019 were \$3,115 per million gallons for wastewater flow; \$1.00 per pound for all suspended solids discharged; and \$1.73 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, 2018 and 2017

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and equivalents	\$ 21,391,578	23,422,740
Accounts receivable, net of allowance for uncollectible accounts	8,740,792	8,669,935
Due from other governments, net of allowance for uncollectible accounts	1,250,223	1,340,184
Prepaid expenses	<u>96,922</u>	<u>372,651</u>
Total current assets	<u>31,479,515</u>	<u>33,805,510</u>
Noncurrent assets:		
Restricted cash and investments - capital projects	12,672,427	13,617,444
Restricted cash and investments - debt service fund	4,795,231	3,799,654
Restricted cash and investments - debt service reserve fund	9,182,488	8,822,394
Restricted cash and investments - operating and maintenance reserve	5,228,792	6,722,932
Capital assets:		
Land	463,713	463,713
Waste and waste water system	179,692,253	170,159,589
Machinery and equipment	10,079,046	8,321,180
Construction in progress	3,184,153	6,991,440
Less accumulated depreciation	<u>(72,962,441)</u>	<u>(66,509,939)</u>
Total capital assets, net of accumulated depreciation	<u>120,456,724</u>	<u>119,425,983</u>
Total noncurrent assets	<u>152,335,662</u>	<u>152,388,407</u>
Total assets	<u>183,815,177</u>	<u>186,193,917</u>
<u>Deferred Outflows of Resources</u>		
Pensions	<u>1,821,720</u>	<u>1,415,110</u>

(Continued)

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD  
Statements of Net Position, Continued

<u>Liabilities</u>	<u>2018</u>	<u>2017</u>
Current liabilities:		
Accounts payable	\$ 2,855,551	1,679,879
Accrued liabilities	2,178,090	2,262,617
Overpayments	4,850	3,000
Current portion of noncurrent liabilities:		
Compensated absences	35,471	35,084
Total OPEB liability	2,581,965	1,994,572
Bonds payable	<u>4,055,000</u>	<u>3,915,000</u>
Total current liabilities	<u>11,710,927</u>	<u>9,890,152</u>
Noncurrent liabilities:		
Compensated absences	673,940	666,596
Total OPEB liability	85,027,095	25,399,422
Bonds payable	89,390,249	93,575,003
Net pension liability - proportionate share - ERS System	<u>475,108</u>	<u>1,291,751</u>
Total noncurrent liabilities	<u>175,566,392</u>	<u>120,932,772</u>
Risk management and contingent liabilities (note 11)		
Total liabilities	<u>187,277,319</u>	<u>130,822,924</u>
<u>Deferred Inflows of Resources</u>		
Pensions	1,509,865	207,754
Gain on refunding	<u>970,849</u>	<u>1,031,844</u>
Total deferred inflows of resources	<u>2,480,714</u>	<u>1,239,598</u>
<u>Net Position</u>		
Net investment in capital assets	26,040,626	20,904,136
Restricted for capital projects	12,672,427	13,617,444
Restricted for debt service fund	4,795,231	3,799,654
Restricted for debt service reserve fund	9,182,488	8,822,394
Restricted for operating and maintenance	5,228,792	6,722,932
Unrestricted	<u>(62,040,700)</u>	<u>1,679,945</u>
Total net position	<u>\$ (4,121,136)</u>	<u>55,546,505</u>

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD  
Statements of Revenue, Expenses and Changes in Net Position  
Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenue:		
Water rents and charges	\$ 10,772,298	10,201,166
Sewer rents and charges	20,019,512	19,430,827
Licenses and permits	222,950	227,396
Other services	<u>245,153</u>	<u>293,440</u>
Total operating revenue	<u>31,259,913</u>	<u>30,152,829</u>
Operating expenses:		
Personnel costs	6,065,718	5,432,579
Contractual expenses	9,902,911	8,928,037
Employee benefits	6,789,498	8,743,561
Depreciation expense	<u>6,452,502</u>	<u>6,111,206</u>
Total operating expenses	<u>29,210,629</u>	<u>29,215,383</u>
Operating income	<u>2,049,284</u>	<u>937,446</u>
Non-operating revenue (expenses):		
Use of money and property	647,827	459,709
Gain on sale of property	8,783	11,039
Interest expense	<u>(3,386,849)</u>	<u>(3,455,556)</u>
Total non-operating revenue (expenses)	<u>(2,730,239)</u>	<u>(2,984,808)</u>
Change in net position	<u>(680,955)</u>	<u>(2,047,362)</u>
Net position at beginning of year, before restatement	55,546,505	57,593,867
Cumulative effect of change in accounting principle (note 14)	<u>(58,986,686)</u>	<u>-</u>
Net position at beginning of year, as restated	<u>(3,440,181)</u>	<u>57,593,867</u>
Net position at end of year	<u>\$ (4,121,136)</u>	<u>55,546,505</u>

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD  
Statements of Cash Flows  
Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 31,280,867	30,701,932
Payments to suppliers	(9,418,908)	(8,686,164)
Payments to employees	<u>(11,592,392)</u>	<u>(10,839,241)</u>
Net cash provided by operating activities	<u>10,269,567</u>	<u>11,176,527</u>
Cash flows from capital and related financing activities:		
Gain on sale of property	8,783	11,039
Acquisition of capital assets	(6,515,845)	(3,736,530)
Amortization of deferred gain on refunding	(60,995)	(60,996)
Amortization of premium on capital debt	(129,754)	(129,753)
Principal paid on capital debt	(3,915,000)	(3,780,000)
Interest paid on capital debt	<u>(3,419,231)</u>	<u>(3,170,188)</u>
Net cash used in capital and related financing activities	<u>(14,032,042)</u>	<u>(10,866,428)</u>
Cash flows from investing activities:		
Interest earned	647,827	459,709
Change in restricted cash and investments - capital projects	945,017	1,680,000
Change in restricted cash and investments - debt service fund	(995,577)	19,106,877
Change in restricted cash and investments - debt service reserve fund	(360,094)	(8,822,394)
Change in restricted cash and investments - operating and maintenance	<u>1,494,140</u>	<u>(6,722,932)</u>
Net cash provided by investing activities	<u>1,731,313</u>	<u>5,701,260</u>
Change in cash and equivalents	(2,031,162)	6,011,359
Cash and equivalents at beginning of year	<u>23,422,740</u>	<u>17,411,381</u>
Cash and equivalents at end of year	<u>\$ 21,391,578</u>	<u>23,422,740</u>

(Continued)

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD  
Statements of Cash Flows, Continued

	<u>2018</u>	<u>2017</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,049,284	937,446
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	6,452,502	6,111,206
Changes in:		
Accounts receivable	(70,857)	251,125
Due from other governments	89,961	122,756
Prepaid expenses	275,729	(5,591)
Note receivable	-	172,222
Accounts payable	208,274	247,464
Accrued liabilities	(52,145)	40,683
Overpayments	1,850	3,000
Compensated absences	7,731	(96,431)
Total OPEB liability	1,228,380	3,251,599
Net pension liability - proportionate share - ERS System	(816,643)	(865,491)
Deferred outflows of resources - pensions	(406,610)	1,069,948
Deferred inflows of resources - pensions	1,302,111	(63,409)
Total adjustments	<u>8,220,283</u>	<u>10,239,081</u>
Net cash provided by operating activities	<u>\$ 10,269,567</u>	<u>11,176,527</u>
Supplemental schedule of cash flow information - adjustment for capital assets financed by accounts payable	<u>\$ 1,840,594</u>	<u>873,196</u>

See accompanying notes to financial statements.

# NIAGARA FALLS WATER BOARD

## Notes to Financial Statements

December 31, 2018 and 2017

### (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 19,536 residential, 329 commercial and 24 large industrial type customers. Total population served by the water system is estimated at 51,000. The average daily demand is 23.1 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 of Resources, Liabilities, Deferred Inflows of Resources 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, 2018 and 2017, the total amount restricted for capital projects amounted to \$12,672,427 and \$13,617,444, 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 5, were established requiring resources (consisting of cash and investments) to be maintained for specific purposes necessary to operate the water and sewer systems. At December 31, 2018 and 2017, the total amount restricted for debt service fund amounted to \$4,795,231 and \$3,799,654, respectively.

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. At December 31, 2018 and 2017, the total amount restricted for debt service reserve fund amounted to \$9,182,488 and \$8,822,394, respectively.
- Restricted Cash and Investments - Operating and Maintenance - This fund is restricted to pay the cost of extraordinary repairs to and maintenance of the system. At December 31, 2018 and 2017, the total amount restricted for operating and maintenance amounted to \$5,228,792 and \$6,722,932, respectively.

- 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 of Resources, Liabilities, Deferred Inflows of Resources 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.

An 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, 2018.

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 of Resources, Liabilities, Deferred Inflows of Resources 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 of Resources, Liabilities, Deferred Inflows of Resources and Net Position, Continued

- During the year ended December 31, 2018, the Board adopted provisions of GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). See note 7 and note 14 of the financial statements for the impact of the implementation on the financial statements.

In addition to providing pension benefits, the Board provides postemployment health insurance coverage and survivor benefits to retired employees and their survivors in accordance with the provisions of various employment contracts in effect at the time of retirement. Substantially all of the Board's employees may become eligible for these benefits if they reach normal retirement age while working for the Board. Health care benefits are provided through the Board's self-insurance plan. The Board pays 100% of the cost for retiree's health care insurance, excluding co-pays which are the sole responsibility of the retirees. Survivor beneficiaries reimburse the Board monthly for 100% of the calculated premiums. The Board recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure.

- Bond and Note Discounts/Premiums - Discounts and premiums are presented as components of bonds or notes 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 obligations are reported as liabilities in the accompanying Statements of Net Position.
- 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 8.
- Deferred Outflows of Resources and Deferred Inflows of Resources - Deferred outflows of resources represents 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.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

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

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.

(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.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(2) Cash and Equivalents and Investments, Continued

The Board's cash and equivalents at December 31, 2018 and 2017 include the following captions on the statements of net position:

	<u>2018</u>	<u>2017</u>
Cash and equivalents	\$ 21,391,578	23,422,740
Restricted cash and investments:		
Capital projects	12,672,427	13,617,444
Debt service fund	4,795,231	3,799,654
Debt service reserve fund	9,182,488	8,822,394
Operating and maintenance	<u>5,228,792</u>	<u>6,722,932</u>
Total	\$ <u>53,270,516</u>	<u>56,385,164</u>

Cash and equivalents are comprised of the following:

	<u>2018</u>	<u>2017</u>
Petty cash (uncollateralized)	\$ 100	100
Deposits	25,248,079	47,461,390
Investments	<u>28,022,337</u>	<u>8,923,674</u>
Total	\$ <u>53,270,516</u>	<u>56,385,164</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, 2018 and 2017, 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, 2018 and 2017, 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, 2018, consist of the following:

<u>Investments</u>	<u>Maturity</u>	<u>Fair Value</u>
U.S. Treasuries Notes	1/31/19 - 11/1/41	\$ 11,603,121
Federal Home Mortgage Corp.	1/14/19 - 5/28/20	12,931,227
Certificates of Deposit	4/30/18 - 12/2/20	<u>3,487,989</u>
Total investments		\$ <u>28,022,337</u>

These investments are classified as Level 1.

Maturity Schedule

Less than one year	\$ 18,908,759
More than one year	<u>9,113,578</u>
	\$ <u>28,022,337</u>

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(2) Cash and Equivalents and Investments, Continued

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>

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, 2018, the Board held 46%, 42% and 12% of its investment balance in Federal Home Mortgage Corp., U.S. Treasury Notes, and Certificates of Deposit, respectively.

(3) Receivables

Major revenues accrued by the Board at December 31, 2018 and 2017 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.

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.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(3) Receivables, Continued

(a) Accounts Receivable, Continued

As of December 31, 2018, \$1,307,973 was included in allowance for uncollectible accounts to account for receivable balances that may not be collected. 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.

(b) Due from Other Governments

Due from other governments represents amounts due from the City for the tax transfer. Amounts accrued at December 31, 2018 and 2017 consist of \$1,250,223 and \$1,340,184, respectively.

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 \$6,286,360 and \$6,115,063 at December 31, 2018 and 2017, respectively. Management has recorded an allowance for uncollectible accounts with respect to these balances of \$5,036,137 and \$4,774,879 at December 31, 2018 and 2017, respectively.

(4) Capital Assets

The Board's capital assets activity for the years ended December 31, 2018 and 2017 is summarized as follows:

	Balance <u>1/1/2018</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/2018</u>
Capital assets, not being depreciated:				
Land	\$ 463,713	-	-	463,713
Construction in progress	<u>6,991,440</u>	<u>7,483,243</u>	<u>(11,290,530)</u>	<u>3,184,153</u>
Total capital assets not being depreciated	<u>7,455,153</u>	<u>7,483,243</u>	<u>(11,290,530)</u>	<u>3,647,866</u>
Capital assets, being depreciated:				
Plant and transmission costs:				
Water system	87,610,212	2,102,630	-	89,712,842
Wastewater system	82,549,377	7,430,034	-	89,979,411
Machinery and equipment	<u>8,321,180</u>	<u>1,757,866</u>	<u>-</u>	<u>10,079,046</u>
Total capital assets being depreciated	<u>178,480,769</u>	<u>11,290,530</u>	<u>-</u>	<u>189,771,299</u>

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(4) Capital Assets, Continued

	Balance <u>1/1/2018</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/2018</u>
Less accumulated depreciation:				
Plant and transmission costs:				
Water system	\$ (39,897,793)	(2,939,614)	-	(42,837,407)
Wastewater system	(22,375,407)	(2,781,461)	-	(25,156,868)
Machinery and equipment	<u>(4,236,739)</u>	<u>(731,427)</u>	<u>-</u>	<u>(4,968,166)</u>
Total accumulated depreciation	<u>(66,509,939)</u>	<u>(6,452,502)</u>	<u>-</u>	<u>(72,962,441)</u>
Total being depreciated, net	<u>111,970,830</u>	<u>4,838,028</u>	<u>-</u>	<u>116,808,858</u>
Capital assets, net	\$ <u>119,425,983</u>	<u>12,321,271</u>	<u>(11,290,530)</u>	<u>120,456,724</u>
	Balance <u>1/1/2017</u>	<u>Increases</u>	<u>Decreases</u>	Balance <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) 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.

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.

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 \$4,100,000. 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 approximately \$4.1 million. The accounting gain on this refunding was originally \$1,097,923 which will be amortized through 2034. The unamortized gain on refunding amounted to \$970,849 and \$1,031,844 at December 31, 2018 and 207, respectively

Serial bond activity for the year ended December 31, 2018 is presented on the following page:

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(5) Bond Indebtedness, Continued

Serial Bond Activity:

	<u>Year of Issue</u>	<u>Year of Maturity</u>	<u>Interest Rate %</u>	<u>Original Amount</u>	<u>Principal Outstanding 1/1/2018</u>	<u>Issued</u>	<u>Paid</u>	<u>Principal Outstanding 12/31/2018</u>
Niagara Falls Public Water Authority Bonds:								
Series 2013A Bonds	2013	2034	3.0 - 5.0	\$ 36,060,000	35,200,000	-	310,000	34,890,000
Series 2013B Bonds	2013	2024	4.309	8,415,000	5,460,000	-	825,000	4,635,000
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	11,865,000	-	575,000	11,290,000
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	2,240,000	-	1,240,000	1,000,000
Series 2013B - Drinking Water	2013	2019	5.14 - 5.59	3,385,000	1,120,000	-	620,000	500,000
Series 2015D - Drinking Water	2015	2034	3.81 - 4.57	4,380,000	4,055,000	-	-	4,055,000
Series 2014B - Drinking Water	2014	2021	5.40	4,095,000	4,095,000	-	175,000	3,920,000
Series 2012B - Clean Water	2012	2041	0.26 - 4.27	6,607,122	5,550,000	-	170,000	5,380,000
Totals				<u>\$ 109,452,122</u>	<u>95,295,000</u>	<u>-</u>	<u>3,915,000</u>	<u>91,380,000</u>

Reconciliation to statements of net position:

Principal outstanding	\$ 95,295,000	91,380,000
Unamortized premium on bonds	<u>2,195,003</u>	<u>2,065,249</u>
	<u>\$ 97,490,003</u>	<u>93,445,249</u>
Current portion of bonds payable	3,915,000	4,055,000
Noncurrent portion of bonds payable	<u>93,575,003</u>	<u>89,390,249</u>
	<u>\$ 97,490,003</u>	<u>93,445,249</u>

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(5) Bond Indebtedness, Continued

The annual maturities of long-term debt as of December 31, 2018 are as follows:

<u>Year</u>	<u>Premium on bonds</u>	<u>Serial bonds</u>	<u>Total</u>
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	129,754	4,575,000	4,704,754
2024-2028	648,770	27,215,000	27,863,770
2029-2033	648,770	33,140,000	33,788,770
2034-2038	118,939	8,305,000	8,423,939
2039-2041	-	1,245,000	1,245,000
	<u>\$ 2,065,249</u>	<u>91,380,000</u>	<u>93,445,249</u>

Annual interest payments due on serial bonds as of December 31, 2018 are as follows:

2019	\$ 3,132,360
2020	3,228,716
2021	2,741,537
2022	2,939,642
2023	2,527,988
2024-2028	11,377,764
2029-2033	5,490,759
2034-2038	507,131
2039-2041	<u>100,474</u>
Total	\$ <u>32,046,371</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, 2018, 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

(5) 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.

(6) 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. The current portion of the liability amounted to \$35,471 and \$35,084 at December 31, 2018 and 2017, respectively. The long-term portion of the liability amounted to \$673,940 and \$666,596 at December 31, 2018 and 2017, respectively.

(7) Other Postemployment Benefits (OPEB)

Plan Description and Benefits

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 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.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(7) Postemployment Benefits, Continued

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. At December 31, 2018 and 2017, the current portion of the postemployment benefits liability was \$2,581,965 and \$1,994,572, respectively. The noncurrent portion of the postemployment benefits liability amounted to \$85,027,095 and \$25,399,422 at December 31, 2018 and 2017, respectively.

Employees covered by benefit terms

At December 31, 2018, the following employees were covered by the benefit terms:

Current retirees	97
Active employees	<u>88</u>
	<u>185</u>

Total OPEB Liability

The Board's total OPEB liability of \$87,609,060 was measured as of December 31, 2018 and was determined by an actuarial valuation as of January 1, 2018.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Salary increases	3.0%
Discount rate	3.8%
Inflation	2.60%
Healthcare cost trend rates	7.0% for 2018, decreasing to an ultimate rate of 5.0% for 2024

Mortality rates were based on the Society of Actuaries Mortality Improvement Scale MP-2018.

Changes in the Total OPEB Liability

Original OPEB liability as of January 1, 2018 (under GASB 45)	\$ 27,393,994
Cumulative effect of change in accounting principle (required by GASB 75)	<u>58,986,686</u>
Total OPEB liability as of January 1, 2018	<u>86,380,680</u>
Changes for the year:	
Service cost	540,656
Interest	3,234,085
Benefit payments	<u>(2,546,361)</u>
Total changes	<u>1,228,380</u>
Total OPEB liability as of December 31, 2018	\$ <u>87,609,060</u>

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(7) Postemployment Benefits, Continued

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the total OPEB liability of the Board, as well as what the Board's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.8%) or 1-percentage-point higher (4.8%) than the current discount rate:

	1% Decrease (2.8%)	Current Discount Rate (3.8%)	1% Increase (4.8%)
Total OPEB liability	\$ 105,269,459	87,609,060	74,388,584

Sensitivity of the total OPEB liability to changes in the healthcare costs trend rates

The following presents the total OPEB liability of the Board, as well as what the Board's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

	1% Decrease	Current Trend Rate	1% Increase
Total OPEB liability	\$ 72,723,841	87,609,060	107,037,190

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the Board recognized OPEB expense of \$3,774,741. At December 31, 2018, the Board reported no deferred outflows of resources and deferred inflows of resources related to OPEB.

The Board implemented GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" effective for its fiscal year beginning January 1, 2018. With the implementation of GASB No. 75, the method of calculating and recording the OPEB liability has changed significantly and therefore the Board has determined the presentation of GASB No. 45 information for the prior year is not warranted.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(8) 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](http://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>
2018	\$ 583,405
2017	659,383
2016	646,238

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(8) Pension Plans, Continued

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

At December 31, 2018 and 2017, 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, 2018 and 2017. 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. At December 31, 2018, the Board's proportion was 0.0147209%, which was an increase of 0.0009733 from its proportion measured as of March 31, 2017.

Measurement date	3/31/2018	3/31/2017
Board's proportionate share of the net pension liability	\$ 475,108	1,291,751
Board's proportion of the Plan's net pension liability	0.0147209%	0.0137476%

For the year ended December 31, 2018 and 2017, the Board recognized pension expense of \$662,236 and \$800,430 for ERS, respectively. At December 31, 2018 and 2017 the Board's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2018</u>		<u>2017</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	\$ 169,456	140,032	32,370	196,160
Changes of assumptions	315,036	-	441,309	-
Net difference between projected and actual earnings on pension plan investments	690,057	1,362,104	258,015	-
Changes in proportion and differences between the Board's contributions and proportionate share of contributions	229,698	7,729	185,704	11,594
Board's contributions subsequent to the measurement date	<u>417,473</u>	<u>-</u>	<u>497,712</u>	<u>-</u>
Total	\$ <u>1,821,720</u>	<u>1,509,865</u>	<u>1,415,110</u>	<u>207,754</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

(8) Pension Plans, Continued

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

<u>Year ending</u>	<u>ERS</u>
2019	\$ 189,560
2020	132,756
2021	(295,210)
2022	(132,724)
	\$ (105,618)

(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:

Actuarial valuation date	April 1, 2017
Measurement date	March 31, 2018
Investment rate of return (net of investment expense, including inflation)	7.0%
Salary increases	3.8%
Inflation rate	2.5%
Cost-of-living adjustments	1.3%

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, 2017 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. The target allocation and best estimates of the arithmetic real rates of return for each major asset class are summarized as follows:

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(8) Pension Plans, Continued

(c) Actuarial Assumptions, Continued

Measurement date

March 31, 2018

	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	7.50%	10.00%
Real estate	5.55%	10.00%
Absolute return strategies	3.75%	2.00%
Opportunistic portfolio	5.68%	3.00%
Real assets	5.29%	3.00%
Bonds and mortgages	1.31%	17.00%
Cash	(0.25%)	1.00%
Inflation - indexed bonds	1.25%	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 2018 and 2017. 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 those 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%)
Board's proportionate share of the net pension asset (liability)	\$ (3,594,798)	(475,108)	2,164,024

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(8) 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	3/31/2018	3/31/2017
Employers' total pension liability	\$(183,400)	(177,400)
Fiduciary net position	<u>180,173</u>	<u>168,004</u>
Employers' net pension liability	\$ <u>(3,227)</u>	<u>(9,396)</u>
Ratio of fiduciary net position to the employers' total pension liability	98.24%	94.70%

(g) Contributions to the Pension Plan

Employer contributions are paid annually based on the System's fiscal year which ends on March 31<sup>st</sup>. Retirement contributions as of December 31, 2018 and 2017 represent the projected employer contribution for the period of April 1, 2018 through March 31, 2019 and April 1, 2017 through March 31, 2018, 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.

(9) 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 \$26,040,626 and \$20,904,136 at December 31, 2018 and 2017, 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

(9) 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 \$12,672,427 and \$13,617,444 at December 31, 2018 and 2017, 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, 2018 and 2017 of \$4,795,231 and \$3,799,654, respectively, are for debt service.

Restricted for Debt Service Reserve Fund:

Amounts restricted for the debt service reserve fund is \$9,182,488 and \$8,822,394 at December 31, 2018 and 2017, respectively. 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 \$6,707,955 and \$7,179,698 at December 31, 2018 and 2017, respectively. This resulted in excess reserves of \$2,474,533 and \$1,642,696 at December 31, 2018 and 2017, respectively.

Restricted for Operations and Maintenance:

Amounts restricted for operations and maintenance is \$5,228,792 and \$6,722,932 at December 2018 and 2017, respectively. 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, 2018 and 2017, there was excess reserves of \$359,561 and \$2,021,941, respectively. The required minimum balance is 1/6<sup>th</sup> of prior year operating expenses which equates to \$4,869,231 and \$4,700,991 at December 2018 and 2017, respectively.

Unrestricted Net Position - This category represents net position of the Board not restricted for any project or other purpose. Additions of \$5,136,490 to net investment in capital assets and decreases of \$1,083,486 to net position decreased unrestricted net position by \$4,053,004. The total loss for the year of \$680,955 also decreased unrestricted net position. Net position at the beginning of the year decreased by \$58,986,686 due to the implementation of GASB Statement No. 75.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(10) 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 started negotiated new contracts with the bargaining units as of June 2017.

(11) Risk Management and Contingent Liabilities

Risk management and contingent liabilities at December 31, 2018 and 2017 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, 2018 and 2017.

(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.

(12) 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 42 - 43 and reserves analysis noted in note 9.

(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

(13) Accounting Standards Issued But Not Yet Implemented

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. 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.

GASB Statement No. 88 - "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements." This Statement, issued in April of 2018, requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The provisions 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. Management is in the process of evaluating the potential impact of this Statement on the financial statements of the Board.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(13) Accounting Standards Issued But Not Yet Implemented, Continued

GASB Statement No. 89 - "Accounting for Interest Cost Incurred before the End of a Construction Period." This Statement, issued in June 2018, establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62 - "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements" which are superseded by this Statement. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, which is the fiscal year beginning January 1, 2020 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. 90 - "Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61." This Statement, issued in August 2018, seeks to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and sets parameters as to whether a majority equity interest is to be reported as an investment or component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, which is the fiscal year beginning January 1, 2019 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.

(14) Cumulative Effect of Change in Accounting Principle

For the year ended December 31, 2018, the Board implemented GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." The implementation of this Statement resulted in the reporting of the entire actuarial accrued liability for other postemployment benefits. The Board's net position at December 31, 2017 has been restated as follows:

Net position at beginning of year, as previously stated	\$ 55,546,505
GASB Statement No. 75 implementation:	
Beginning total OPEB liability	(86,380,680)
Less: Net other postemployment benefits obligations under GASB Statement No. 45	<u>27,393,994</u>
Net position at beginning of year, as restated	\$ <u>(3,440,181)</u>

NIAGARA FALLS WATER BOARD  
 Niagara Falls Water Authority (a Blended Component Unit)  
 Other Supplementary Information  
 Statements of Net Position  
 December 31, 2018 and 2017

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Current assets - cash and equivalents	\$ 133,829	78,959
Noncurrent assets - due from Water Board	<u>94,676,932</u>	<u>98,787,551</u>
Total assets	<u>94,810,761</u>	<u>98,866,510</u>
<u>Liabilities</u>		
Current liabilities - bonds payable	<u>4,055,000</u>	<u>3,915,000</u>
Noncurrent liabilities - bonds payable	<u>89,390,249</u>	<u>93,575,003</u>
Risk management and contingent liabilities (note 11)	<u>                    </u>	<u>                    </u>
Total liabilities	<u>93,445,249</u>	<u>97,490,003</u>
<u>Deferred Inflows of Resources</u>		
Gain on refunding	<u>970,849</u>	<u>1,031,844</u>
<u>Net Position</u>		
Unrestricted	<u>\$ 394,663</u>	<u>344,663</u>

Schedule 2

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating transfers in	\$ 50,000	-
Change in net position	50,000	-
Net position at beginning of year	<u>344,663</u>	<u>344,663</u>
Net position at end of year	<u>\$ 394,663</u>	<u>344,663</u>

NIAGARA FALLS WATER BOARD  
Required Supplementary Information  
Schedule of Changes in the Board's  
Total OPEB Liability and Related Ratios  
December 31, 2018

Total OPEB liability	
Service cost	\$ 540,656
Interest	3,234,085
Benefit payments	<u>(2,546,361)</u>
Net change in total OPEB liability	1,228,380
Total OPEB liability - beginning	<u>86,380,680</u>
Total OPEB liability- ending	<u><u>\$ 87,609,060</u></u>
Covered payroll	\$ 3,900,691
Total OPEB liability as a percentage of covered payroll	2,245.99%

Notes to schedule:

Changes of assumptions - Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each

2018      3.80%

This schedule is presented to illustrate the requirement 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 Board's Proportionate Share of the Net Pension Liability  
Years ended December 31, 2018 and 2017

	NYSERS Pension Plan			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Board's proportion of the net pension liability	0.0147209%	0.0137476%	0.0134405%	0.0141606%
Board's proportionate share of the net pension liability	\$ 475,108	1,291,751	2,157,242	478,381
Board's covered payroll	\$ 4,374,241	4,719,361	4,397,005	4,082,614
Board's proportionate share of the net pension liability as a percentage of its covered payroll	10.86%	27.37%	49.06%	11.72%
Plan fiduciary net position as a percentage of the total pension liability	98.29%	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, 2018 and 2017

	NYSERS Pension Plan					
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 583,405	659,383	646,238	725,071	864,054	900,289
Contributions in relation to the contractually required contribution	<u>583,405</u>	<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>	<u>-</u>
Board's covered payroll	\$ 4,374,241	4,719,361	4,397,005	4,082,614	4,483,962	4,442,277
Contributions as a percentage of covered payroll	13.34%	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, 2018, and the related notes to financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated April 15, 2019.

**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, 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 one 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 2018-001.

### 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 15, 2019

NIAGARA FALLS WATER BOARD  
Schedule of Findings and Responses  
Year ended December 31, 2018

(2018-001) 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, 2018 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 and other postemployment benefit liability 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, 2018

(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).

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.

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.

## REPORT TO THE BOARD

April 15, 2019

The Board of Directors  
Niagara Falls Water Board

Dear Board Members:

We have audited the financial statements of the Niagara Falls Water Board (the Board) as of and for the year ended December 31, 2018, and have issued our report thereon dated April 15, 2019. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Board are described in note 1 to the financial statements. As described in note 1(d) to the financial statements, the Board adopted Governmental Accounting Standards Board (GASB) Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," during the year ended December 31, 2018. We noted no transactions entered into by the Board during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

### Accounting Estimates

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

- Collection of accounts receivable
- Useful lives used to depreciate capital assets
- Estimated unbilled receivables

- Compensated absences
- Postemployment benefits
- Pension plans

For the year ended December 31, 2018, we evaluated the key factors and assumptions used by management in determining accounting estimates and were reasonable in relation to the financial statements taken as a whole.

#### Sensitive Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Bond indebtedness (note 5)
- Postemployment benefits (note 7)
- Pension plans (note 8)
- Risk management and contingent liabilities (note 11)

#### Difficulties Encountered in Performing the Audit

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

#### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely adjustments identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no material uncorrected misstatements detected as a result of our audit procedures.

#### Disagreements with Management

For purposes of this report, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Management Representations

We have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Board’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Board’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. During our annual audit of the Board, we noted a compliance and other matter which is described in the schedule of findings and responses as item (2018-001).

Other Information in Documents Containing Audited Financial Statements

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

\* \* \* \* \*

This information is intended solely for the use of the Board of Directors and management of the Niagara Falls Water Board and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to serve as your auditors. Please contact us at your convenience if you would like to meet with us to discuss our findings in further detail or to review any other questions that you might have.

Very truly yours,

EFPR Group, CPAs, PLLC

EFPR GROUP, CPAs, PLLC

April 15, 2019

CONFIDENTIAL

The Board of Directors  
Niagara Falls Water Board

Dear Board Members:

We have completed our audit of the financial statements of the Niagara Falls Water Board (the Board) for the year ended December 31, 2018. Considering the test character of our audit, you will appreciate that reliance must be placed on adequate methods of internal control as your principal safeguard against irregularities which a test examination may not disclose.

This report is intended solely for the information and use of the Board of Directors, management and others within the Board.

We now present for your consideration our comments and recommendations based upon observations made during our audit.

Disaster Recovery Plan

During our audit, we noted that there was no disaster recovery plan to provide a comprehensive method for the restoration of operations or an alternate processing location if needed.

The lack of a comprehensive plan and a more frequent backup of the Board's data could likely result in lost information and inefficiencies in restoring Board operations in the event of a disaster. We recommended that the Board review its backup process to minimize the potential loss of information and develop a comprehensive plan for restoration of Board information systems in the event of a disaster.

Previous Recommendations

We reviewed the disposition of recommendations included in our letter dated April 23, 2018. The following is a summary of the action taken by the Board with regard to our recommendations.

Monthly Financial Close - During the course of the 2017 audit, it was noted that internal financial reports were not prepared for the Board on a monthly basis. Significant adjustments were made at year-end by management that were not reflected in internally prepared financial reports throughout the year. In 2018, monthly budget to actual and uses were prepared for the Board meetings. These included month end journal entries to properly reflect financial activity. This comment is considered cleared.

Plant Fund General Ledger - The Board does not maintain adequate accounting records for the plant fund. No general ledger or supporting cash receipts or cash disbursement journals were maintained. In order to properly account for transactions and prepare accurate financial statements, we recommended that the Board maintain a general ledger and cash receipts and cash disbursement journals for the plant fund similar to how the other funds are maintained. Management will continue to develop these procedures.

\* \* \* \* \*

We take this opportunity to thank the staff of the Niagara Falls Water Board for the courtesy and cooperation extended to us during the audit. If you have any questions regarding the foregoing comments or wish any assistance in their implementation, please contact us at your convenience.

Very truly yours,

EFPR Group, CPAs, PLLC

EFPR GROUP, CPAs, PLLC

NIAGARA FALLS WATER BOARD  
ANNUAL INVESTMENT REPORT  
December 31, 2018

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH  
SECTION 201.3 of TITLE TWO OF THE OFFICIAL COMPILATION OF  
CODES, RULES AND REGULATIONS OF THE STATE OF NEW YORK**

To the Board of Directors  
Niagara Falls Water Board  
Niagara Falls, New York

We have examined Niagara Falls Water Board's (the Board) compliance with the requirements of Section 201.3 of Title Two of the Official Compilation of Codes, Rules and Regulations of the State of New York (Section 201.3) during the year ended December 31, 2018. Management is responsible for the Board's compliance with those requirements. Our responsibility is to express an opinion on the Board's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and standards applicable to attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Board complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the Board complied with the specified requirements referenced above. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the Board's compliance with Section 201.3.

In our opinion, the Board complied, in all material respects, with the requirements of Section 201.3 for the year ended December 31, 2018.

In accordance with Government Auditing Standards, we have issued our report dated April 15, 2019, in which we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws and regulations that have a material effect on the Board's compliance with Section 201.3 and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, and abuse that has a material effect on the subject matter. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our

examination to express an opinion on whether the Board complied with the aforementioned requirements and not for the purpose of expressing an opinion on the effectiveness of internal control over compliance with those requirements or other matters; accordingly, we express no such opinions. The results of our tests disclosed no matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board's management, the Governing Board, the New York State Office of the State Comptroller, and the New York State Authority Budget Office and is not intended and should not be used by anyone other than those specified parties.

EFPR Group, CPAs, PLLC

Williamsville, New York  
April 15, 2019

## NIAGARA FALLS WATER BOARD

### Annual Investment Report

December 31, 2018

The following represents the annual investment report as required by Section 2925 of Public Authorities Law:

#### Permitted Investments

Pursuant to GML Section 11, the Board is authorized to invest moneys not required for immediate expenditures for terms not to exceed its projected cash flow needs in the following type of investments:

- Obligations of the United States of America;
- Obligations guaranteed by agencies of the United States of America where payment of principal and interest are guaranteed by the United States of America;
- Obligations of the State of New York;
- Special time deposit accounts;
- Certificates of deposits;
- Obligations of public authorities, public housing authorities, urban renewal agencies and industrial development agencies where the general State statutes governing such entities or whose specific enabling legislation authorizes such investments;
- Obligations issued pursuant to Local Finance Law Section 24.00 or 25.00 (with approval of State Comptroller) by any municipality, school district or district corporation other than City of Niagara Falls; and
- Eligible Investments, as defined in the Indenture between Board, Manufacturers and Traders Trust Company and Bank on Buffalo, as Trustees as amended from time to time.

#### Amendments Made to Investment Guidelines

None

#### Safeguards

Investments are held subject to an indenture between the Board, Manufacturers and Traders Trust Company and Bank on Buffalo, as Trustees.

Eligible securities used for collateralizing deposits shall be held by a third party bank, trust company or trust department of the bank subject to security and custodial agreements at the discretion of the Board.

The security and custodial agreements shall provide that securities held by the bank or trust company or agent of and the custodian for, the Board, will be kept separate and apart from the general assets of the custodial bank trust company.

## NIAGARA FALLS WATER BOARD

### Annual Investment Report

December 31, 2018

The security and custodial agreement shall provide that eligible securities are being pledged to secure the Board deposits and investments together with agreed upon interest, if any, and any costs or expenses arising out of the collection of such deposits upon default.

#### Authorized Financial Institutions and Dealers

The Board shall maintain a list of financial institutions and dealers, approved for investment purposes and establish appropriate limits to the amount of investments which can be made with each financial institution or dealer. All financial institutions with which the local government conducts business must be credit worthy. Banks shall provide their most recent Consolidated Report of Condition at the request of the Board. Security dealers not affiliated with a bank shall be required to be classified as reporting dealers affiliated with New York Federal Reserve Bank, as primary dealers. The Executive Director or Chairman is responsible for evaluating the financial position and maintaining a listing of proposed depositories, trading partners and custodians. Such listing shall be evaluated at least annually.

#### Provisions for Reporting on Investments

The Board retains an independent accountant to provide an examination report of all investment practices on an annual basis.

#### Fees Related to Investment Services

The Board paid \$36,734 for fees related to investment services for the year ended December 31, 2018.

#### Investments

The Board's investments at December 31, 2018, consist of the following:

<u>Investments</u>	<u>Maturity</u>	<u>Fair Value</u>
U.S. Treasuries	1/31/19 - 11/1/41	\$ 11,603,121
Federal Home Mortgage Corp.	1/14/19 - 5/28/20	12,931,227
Certificates of deposit	4/30/18 - 12/2/20	<u>3,487,989</u>
Total investments		\$ <u>28,022,337</u>

These investments are classified as Level 1.

#### Maturity Schedule

Less than one year	\$ 18,908,759
More than one year	<u>9,113,578</u>
	\$ <u>28,022,337</u>

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN EXAMINATION OF THE ANNUAL INVESTMENT REPORT PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Niagara Falls Water Board  
Niagara Falls, New York

We have examined, in accordance with the attestation standards established by the American Institute of Certified Public Accountants and standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States, the annual investment report of the Niagara Falls Water Board (the Board), as of and for the year ended December 31, 2018, and have issued our report thereon dated April 15, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our examination of the annual investment report, we considered the Board's internal control over financial reporting (internal control) to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the annual investment report, 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.

**Compliance and Other Matters**

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

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board's internal control or on compliance. This report is an integral part of an examination 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 15, 2019

NIAGARA FALLS WATER BOARD

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

# NIAGARA FALLS WATER BOARD

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## 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:

<b><u>Niagara Falls Water Board's Net Position</u></b>				
	December 31,		Increase/(Decrease)	
	<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>	<u>(4.52%)</u>
Total assets	<u>186,193,917</u>	<u>187,939,321</u>	<u>(1,745,404)</u>	<u>(0.93%)</u>
Deferred outflows	<u>1,415,110</u>	<u>2,485,058</u>	<u>(1,069,948)</u>	<u>(43.06%)</u>
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>	<u>(1.36%)</u>
Total liabilities	<u>130,822,924</u>	<u>131,466,509</u>	<u>(643,585)</u>	<u>(0.49%)</u>
Deferred inflows	<u>1,239,598</u>	<u>1,364,003</u>	<u>(124,405)</u>	<u>(9.12%)</u>

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

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	5,701,260	(1,679,773)
Net increase (decrease) in cash and equivalents	6,011,359	(3,595,080)
Cash and equivalents at beginning of year	17,411,381	21,006,461
Cash and equivalents at end of year	\$ 23,422,740	17,411,381

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>	
	<u>Amount to be charged</u>		<u>Amount to be charged</u>	
	<u>(per 100 cubic feet)</u>		<u>(per 100 cubic feet)</u>	
	<u>Inside</u>	<u>Outside</u>	<u>Inside</u>	<u>Outside</u>
	<u>city</u>	<u>city</u>	<u>city</u>	<u>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 (per quarter)</u>	<u>2018 Rate (per quarter)</u>
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	<u>-</u>	<u>172,222</u>
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	<u>(66,509,939)</u>	<u>(60,398,733)</u>
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	2,174,422
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	(63,409)	271,163
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 1/1/2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 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:

	<u>Year of Issue</u>	<u>Year of Maturity</u>	<u>Interest Rate %</u>	<u>Original Amount</u>	<u>Principal Outstanding 1/1/2017</u>	<u>Issued</u>	<u>Paid</u>	<u>Principal Outstanding 12/31/2017</u>
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](http://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>\$ 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 31<sup>st</sup>. 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 1/6<sup>th</sup> 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	\$ -	3,871
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><u>\$ 344,663</u></u>	<u><u>344,663</u></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>	<u>Actuarial</u>			Unfunded actuarial accrued <u>liability</u>	Funded ratio	Covered payroll	Unfunded liability as a percentage of covered payroll
	<u>Valuation Date January 1,</u>	<u>Value of assets</u>	<u>Accrued 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.

April 23, 2018

CONFIDENTIAL

The Board of Directors  
Niagara Falls Water Board

Dear Board Members:

We have completed our audit of the financial statements of the Niagara Falls Water Board (the Board) for the year ended December 31, 2017. Considering the test character of our audit, you will appreciate that reliance must be placed on adequate methods of internal control as your principal safeguard against irregularities which a test examination may not disclose.

This report is intended solely for the information and use of the Board of Directors, management and others within the Board.

We now present for your consideration our comments and recommendations based upon observations made during our audit.

Previous Recommendations

We reviewed the disposition of recommendations included in our letter dated July 24, 2017. The following is a summary of the action taken by the Board with regard to our recommendations.

Monthly Financial Close - Internal financial reports were not prepared for the Board on a monthly basis. Significant adjustments were made at year-end by management that were not reflected in internally prepared financial reports throughout the year. In order for management to make appropriate financial decisions, we recommended that accurate internal financial reports be prepared on a timely basis subsequent to month end. Additionally, these procedures would highlight cash flow and other operational problems. Management will continue to develop these procedures.

Plant Fund General Ledger - The Board does not maintain adequate accounting records for the plant fund. No general ledger or supporting cash receipts or cash disbursement journals were maintained. In order to properly account for transactions and prepare accurate financial statements, we recommended that the Board maintain a general ledger and cash receipts and cash disbursement journals for the plant fund similar to how the other funds are maintained. Management will continue to develop these procedures.

Accounts Receivable - During the course of the 2016 audit, we noted several accounts receivable which were more than one year old. Although an adequate allowance for uncollectible accounts has been recorded, we recommended that management review the receivable balances for reasonableness of collection. After making a final attempt at collection of these balances, any accounts which are over one year old should be written off against the allowance.

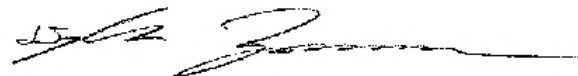
In our review of accounts receivable balances it was noted that management performed this analysis. Necessary balances were written off as collection was very unlikely.

\* \* \* \* \*

We take this opportunity to thank the staff of the Niagara Falls Water Board for the courtesy and cooperation extended to us during the audit. If you have any questions regarding the foregoing comments or wish any assistance in their implementation, please contact us at your convenience.

Very truly yours,

EFPR GROUP, CPAs, PLLC



Douglas E. Zimmerman, CPA  
Partner  
Chief Operating Officer

## REPORT TO THE BOARD

April 23, 2018

The Board of Directors  
Niagara Falls Water Board

Dear Board Members:

We have audited the financial statements of the Niagara Falls Water Board (the Board) as of and for the year ended December 31, 2017, and have issued our report thereon dated April 23, 2018. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Board are described in note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by the Board during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

### Accounting Estimates

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

- Collection of accounts receivable
- Useful lives used to depreciate capital assets
- Estimated unbilled receivables

- Compensated absences
- Postemployment benefits
- Pension plans

For the year ended December 31, 2017, we evaluated the key factors and assumptions used by management in determining accounting estimates and were reasonable in relation to the financial statements taken as a whole.

#### Sensitive Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Bond indebtedness (note 6)
- Postemployment benefits (note 8)
- Pension plans (note 9)
- Risk management and contingent liabilities (note 12)

#### Difficulties Encountered in Performing the Audit

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

#### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely adjustments identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no material uncorrected misstatements detected as a result of our audit procedures.

#### Disagreements with Management

For purposes of this report, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Management Representations

We have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Board’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Board’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. During our annual audit of the Board, we noted a compliance and other matter which is described in the schedule of findings and responses as item (2017-001).

Other Information in Documents Containing Audited Financial Statements

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

\* \* \* \* \*

This information is intended solely for the use of the Board of Directors and management of the Niagara Falls Water Board and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to serve as your auditors. Please contact us at your convenience if you would like to meet with us to discuss our findings in further detail or to review any other questions that you might have.

Very truly yours,

EFPR Group, CPAs, PLLC

EFPR GROUP, CPAs, PLLC

NIAGARA FALLS WATER BOARD

Basic Financial Statements,  
Supplementary Information and  
Independent Auditors' Report  
December 31, 2016 and 2015

# NIAGARA FALLS WATER BOARD

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\* \* \* \* \*

## 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, 2016 and 2015, 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 financial position of the Niagara Falls Water Board as of December 31, 2016 and 2015, 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.

### Other Matters

As discussed in note 2 to the financial statements, the Board adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72 - "Fair Value Measurement and Application," during the year ended December 31, 2016. Our opinion is not modified with respect to this matter.

### Other Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying other supplementary information is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The 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 financial statements or to the 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 financial statements as a whole.

### 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 43 to 45 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 24, 2017, 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  
July 24, 2017

NIAGARA FALLS WATER BOARD  
Management's Discussion and Analysis  
December 31, 2016 and 2015

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, 2016 and 2015.

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.

The Board adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72 - "Fair Value Measurement and Application," during the year ended December 31, 2016.

**Financial Highlights**

- The assets and deferred outflows of the Board exceeded its liabilities and deferred inflows by \$57,593,867 and \$58,918,534 (net position) at December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, \$481,805 and \$8,279,649 (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, 2016 and 2015 was \$2,174,422 and \$5,875,062, respectively.
- The Board's total bond indebtedness decreased by \$5,150,220 during the current fiscal year, as a result of principal payments made of \$26,770,000 and premium amortization of \$834,976, offset by issuance of \$20,130,000 of principal and premium of \$2,324,756. The issuance of bond principal and premium was a result of refunding a bond of \$23,115,000.
- The Board reflected a liability for postemployment benefits of \$24,142,395 and \$20,884,760 at December 31, 2016 and 2015, respectively.

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

**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 below.

<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	

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 40 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 \$57,953,867 at December 31, 2016, as compared to \$58,918,534 at December 31, 2015, as presented below:

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

**Niagara Falls Water Board's Net Position**

	December 31,		Increase/(Decrease)	
	<u>2016</u>	<u>2015</u>	<u>Dollars</u>	<u>Percent</u>
Current assets	\$ 28,334,663	34,571,622	(6,236,959)	(18.04%)
Noncurrent assets	<u>159,604,658</u>	<u>157,361,444</u>	<u>2,243,214</u>	1.43%
Total assets	<u>187,939,321</u>	<u>191,933,066</u>	<u>(3,993,745)</u>	(2.08%)
Deferred outflows	<u>2,485,058</u>	<u>798,282</u>	<u>1,686,776</u>	211.30%
Current liabilities	8,866,689	10,670,532	(1,803,843)	(16.90%)
Noncurrent liabilities	<u>122,599,820</u>	<u>123,142,282</u>	<u>(542,462)</u>	(0.44%)
Total liabilities	<u>131,466,509</u>	<u>133,812,814</u>	<u>(2,346,305)</u>	(1.75%)
Deferred inflows	<u>1,364,003</u>	-	<u>1,364,003</u>	100.00%
Net investment in capital assets	18,908,087	14,640,371	4,267,716	29.15%
Restricted	38,203,975	35,998,514	2,205,461	6.13%
Unrestricted	<u>481,805</u>	<u>8,279,649</u>	<u>(7,797,844)</u>	(94.18%)
Total net position	\$ <u>57,593,867</u>	<u>58,918,534</u>	<u>(1,324,667)</u>	(2.25%)

The Board's net investment in capital assets, is a surplus net position of \$18,908,087 and \$14,640,371 at December 31, 2016 and 2015, 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 \$481,805 and \$8,279,649 at December 31, 2016 and 2015, 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 \$22,906,531 and \$20,701,070 at December 31, 2016 and 2015, respectively, represents funds that are set aside to be used towards debt service. The restricted capital projects portion of the Board's net position (\$15,297,444 at December 31, 2016 and 2015) represents funds that are set aside primarily for the reconstruction of the Falls Street Tunnel.

The Board's unrestricted net position is the remainder of total net position after taking net investment in capital assets, restricted for capital projects, and restricted for debt service into account. Unrestricted net position decreased in 2016 by \$7,797,844 because of an increase in net investment in capital assets of \$4,267,716, an increase of \$2,205,461 in restricted for debt service and a \$1,324,667 loss.

A comparison of current assets to current liabilities of the Board at December 31, 2016 and 2015 follows:

	<u>2016</u>	<u>2015</u>
Current assets	\$ 28,334,663	34,571,622
Current liabilities	<u>8,866,689</u>	<u>10,670,532</u>
Ratio of current assets to current liabilities	<u>3.20</u>	<u>3.24</u>

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

The Board's total net position decreased by \$1,324,667 during the year ended December 31, 2016, as compared to an increase of \$1,920,835 for the year ended December 31, 2015. Key elements of the current year's decrease in net position are as follows:

**Niagara Falls Water Board's Changes in Net Position**

	<u>2016</u>	<u>2015</u>	Increase/ (decrease)
Total operating revenue	\$ 30,380,370	33,175,352	(2,794,982)
Total operating expenses	(28,205,948)	(27,300,290)	(905,658)
Operating income	2,174,422	5,875,062	(3,700,640)
Total non-operating revenue (expenses)	(3,499,089)	(3,954,227)	455,138
Change in net position	\$ (1,324,667)	1,920,835	(3,245,502)

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 \$2.7 million decrease in operating revenue under 2016. 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 2016 and approved rates for 2017.

The Board's largest operating expense area relates to its employees. Together, personnel costs (salaries) and employee benefits approximate 46% of all operating expenses. In 2016, these costs totaled approximately \$12.9 million as compared to \$13.7 million in 2015, representing an approximate 5.8% decrease in this area. This decrease is due to the decrease 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 \$99,075,000 and \$105,715,000 at December 31, 2016 and 2015, respectively. In 2015, the Board recognized an expense of \$500,000 related to a jury award for litigation. See note 12(b).

The following is a summary of the Board's cash flow activities for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Cash flows provided by (used in):		
Operating activities	\$ 12,982,848	13,978,428
Capital and related financing activities	(14,898,155)	(11,109,707)
Investing activities	(1,679,773)	27,757
Net increase (decrease) in cash and equivalents	(3,595,080)	2,896,478
Cash and equivalents at beginning of year	21,006,461	18,109,983
Cash and equivalents at end of year	\$ 17,411,381	21,006,461

# NIAGARA FALLS WATER BOARD

## Management's Discussion and Analysis, Continued

The Board's available cash and equivalents decreased by \$3,595,080 during the year ended December 31, 2016, as compared to an increase of \$2,896,478 during the year ended December 31, 2015. Cash provided by operating activities reflected a positive balance of \$12,982,848 for the year ended December 31, 2016.

### Capital Assets and Debt Administration

**Capital Assets** - The Board's investment in capital assets (net of accumulated depreciation) as of December 31, 2016, amounted to \$121,400,683, as compared to \$121,190,708 at December 31, 2015. 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 \$6,501,255.
- Construction in progress increased by \$6,211,254, and decreased by \$290,001 which represents completed capital projects transferred to their applicable asset categories.
- The Board recorded total depreciation of \$6,001,279 and \$5,663,169 for the years ended December 31, 2016 and 2015, respectively.

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

	<u>2016</u>	<u>2015</u>
Nondepreciable assets:		
Land	\$ 463,713	463,713
Construction in progress	7,466,615	1,545,362
Depreciable assets:		
Plant and transmission assets (water system)	50,482,739	53,375,503
Plant and transmission assets (wastewater system)	58,965,883	61,533,136
Machinery and equipment	<u>4,021,733</u>	<u>4,272,994</u>
Total	\$ <u>121,400,683</u>	<u>121,190,708</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, 2016, the Board had outstanding serial bonds totaling \$99,075,000, as compared to \$105,715,000 at December 31, 2015. During the year ended December 31, 2016, the Board made principal payments of \$26,770,000 on these bonds and issued \$20,130,000 of new bonds. This is the result of refunding a bond of \$23,115,000.

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.

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

**Postemployment Benefits** - Upon retirement, the Board's employees are entitled to continuous health insurance coverage. At December 31, 2016 and 2015, the liability recorded for these benefits amounted to \$24,142,395 and \$20,884,760, respectively. The underfunded actuarial accrued liability is \$69,856,462 and \$67,708,721 at December 31, 2016 and 2015, respectively.

**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, 2016 is \$798,111, compared to \$836,714 at December 31, 2015. 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 \$76,550 of such liability is current at December 31, 2016.

**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 2016 and approved rates to be charged for 2017 are as follows:

<u>Amount Consumed</u>	<u>2016</u>		<u>2017</u>	
	<u>Amount to be charged (per 100 cubic feet)</u>		<u>Amount to be charged (per 100 cubic feet)</u>	
	<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	3.27	8.74
Next 60,000 cubic feet per quarter	2.83	7.63	2.83	7.63
Next 120,000 cubic feet per quarter	2.40	6.36	2.40	6.36
Over 200,000 cubic feet per quarter	1.99	5.35	1.99	5.35
Minimum charge for water consumption per quarter	42.51	113.62	42.51	113.62

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>2016 Rate (per quarter)</u>	<u>2017 Rate (per quarter)</u>
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 2016 and rates to be charged during 2017 are as follows:

<u>Amount Consumed</u>	<u>2016</u>	<u>2017</u>
Minimum charge per quarter (up to 1,300 cubic feet)	\$ 56.29	56.29
Additional usage in excess of 1,300 cubic feet (\$/cubic feet)	4.33	4.33

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, 2016 were \$2,913 per million gallons for wastewater flow; \$0.94 per pound for all suspended solids discharged; and \$1.62 per pound for all soluble organic carbon compounds discharged. Approved rates for 2016 were \$2,913 per million gallons for wastewater flow; \$0.94 per pound for all suspended solids discharged; and \$1.62 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 McClain, Michael O'Laughlin Municipal Water Plan, 5815 Buffalo Avenue, Niagara Falls, New York 14304.

NIAGARA FALLS WATER BOARD  
Statements of Net Position  
December 31, 2016 and 2015

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and equivalents	\$ 17,411,381	21,006,461
Accounts receivable, net of allowance for uncollectible accounts	8,921,060	12,415,858
Due from other governments	1,462,940	494,160
Prepaid expenses	367,060	454,074
Note receivable - current portion	<u>172,222</u>	<u>201,069</u>
Total current assets	<u>28,334,663</u>	<u>34,571,622</u>
Noncurrent assets:		
Restricted cash and investments - capital projects	15,297,444	15,297,444
Restricted cash and investments - debt service reserve	22,906,531	20,701,070
Note receivable - noncurrent portion	-	172,222
Capital assets:		
Land	463,713	463,713
Waste and waste water system	166,218,980	166,218,980
Machinery and equipment	7,650,108	7,390,209
Construction in progress	7,466,615	1,545,362
Less accumulated depreciation	<u>(60,398,733)</u>	<u>(54,427,556)</u>
Total capital assets, net of accumulated depreciation	<u>121,400,683</u>	<u>121,190,708</u>
Total noncurrent assets	<u>159,604,658</u>	<u>157,361,444</u>
Total assets	<u>187,939,321</u>	<u>191,933,066</u>
Deferred outflows of resources - pensions	<u>2,485,058</u>	<u>798,282</u>

(Continued)

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD  
Statements of Net Position, Continued

<u>Liabilities</u>	<u>2016</u>	<u>2015</u>
Current liabilities:		
Accounts payable	\$ 1,032,439	1,272,362
Accrued liabilities	1,936,566	3,288,722
Overpayments	-	1,899
Award payable (note 12(b))	-	500,000
Current portion of long-term liabilities:		
Compensated absences	76,550	41,836
Postemployment benefits	2,041,134	1,910,713
Bonds payable	<u>3,780,000</u>	<u>3,655,000</u>
Total current liabilities	<u>8,866,689</u>	<u>10,670,532</u>
Noncurrent liabilities:		
Compensated absences	721,561	794,878
Postemployment benefits	22,101,261	18,974,047
Bonds payable	97,619,756	102,894,976
Net pension liability - proportionate share - ERS System	<u>2,157,242</u>	<u>478,381</u>
Total noncurrent liabilities	<u>122,599,820</u>	<u>123,142,282</u>
Risk management and contingent liabilities (note 12)	<u>                    </u>	<u>                    </u>
Total liabilities	<u>131,466,509</u>	<u>133,812,814</u>
Deferred Inflows of Resources		
Pensions	271,163	-
Gain on refunding	<u>1,092,840</u>	<u>                    </u>
Total deferred inflows of resources	<u>1,364,003</u>	<u>                    </u>
Net Position		
Net investment in capital assets	18,908,087	14,640,371
Restricted for capital projects	15,297,444	15,297,444
Restricted for debt service	22,906,531	20,701,070
Unrestricted	<u>481,805</u>	<u>8,279,649</u>
Total net position	<u>\$ 57,593,867</u>	<u>58,918,534</u>

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD  
Statements of Revenue, Expenses and Changes in Net Position  
Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenue:		
Water rents and charges	\$ 10,857,206	11,550,903
Sewer rents and charges	19,147,911	21,112,768
Licenses and permits	240,670	250,258
Other services	<u>134,583</u>	<u>261,423</u>
Total operating revenue	<u>30,380,370</u>	<u>33,175,352</u>
Operating expenses:		
Personnel costs	4,942,509	5,021,834
Contractual expenses	9,271,978	7,905,491
Employee benefits	7,990,182	8,709,796
Depreciation expense	<u>6,001,279</u>	<u>5,663,169</u>
Total operating expenses	<u>28,205,948</u>	<u>27,300,290</u>
Operating income	<u>2,174,422</u>	<u>5,875,062</u>
Non-operating revenue (expenses):		
Use of money and property	525,688	618,846
Gain on sale of property	33,974	26,141
Interest expense	(3,840,715)	(4,099,214)
Debt issuance costs	(218,036)	-
Award payable (note 12(b))	<u>-</u>	<u>(500,000)</u>
Total non-operating revenue (expenses)	<u>(3,499,089)</u>	<u>(3,954,227)</u>
Change in net position	<u>(1,324,667)</u>	<u>1,920,835</u>
Net position at beginning of year, before restatement	58,918,534	56,998,633
Cumulative effect of change in accounting principle	<u>-</u>	<u>(934)</u>
Net position at beginning of year, as restated	<u>58,918,534</u>	<u>56,997,699</u>
Net position at end of year, as restated	<u>\$ 57,593,867</u>	<u>58,918,534</u>

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD  
Statements of Cash Flows  
Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 33,105,558	32,027,073
Payments to suppliers	(9,816,935)	(7,410,106)
Payments to employees	<u>(10,305,775)</u>	<u>(10,638,539)</u>
Net cash provided by operating activities	<u>12,982,848</u>	<u>13,978,428</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of bonds	20,130,000	4,380,000
Gain on sale of property	33,974	26,141
Disposal of capital assets	(30,102)	(6,083)
Acquisition of capital assets	(6,289,104)	(3,375,054)
Debt issuance costs	(218,036)	-
Acquisition of premium on capital debt	2,335,569	-
Acquisition of deferred gain on refunding	1,092,840	-
Premium paid on capital debt	(845,789)	(66,938)
Principal paid on capital debt	(26,770,000)	(7,920,000)
Interest paid on capital debt	<u>(4,337,507)</u>	<u>(4,147,773)</u>
Net cash used in capital and related financing activities	<u>(14,898,155)</u>	<u>(11,109,707)</u>
Cash flows from investing activities:		
Interest earned	525,688	618,846
Change in restricted cash and investments - debt service reserve	<u>(2,205,461)</u>	<u>(591,089)</u>
Net cash provided by (used in) investing activities	<u>(1,679,773)</u>	<u>27,757</u>
Net change in cash and equivalents	(3,595,080)	2,896,478
Cash and equivalents at beginning of year	<u>21,006,461</u>	<u>18,109,983</u>
Cash and equivalents at end of year	<u><u>\$ 17,411,381</u></u>	<u><u>21,006,461</u></u>

(Continued)

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD  
Statements of Cash Flows, Continued

	<u>2016</u>	<u>2015</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,174,422	<u>5,875,062</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	6,001,279	5,663,169
Changes in:		
Accounts receivable	3,494,798	(1,020,185)
Due from other governments	(968,780)	(304,511)
Prepaid expenses	87,014	243,754
Note receivable	201,069	195,134
Accounts payable	(131,971)	251,631
Accrued liabilities	(855,364)	55,328
Overpayments	(1,899)	(18,717)
Awards payable	(500,000)	-
Compensated absences	(38,603)	(99,578)
Postemployment benefits	3,257,635	3,248,127
Net pension liability	1,678,861	(283,297)
Deferred outflows - pensions	(1,686,776)	172,511
Deferred inflows - pensions	<u>271,163</u>	<u>-</u>
Total adjustments	<u>10,808,426</u>	<u>8,103,366</u>
Net cash provided by operating activities	<u>\$ 12,982,848</u>	<u>13,978,428</u>
Supplemental schedule of cash flow information - adjustment for capital assets financed by accounts payable	<u>\$ 473,220</u>	<u>581,172</u>

See accompanying notes to financial statements.

# NIAGARA FALLS WATER BOARD

## Notes to Financial Statements

December 31, 2016 and 2015

### (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 19,534 residential, 329 commercial and 23 large industrial type customers. Total population served by the water system is estimated at 51,600. The average daily demand is 20.4 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 27.4 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, 2016 and 2015, the total amount restricted for capital projects amounted to \$15,297,444.
- Restricted Cash and Investments - Debt Service Reserve - 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.

The debt service reserve fund was established to fulfill the debt service reserve requirements on the outstanding bonds as and when they become due.

- Investments - During the year ended December 31, 2016, the Board adopted the provisions of GASB Statement No. 72 - "Fair Value Measurement and Application." The primary objective of this Statement is to provide guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of this Statement requires the Board to disclose its valuation techniques. See note 2 for the financial statement impact of the implementation on the financial statements.

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, 2016.

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.
- Deferred Outflows and Inflows of Resources - In the Statement of Net Position, in addition to assets and liabilities, the Board will sometimes report separate section 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) Accounting and Financial Reporting for Pensions

The Board adopted the provisions of GASB Statement No. 68 - "Accounting and Financial Reporting for Pensions - an Amendment to GASB Statement No. 27" and GASB Statement No. 71 - "Pension Transitions for Contributions Made Subsequent to the Measurement Date - an Amendment to GASB Statement No. 68." The primary objective of the Statements is to improve accounting and financial reporting by state and local governments for pensions. The implementation of the Statements requires the Board to report as an asset and/or liability its portion of the collective pension asset and/or liability in the New York State Employees' Retirement System. The implementation of the Statements also requires the Board to report a deferred outflow and/or inflow for the effect of the net change in the Board's proportion of the collective net pension asset and/or 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. Also included as deferred outflows are the Board's contributions to the pension system subsequent to the measurement date.

(g) 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.

(h) 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.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(2) Cash and Equivalents and Investments, Continued

The Board's cash and equivalents at December 31, 2016 and 2015 include the following captions on the statements of net position:

	<u>2016</u>	<u>2015</u>
Cash and equivalents	\$ 17,411,381	21,006,461
Restricted cash and investments:		
Capital projects	15,297,444	15,297,444
Debt service reserve	<u>22,906,531</u>	<u>20,701,070</u>
Total	\$ <u>55,615,356</u>	<u>57,004,975</u>

Cash and equivalents are comprised of the following:

	<u>2016</u>	<u>2015</u>
Petty cash (uncollateralized)	\$ 100	100
Deposits	45,914,035	46,098,270
Investments	<u>9,701,221</u>	<u>10,906,605</u>
Total	\$ <u>55,615,356</u>	<u>57,004,975</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, 2016 and 2015, 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, 2016 and 2015, 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, 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.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(2) Cash and Equivalents and Investments, Continued

Maturity Schedule

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

The Board's investments at December 31, 2015, consist of the following:

<u>Investments</u>	<u>Maturity</u>	<u>Fair Value</u>
U.S. Treasuries	1/14/16 - 11/1/41	\$ 2,875,605
Federal Home Mortgage Corp.	1/8/16 - 6/24/16	<u>8,031,000</u>
Total investments		\$ <u>10,906,605</u>

These investments are classified as Level 1.

Maturity Schedule

Less than one year	\$ 10,446,302
More than one year	<u>460,303</u>
	\$ <u>10,906,605</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, 2016, the Board held 82.89% and 12.94% 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, 2016 and 2015 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, 2016, \$1,102,478 was included in allowance for uncollectible accounts to account for receivable balances that may not be collected. There was no balance as of December 31, 2015.

(b) Due from Other Governments

Due from other governments represents amounts due primarily from the City. Amounts accrued at December 31, 2016 and 2015 consist of:

	<u>2016</u>	<u>2015</u>
City of Niagara Falls - tax transfer	\$ 1,253,422	494,160
Due from Cascades Company	<u>209,518</u>	<u>-</u>
	<u>\$ 1,462,940</u>	<u>494,160</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 \$6,062,119 and \$3,670,545 at December 31, 2016 and 2015, respectively. Management has recorded an allowance for uncollectible accounts with respect to these balances of \$4,599,179 and \$3,176,385 at December 31, 2016 and 2015, 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>2016</u>	<u>2015</u>
Cascades Company	\$ 172,222	373,291
Less current portion	<u>(172,222)</u>	<u>(201,069)</u>
Notes receivable - noncurrent portion	\$ <u>-</u>	<u>172,222</u>

(5) Capital Assets

The Board's capital assets activity for the years ended December 31, 2016 and 2015 is summarized as follows:

	<u>Balance 1/1/2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 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>

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(5) Capital Assets, Continued

	Balance <u>1/1/2015</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/2015</u>
Capital assets, not being depreciated:				
Land	\$ 463,713	-	-	463,713
Construction in progress	<u>7,526,517</u>	<u>3,951,746</u>	<u>(9,932,901)</u>	<u>1,545,362</u>
Total capital assets not being depreciated	<u>7,990,230</u>	<u>3,951,746</u>	<u>(9,932,901)</u>	<u>2,009,075</u>
Capital assets, being depreciated:				
Plant and transmission costs:				
Water system	86,566,694	922,128	-	87,488,822
Wastewater system	73,039,921	5,690,237	-	78,730,158
Machinery and equipment	<u>6,549,953</u>	<u>856,853</u>	<u>(16,597)</u>	<u>7,390,209</u>
Total capital assets being depreciated	<u>166,156,568</u>	<u>7,469,218</u>	<u>(16,597)</u>	<u>173,609,189</u>
Less accumulated depreciation:				
Plant and transmission costs:				
Water system	(31,177,532)	(2,935,787)	-	(34,113,319)
Wastewater system	(14,866,451)	(2,330,571)	-	(17,197,022)
Machinery and equipment	<u>(2,726,487)</u>	<u>(396,811)</u>	<u>6,083</u>	<u>(3,117,215)</u>
Total accumulated depreciation	<u>(48,770,470)</u>	<u>(5,663,169)</u>	<u>6,083</u>	<u>(54,427,556)</u>
Total being depreciated, net	<u>117,386,098</u>	<u>1,806,049</u>	<u>(10,514)</u>	<u>119,181,633</u>
Capital assets, net	\$ <u>125,376,328</u>	<u>5,757,795</u>	<u>(9,943,415)</u>	<u>121,190,708</u>

Insurance proceeds for flood damage incurred in 2014 of \$2,463,683 were recorded as an increase in construction in progress in 2015.

(6) Bond Indebtedness

The Authority issued 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 years ended December 31, 2016 and 2015, the Authority issued Series 2016A bonds and Series 2015D bonds, respectively.

The proceeds of the Series 2005A - Clean Water issue were used to obtain the North Gorge Interceptor capital project from the City and to fund further capital improvements.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(6) Bond Indebtedness, Continued

The net proceeds of the Series 2005 issue were used to eliminate outstanding short-term debt, fund current and future capital improvements, and to refund a portion of outstanding debt in the amount of \$16,020,000. Such amount was deposited in an irrevocable trust to provide for future debt service payments on the Series 2003A bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Board's financial statements.

The effect of the refunding transaction was a decrease in debt service payments of \$1,603,619 and an economic gain of \$1,124,676. The economic gain is the difference in present values of the old and new debt service payments.

The premium on the Series 2005 bonds amounted to \$1,495,985, and has been deferred and is being amortized over the life of the bonds. The premium is included in the bonds payable balance in the Board's statements of net position.

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.

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, 2016 is presented on the following page:

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(6) Bond Indebtedness, Continued

Serial Bond Activity:

	Year of <u>Issue</u>	Year of <u>Maturity</u>	Interest <u>Rate %</u>	Original <u>Amount</u>	Principal Outstanding <u>1/1/2016</u>	<u>Issued</u>	<u>Paid</u>	Principal Outstanding <u>12/31/2016</u>
Niagara Falls Public Water Authority Bonds:								
Series 2005 Bonds	2005	2034	5.00 - 5.50	\$ 23,115,000	23,115,000	-	23,115,000	-
Series 2013A Bonds	2013	2034	3.0 - 5.0	36,060,000	35,780,000	-	285,000	35,495,000
Series 2013B Bonds	2013	2024	4.309	8,415,000	7,005,000	-	760,000	6,245,000
Series 2016A Bonds	2016	2034	3.13 - 5.0	23,130,000	-	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	12,975,000	-	550,000	12,425,000
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	4,590,000	-	1,150,000	3,440,000
Series 2013B - Drinking Water	2013	2019	5.14 - 5.59	3,385,000	2,295,000	-	575,000	1,720,000
Series 2015D - Drinking Water	2015	2034	3.81 - 4.57	4,380,000	4,380,000	-	160,000	4,220,000
Series 2014B - Drinking Water	2014	2021	5.40	-	4,095,000	-	-	4,095,000
Series 2012B - Clean Water	2012	2041	0.26 - 4.27	6,607,122	5,900,000	-	175,000	5,725,000
Totals				<u>\$ 131,472,122</u>	<u>105,715,000</u>	<u>20,130,000</u>	<u>26,770,000</u>	<u>99,075,000</u>
Reconciliation to statements of net position:								
Principal outstanding					\$ 105,715,000			99,075,000
Unamortized premium on bonds					834,976			2,324,756
					<u>\$ 106,549,976</u>			<u>101,399,756</u>
Current portion of bonds payable					3,655,000			3,780,000
Non-current portion of bonds payable					<u>102,894,976</u>			<u>97,619,756</u>
					<u>\$ 106,549,976</u>			<u>101,399,756</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, 2016 are as follows:

<u>Year</u>	<u>Premium on bonds</u>	<u>Serial bonds</u>	<u>Total</u>
2017	\$ 129,754	3,780,000	3,909,754
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
2022-2026	648,770	24,615,000	25,263,770
2027-2031	648,770	30,740,000	31,388,770
2032-2036	378,446	21,815,000	22,193,446
2037-2041	-	1,740,000	1,740,000
	<u>\$ 2,324,756</u>	<u>99,075,000</u>	<u>101,399,756</u>

Annual interest payments due on serial bonds as of December 31, 2016 are as follows:

2017	\$ 3,242,017
2018	3,486,817
2019	3,132,360
2020	3,228,716
2021	2,741,537
2022-2026	13,013,405
2027-2031	7,865,384
2032-2036	1,867,509
2037-2041	<u>197,460</u>
Total	\$ <u>38,775,205</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, 2016, 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 \$76,550 and \$41,836 at December 31, 2016 and 2015, respectively. The long-term portion of the liability amounted to \$721,561 and \$794,878 at December 31, 2016 and 2015, 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, 2016 and 2015 amounted to \$5,465,210 and \$5,269,304, respectively. At December 31, 2016 and 2015, the current portion of the postemployment benefits liability was \$2,041,134 and \$1,910,713, respectively. The non-current portion of the postemployment benefits liability amounted to \$22,101,261 and \$18,974,047 at December 31, 2016 and 2015, respectively.

The number of participants as of January 1, 2016 and 2015 was as follows:

	<u>2016</u>	<u>2015</u>
Active employees	80	79
Retired employees	<u>75</u>	<u>77</u>
Total	<u>155</u>	<u>156</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>2016</u>	<u>2015</u>
<u>Benefit Obligations and Normal Costs</u>		
Actuarial accrued liability (AAL):		
Retired employees and dependents	\$ 37,841,626	37,863,374
Active employees	<u>32,014,836</u>	<u>29,845,347</u>
Total	\$ <u>69,856,462</u>	<u>67,708,721</u>
Underfunded actuarial accrued liability (UAAL)	\$ <u>69,856,462</u>	<u>67,708,721</u>
Normal costs at beginning of year	1,153,871	1,107,716
Interest on normal cost	<u>46,155</u>	<u>46,155</u>
	\$ <u>1,200,026</u>	<u>1,153,871</u>

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(8) Postemployment Benefits, Continued

	<u>2016</u>	<u>2015</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	\$ 3,407,824	3,400,266
Interest on amortization payment	857,360	715,167
Normal costs with interest to end of year	<u>1,200,026</u>	<u>1,153,871</u>
Annual required contribution (ARC)	\$ <u>5,465,210</u>	<u>5,269,304</u>
<u>Annual OPEB Cost Contribution</u>		
Contributions made for years ended December 31, 2016 and 2015	2,207,575	2,021,177
Contributions as a percentage of required contribution	40.4%	38.4%
<u>Annual OPEB Cost and Net OPEB Obligation</u>		
Annual required contribution (OPEB cost)	5,465,210	5,269,304
Contributions made on a pay-as-you-go basis	<u>(2,207,575)</u>	<u>(2,021,177)</u>
Increase in net OPEB obligation	3,257,635	3,248,127
Net OPEB obligation at beginning of year	<u>20,884,760</u>	<u>17,636,633</u>
Net OPEB obligation at end of year	\$ <u>24,142,395</u>	<u>20,884,760</u>
Actuarial methods and assumptions:		
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Discount rate	4%	4%
2016 trend rate (Medical)	8.50%	9.00%
2017 trend rate (Medical)	8.00%	8.50%
Yearly decrease after year 2	0.50%	0.50%
Years until ultimate rate	5 years	6 years
The remaining amortization period at December 31, 2016 and 2015	22 years	23 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](http://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>
2016	\$ 646,238
2015	725,071
2014	864,054

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, 2016 and 2015, 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, 2016 and 2015. 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.

Actuarial measurement date	3/31/2016	3/31/2015
Net pension liability	\$ 2,157,242	478,381
Board's proportion of the Plan's net pension liability	0.0134405%	0.0141606%

For the year ended December 31, 2016 and 2015, the Board recognized pension expense of \$902,036 and \$464,170 for ERS, respectively. At December 31, 2016 and 2015 the Board's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2016</u>		<u>2015</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	\$ 10,901	255,705	15,314	-
Changes of assumption	575,271	-	-	-
Net difference between projected and actual earnings on pension plan investments	1,279,794	-	83,089	-
Changes in proportion and differences between the Board's contributions and proportionate share of contributions	134,079	15,458	124,923	-
Board's contributions subsequent to the measurement date	<u>485,013</u>	<u>-</u>	<u>574,956</u>	<u>-</u>
Total	\$ <u>2,485,058</u>	<u>271,163</u>	<u>798,282</u>	<u>-</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>
2017	\$ 445,866
2018	445,866
2019	445,866
2020	391,284
2021	-
Thereafter	-

(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, 2016
Actuarial valuation date	April 1, 2015
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 MP-2014.

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

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

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(9) Pension Plans, Continued

(c) Actuarial Assumptions, Continued

Measurement date	March 31, 2016
Asset type:	
Domestic equity	7.30%
International equity	8.55%
Real estate	8.25%
Private equity	11.00%
Absolute return strategies	6.75%
Opportunities portfolio	8.60%
Real assets	8.65%
Bonds and mortgages	4.00%
Cash	2.25%
Inflation - indexed bonds	4.00%

(d) Discount Rate

The discount rate used to calculate the total pension liability was 7.0% in 2016 and 7.5% in 2015. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the 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 Authority'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>4,864,423</u>	<u>2,157,242</u>	<u>(130,211)</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	3/31/2016	3/31/2015
Employers' total pension liability	\$(172,303)	(164,592)
Plan net position	<u>156,253</u>	<u>161,213</u>
Employers' net pension liability	\$ <u>(16,050)</u>	<u>(3,379)</u>
Ratio of plan net position to the Employers' total pension liability	90.7%	97.95%

(g) Contributions to the Pension Plan

Employer contributions are paid annually based on the System's fiscal year which ends on March 31<sup>st</sup>. Retirement contributions as of December 31, 2016 and 2015 represent the projected employer contribution for the period of April 1, 2016 through March 31, 2017 and April 1, 2015 through March 31, 2016, 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 \$18,908,087 and \$14,640,371 at December 31, 2016 and 2015, 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 \$15,297,444 at December 31, 2016 and 2015. 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. At December 31, 2016, approximately \$9,685,000 of these funds are included in this account.

Restricted for Debt Service:

Board restrictions at December 31, 2016 and 2015 of \$22,906,531 and \$20,701,070, respectively, are for debt service.

Unrestricted Net Position - This category represents net position of the Board not restricted for any project or other purpose. Additions of \$4,267,716 in net investment in capital assets and \$2,205,461 of restrictions for debt service decreased unrestricted net position by \$6,473,177. The total loss for the year of \$1,324,667 also decreased unrestricted net position.

(11) Labor Relations

The majority of the Board's employees are represented by four bargaining units, 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 is currently in negotiations with the bargaining units regarding new contracts. As of December 31, 2016, there were no finalized contracts and there was only verbal agreements in place.

(12) Risk Management and Contingent Liabilities

Risk management and contingent liabilities at December 31, 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, 2016 and 2015.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(12) Risk Management and Contingent Liabilities, Continued

(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.

At December 31, 2015 the financial statements reflect the result of the jury award of a lawsuit for damages incurred as a result of an accident. The award was made subsequent to year end but prior to the date that the financial statements were made available. The award originally totaled \$586,479. Award payable of \$500,000 was accrued as insurance would cover amounts in excess of that. In 2016 the lawsuit was settled for \$331,404 resulting in a miscellaneous revenue of \$168,596.

(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 year-end.

(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 41 - 42.

NIAGARA FALLS WATER BOARD  
 Niagara Falls Water Authority (a Blended Component Unit)  
 Other Supplementary Information  
 Statements of Net Position  
 December 31, 2016 and 2015

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Current assets - cash and equivalents	\$ 78,959	82,830
Noncurrent assets - due from Water Board	<u>102,758,300</u>	<u>106,815,680</u>
Total assets	<u>102,837,259</u>	<u>106,898,510</u>
<u>Liabilities</u>		
Current liabilities - bonds payable	<u>3,780,000</u>	<u>3,655,000</u>
Noncurrent liabilities - bonds payable	<u>97,619,756</u>	<u>102,894,976</u>
Risk management and contingent liabilities (note 12)	<u>                    </u>	<u>                    </u>
Total liabilities	<u>101,399,756</u>	<u>106,549,976</u>
<u>Deferred Inflows of Resources</u>		
Gain on refunding	<u>1,092,840</u>	<u>-</u>
<u>Net Position</u>		
Unrestricted	<u>\$ 344,663</u>	<u>348,534</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenue - other services	\$ -	-
Operating expenses - contractual expenses	<u>3,871</u>	<u>3,299</u>
Change in net position	(3,871)	(3,299)
Net position at beginning of year	<u>348,534</u>	<u>351,833</u>
Net position at end of year	<u>\$ 344,663</u>	<u>348,534</u>

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

Actuarial								Unfunded liability as a percentage of covered payroll
Fiscal year ended December 31,	Valuation Date January 1,	Value of assets	Accrued liability	Unfunded actuarial accrued liability	Funded ratio	Covered payroll		
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%	
2014	2014	-	65,509,282	65,509,282	0%	4,881,465	1342%	

NIAGARA FALLS WATER BOARD  
Required Supplementary Information  
Schedule of Proportionate Share of the Net Pension Liability  
Year ended December 31, 2016 and 2015

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

\* The amounts presented for each fiscal year were determined as of the March 31, 2016 and 2015 measurement dates of the plan.

NIAGARA FALLS WATER BOARD  
Required Supplementary Information  
Schedule of Employer Pension Contributions  
Year ended December 31, 2016 and 2015

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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS, INCLUDING COMPLIANCE WITH INVESTMENT GUIDELINES,  
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, 2016, and the related notes to financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated July 24, 2017.

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 2016-001.

### 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  
July 24, 2017

NIAGARA FALLS WATER BOARD  
Schedule of Findings and Responses  
Year ended December 31, 2016

(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).

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 - 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.

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, 2016

(2015-001) 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, 2015 via the Public Authorities information System (PARIS).

Status - This was a one time issue due to the OSC audit. However, due to different circumstances, this finding was repeated for the year ended December 31, 2016.

Management's Correction Action - The Board has approved the independent audit report which will be filed with PARIS.

July 24, 2017

CONFIDENTIAL

The Board of Directors  
Niagara Falls Water Board

Dear Board Members:

We have completed our audit of the financial statements of the Niagara Falls Water Board (the Board) for the year ended December 31, 2016. Considering the test character of our audit, you will appreciate that reliance must be placed on adequate methods of internal control as your principal safeguard against irregularities which a test examination may not disclose. We now present for your consideration our comments and recommendations based upon observations made during our audit.

This report is intended solely for the information and use of the Board of Directors, management and others within the Board.

We now present for your consideration our comments and recommendations based upon observations made during our audit.

Monthly Financial Close

Internal financial reports were not prepared for the Board on a monthly basis. Significant adjustments were made at year-end by management that were not reflected in internally prepared financial reports throughout the year. In order for management to make appropriate financial decisions, we recommend that accurate internal financial reports be prepared on a timely basis subsequent to month end. Additionally, these procedures would highlight cash flow and other operational problems.

Plant Fund General Ledger

The Board does not maintain adequate accounting records for the plant fund. No general ledger or supporting cash receipts or cash disbursement journals were maintained. In order to properly account for transactions and prepare accurate financial statements, we recommend that the Board maintain a general ledger and cash receipts and cash disbursement journals for the plant fund similar to how the other funds are maintained.

Accounts Receivable

During the course of our audit, we noted several accounts receivable which were more than one year old. Although an adequate allowance for uncollectible accounts has been recorded, we recommend that management review the receivable balances for reasonableness of collection. After making a final attempt at collection of these balances, any accounts which are over one year old should be written off against the allowance.

\* \* \* \* \*

We take this opportunity to thank the staff of the Niagara Falls Water Board for the courtesy and cooperation extended to us during the audit. If you have any questions regarding the foregoing comments or wish any assistance in their implementation, please contact us at your convenience.

Very truly yours,

EFPR GROUP, CPAs, PLLC



Douglas E. Zimmerman, CPA  
Partner  
Chief Operating Officer

## REPORT TO THE BOARD

July 24, 2017

The Board of Directors  
Niagara Falls Water Board

Dear Board Members:

We have audited the financial statements of the Niagara Falls Water Board (the Board) as of and for the year ended December 31, 2016, and have issued our report thereon dated July 24, 2017. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Board are described in note 1 to the financial statements. As described in note 2 to the financial statements, the Board adopted Governmental Accounting Standards Board (GASB) Statement No. 72 - "Fair Value Measurement and Application," during the year ended December 31, 2016. We noted no transactions entered into by the Board during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

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

- Collection of accounts receivable
- Useful lives used to depreciate capital assets
- Estimated unbilled receivables

- Compensated absences
- Postemployment benefits
- Pension plans

For the year ended December 31, 2016, we evaluated the key factors and assumptions used by management in determining accounting estimates and were reasonable in relation to the financial statements taken as a whole.

#### Sensitive Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Bond indebtedness (note 6)
- Postemployment benefits (note 8)
- Pension plans (note 9)
- Risk management and contingent liabilities (note 12)

#### Difficulties Encountered in Performing the Audit

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

#### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely adjustments identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no material uncorrected misstatements detected as a result of our audit procedures.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Management Representations

We have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Board’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Board’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. During our annual audit of the Board, we noted a compliance and other matter which is described in the schedule of findings and responses as item (2016-001).

Other Information in Documents Containing Audited Financial Statements

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

\* \* \* \* \*

This information is intended solely for the use of the Board of Directors and management of the Niagara Falls Water Board and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to serve as your auditors. Please contact us at your convenience if you would like to meet with us to discuss our findings in further detail or to review any other questions that you might have.

Very truly yours,

*EFPR Group, CPAs, PLLC*

EFPR GROUP, CPAs, PLLC

## REPORT TO THE BOARD

May 13, 2016

The Board of Directors  
Niagara Falls Water Board

Dear Board Members:

We have audited the financial statements of the Niagara Falls Water Board (the Board) as of and for the year ended December 31, 2015, and have issued our report thereon dated May 13, 2016. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Board are described in note 1 to the financial statements. As described in note 1 to the financial statements, the Board adopted Governmental Accounting Standards Board (GASB) Statement No. 68 - "Accounting and Financial Reporting for Pensions - an Amendment to GASB Statement No. 27" and GASB Statement No. 71 - "Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68," during the year ended December 31, 2015. We noted no transactions entered into by the Board during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

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

- Collection of accounts receivable
- Useful lives used to depreciate capital assets
- Estimated unbilled receivables

- Compensated absences
- Postemployment benefits
- Pension plans

For the year ended December 31, 2015, we evaluated the key factors and assumptions used by management in determining accounting estimates and were reasonable in relation to the financial statements taken as a whole.

#### Sensitive Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Bond indebtedness (note 6)
- Postemployment benefits (note 8)
- Pension plans (note 9)
- Risk management and contingent liabilities (note 12)

#### Difficulties Encountered in Performing the Audit

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

#### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely adjustments identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no audit adjustments.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Management Representations

We have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Board’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Board’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. During our annual audit of the Board, we noted a compliance and other matter which is described in the schedule of findings and questioned costs as item (2015-001).

Other Information in Documents Containing Audited Financial Statements

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

\* \* \* \* \*

This information is intended solely for the use of the Board of Directors and management of the Niagara Falls Water Board and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to serve as your auditors. Please contact us at your convenience if you would like to meet with us to discuss our findings in further detail or to review any other questions that you might have.

Very truly yours,

*EFPR Group, CPAs, PLLC*

EFPR GROUP, CPAs, PLLC

NIAGARA FALLS WATER BOARD  
Financial Statements and  
Management's Discussion and Analysis  
December 31, 2015 and 2014  
(With Independent Auditors' Report Thereon)

# NIAGARA FALLS WATER BOARD

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\* \* \* \* \*

## 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, 2015 and 2014, 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 financial position of the Niagara Falls Water Board as of December 31, 2015 and 2014, and the changes in financial position, and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

As discussed in note 9 to the financial statements, the Board adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68 - "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27" and GASB Statement No. 71 - "Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68," during the year ended December 31, 2015. Our opinion is not modified with respect to this matter.

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10, and the required supplementary information as listed in the table of contents on pages 39 to 41 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 13, 2016, on our consideration of the Niagara Falls Water 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 Niagara Falls Water Board's internal control over financial reporting and compliance.

EFPR Group, CPAs, PLLC

Williamsville, New York  
May 13, 2016

NIAGARA FALLS WATER BOARD  
Management's Discussion and Analysis  
December 31, 2015 and 2014

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, 2015 and 2014.

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.

The Board adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68 - "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27" and GASB Statement No. 71 - "Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68," during the year ended December 31, 2015.

### **Financial Highlights**

- The assets and deferred outflows of the Board exceeded its liabilities by \$58,918,534 and \$56,998,633 (net position) at December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, \$8,279,649 and \$6,371,794 (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, 2015 and 2014 was \$5,875,062 and \$3,904,840, respectively.
- The Board's total bond indebtedness decreased by \$3,606,938 during the current fiscal year, as a result of principal payments made of \$7,920,000 and premium amortization of \$66,938, offset by issuance of \$4,380,000 of principal.
- The Board reflected a liability for postemployment benefits of \$20,884,760 and \$17,636,633 at December 31, 2015 and 2014, respectively.

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

**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 below.

<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	

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 and liabilities, with the difference between the two 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 38 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 by \$58,918,534 at December 31, 2015, as compared to \$56,998,633 at December 31, 2014, as presented below:

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

**Niagara Falls Water Board's Net Position**

		December 31, <u>2015</u>	<u>2014</u>	Increase/(Decrease) <u>Dollars</u>	<u>Percent</u>
Current assets	\$	34,571,622	30,798,316	3,773,306	12.25%
Noncurrent assets		<u>157,361,444</u>	<u>161,157,044</u>	<u>(3,795,600)</u>	(2.36%)
Total assets		<u>191,933,066</u>	<u>191,955,360</u>	<u>(22,294)</u>	0.00%
Deferred outflows		<u>798,282</u>	-	<u>798,282</u>	100.00%
Current liabilities		10,670,532	11,528,181	(857,649)	(7.44%)
Noncurrent liabilities		<u>123,142,282</u>	<u>123,428,546</u>	<u>(286,264)</u>	(0.23%)
Total liabilities		<u>133,812,814</u>	<u>134,956,727</u>	<u>(1,143,913)</u>	(0.85%)
Net investment in capital assets		14,640,371	15,219,414	(579,043)	(3.80%)
Restricted		35,998,514	35,407,425	591,089	1.67%
Unrestricted		<u>8,279,649</u>	<u>6,371,794</u>	<u>1,907,855</u>	29.94%
Total net position	\$	<u>58,918,534</u>	<u>56,998,633</u>	<u>1,919,901</u>	3.37%

The Board's net investment in capital assets, is a surplus net position of \$14,640,371 and \$15,219,414 at December 31, 2015 and 2014, 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 \$8,279,649 and \$6,371,794 at December 31, 2015 and 2014, 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 (\$20,701,070 and \$20,109,981 at December 31, 2015 and 2014, respectively) represents funds that are set aside to be used towards debt service. The restricted capital projects portion of the Board's net position (\$15,297,444 at December 31, 2015 and 2014) represents funds that are set aside primarily for the reconstruction of the Falls Street Tunnel.

A comparison of current assets to current liabilities of the Board at December 31, 2015 and 2014 follows:

	<u>2015</u>	<u>2014</u>
Current assets	\$ 34,571,622	30,798,316
Current liabilities	<u>10,670,532</u>	<u>11,528,181</u>
Ratio of current assets to current liabilities	<u>3.24</u>	<u>2.67</u>

The Board's total net position increased by \$1,920,835 (\$1,919,901 before cumulative effect of change in accounting principle of \$934) during the year ended December 31, 2015, as compared to an increase of \$416,506 for the year ended December 31, 2014. Key elements of the current year's increase 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>2015</u>	<u>2014</u>	Increase/ (decrease)
Total operating revenue	\$ 33,175,352	29,640,395	3,534,957
Total operating expenses	(27,300,290)	(25,735,555)	(1,564,735)
Operating income	5,875,062	3,904,840	1,970,222
Total non-operating revenue (expenses)	(3,954,227)	(3,488,334)	(465,893)
Change in net position	\$ <u>1,920,835</u>	<u>416,506</u>	<u>1,504,329</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 \$3.5 million increase in operating revenue under 2015. 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 2015 and approved rates for 2016.

The Board's largest operating expense area relates to its employees. Together, personnel costs (salaries) and employee benefits approximate 50% of all operating expenses. In 2015, these costs totaled approximately \$13.7 million as compared to \$13.3 million in 2014, representing an approximate 3.6% increase in this area. This increase is due to the rising costs of providing health care and other employee 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 \$105,715,000 and \$109,255,000 at December 31, 2015 and 2014, respectively. In 2015, the Board recognized an expense of \$500,000 related to a jury award for litigation. See note 12(b).

The following is a summary of the Board's cash flow activities for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Cash flows provided by (used in):		
Operating activities	\$ 13,978,428	11,427,045
Capital and related financing activities	(11,109,707)	(13,294,465)
Investing activities	<u>27,757</u>	<u>3,084,716</u>
Net increase in cash and equivalents	2,896,478	1,217,296
Cash and equivalents at beginning of year	<u>18,109,983</u>	<u>16,892,687</u>
Cash and equivalents at end of year	\$ <u>21,006,461</u>	<u>18,109,983</u>

The Board's available cash and equivalents increased by \$2,896,478 during the year ended December 31, 2015, as compared to an increase of \$1,217,296 during the year ended December 31, 2014. Cash provided by operating activities reflected a positive balance of \$13,978,428 for the year ended December 31, 2015.

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, 2015, amounted to \$121,190,708, as compared to \$125,376,328 at December 31, 2014. 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 \$7,469,218.
- Construction in progress increased by \$3,951,746, and decreased by \$9,932,901 which represents completed capital projects transferred to their applicable asset categories, net of insurance proceeds.
- The Board recorded total depreciation of \$5,663,169 and \$5,232,346 for the years ended December 31, 2015 and 2014, respectively.

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

	<u>2015</u>	<u>2014</u>
Nondepreciable assets:		
Land	\$ 463,713	463,713
Construction in progress	1,545,362	7,526,517
Depreciable assets:		
Plant and transmission assets (water system)	53,375,503	55,389,162
Plant and transmission assets (wastewater system)	61,533,136	58,173,470
Machinery and equipment	<u>4,272,994</u>	<u>3,823,466</u>
Total	\$ <u>121,190,708</u>	<u>125,376,328</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, 2015, the Board had outstanding serial bonds totaling \$105,715,000, as compared to \$109,255,000 at December 31, 2014. During the year ended December 31, 2015, the Board made principal payments of \$7,920,000 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.

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

**Postemployment Benefits** - Upon retirement, the Board's employees are entitled to continuous health insurance coverage. At December 31, 2015 and 2014, the liability recorded for these benefits amounted to \$20,884,760 and \$17,636,633, respectively. The underfunded actuarial accrued liability is \$67,708,721 and \$65,509,282 at December 31, 2015 and 2014, respectively.

**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, 2015 is \$836,714, compared to \$936,292 at December 31, 2014. 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 \$41,836 of such liability is current at December 31, 2015.

**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 2015 and approved rates to be charged for 2016 are as follows:

	<u>2015</u>		<u>2016</u>	
	<u>Amount to be charged (per 100 cubic feet)</u>		<u>Amount to be charged (per 100 cubic feet)</u>	
<u>Amount Consumed</u>	<u>Inside city</u>	<u>Outside city</u>	<u>Inside city</u>	<u>Outside city</u>
First 20,000 cubic feet per quarter	3.13	8.37	3.27	8.74
Next 60,000 cubic feet per quarter	2.71	7.31	2.83	7.63
Next 120,000 cubic feet per quarter	2.30	6.09	2.40	6.36
Over 200,000 cubic feet per quarter	1.91	5.12	1.99	5.35
Minimum charge for water consumption per quarter	40.69	108.81	42.51	113.62

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>2015 Rate (per quarter)</u>	<u>2016 Rate (per quarter)</u>
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 2015 and rates to be charged during 2016 are as follows:

<u>Amount Consumed</u>	<u>2015</u>	<u>2016</u>
Minimum charge per quarter (up to 1,300 cubic feet)	\$ 53.95	56.29
Additional usage in excess of 1,300 cubic feet (\$/cubic feet)	4.15	4.33

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, 2015 were \$2,840 per million gallons for wastewater flow; \$0.94 per pound for all suspended solids discharged; and \$1.62 per pound for all soluble organic carbon compounds discharged. Approved rates for 2015 were \$2,913 per million gallons for wastewater flow; \$0.94 per pound for all suspended solids discharged; and \$1.62 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. Mary Jean Buddenhagen, Michael O'Laughlin Municipal Water Plan, 5815 Buffalo Avenue, Niagara Falls, New York 14304.

NIAGARA FALLS WATER BOARD  
Statements of Net Position  
December 31, 2015 and 2014

<u>Assets</u>	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and equivalents	\$ 21,006,461	18,109,983
Accounts receivable, net of allowance for uncollectible accounts	12,415,858	11,395,673
Due from other governments	494,160	189,649
Prepaid expenses	454,074	907,877
Notes receivable - current portion	<u>201,069</u>	<u>195,134</u>
Total current assets	<u>34,571,622</u>	<u>30,798,316</u>
Noncurrent assets:		
Restricted cash and investments - capital projects	15,297,444	15,297,444
Restricted cash and investments - debt service reserve	20,701,070	20,109,981
Notes receivable - noncurrent portion	172,222	373,291
Capital assets:		
Land	463,713	463,713
Plant and transmission assets	166,218,980	159,606,615
Machinery and equipment	7,390,209	6,549,953
Construction in progress	1,545,362	7,526,517
Less accumulated depreciation	<u>(54,427,556)</u>	<u>(48,770,470)</u>
Total capital assets, net of accumulated depreciation	<u>121,190,708</u>	<u>125,376,328</u>
Total noncurrent assets	<u>157,361,444</u>	<u>161,157,044</u>
Total assets	<u>191,933,066</u>	<u>191,955,360</u>
Deferred outflows of resources - pensions	<u>798,282</u>	<u>-</u>

(Continued)

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD  
Statements of Net Position, Continued

<u>Liabilities</u>	<u>2015</u>	<u>2014</u>
Current liabilities:		
Accounts payable	\$ 1,272,362	2,924,319
Accrued liabilities	3,288,722	3,281,953
Overpayments	1,899	20,616
Award payable (note 12(b))	500,000	-
Current portion of long-term liabilities:		
Compensated absences	41,836	46,814
Postemployment benefits	1,910,713	1,714,479
Bonds payable	<u>3,655,000</u>	<u>3,540,000</u>
Total current liabilities	<u>10,670,532</u>	<u>11,528,181</u>
Noncurrent liabilities:		
Compensated absences	794,878	889,478
Postemployment benefits	18,974,047	15,922,154
Bonds payable	102,894,976	106,616,914
Net pension liability - proportionate share - ERS System	<u>478,381</u>	<u>-</u>
Total noncurrent liabilities	<u>123,142,282</u>	<u>123,428,546</u>
Risk management and contingent liabilities (note 12)	<u>-</u>	<u>-</u>
Total liabilities	<u>133,812,814</u>	<u>134,956,727</u>
 <u>Net Position</u>		
Net investment in capital assets	14,640,371	15,219,414
Restricted for capital projects	15,297,444	15,297,444
Restricted for debt service	20,701,070	20,109,981
Unrestricted	<u>8,279,649</u>	<u>6,371,794</u>
Total net position	<u>\$ 58,918,534</u>	<u>56,998,633</u>

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD  
Statements of Revenue, Expenses and Changes in Net Position  
Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenue:		
Water rents and charges	\$ 11,550,903	11,246,172
Sewer rents and charges	21,112,768	17,924,980
Licenses and permits	250,258	236,549
Other services	<u>261,423</u>	<u>232,694</u>
Total operating revenue	<u>33,175,352</u>	<u>29,640,395</u>
Operating expenses:		
Personnel costs	5,021,834	4,943,369
Contractual expenses	7,905,491	7,249,300
Employee benefits	8,709,796	8,310,540
Depreciation expense	<u>5,663,169</u>	<u>5,232,346</u>
Total operating expenses	<u>27,300,290</u>	<u>25,735,555</u>
Operating income	<u>5,875,062</u>	<u>3,904,840</u>
Non-operating revenue (expenses):		
Use of money and property	618,846	534,736
Gain on sale of property	26,141	27,085
Interest expense	(4,099,214)	(4,050,155)
Award payable (note 12(b))	<u>(500,000)</u>	<u>-</u>
Total non-operating revenue (expenses)	<u>(3,954,227)</u>	<u>(3,488,334)</u>
Change in net position	<u>1,920,835</u>	<u>416,506</u>
Net position at beginning of year, before restatement	56,998,633	56,582,127
Cumulative effect of change in accounting principle (note 13)	<u>(934)</u>	<u>-</u>
Net position at beginning of year, as restated	<u>56,997,699</u>	<u>56,582,127</u>
Net position at end of year, as restated	<u><u>\$ 58,918,534</u></u>	<u><u>56,998,633</u></u>

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD  
Statements of Cash Flows  
Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 32,027,073	29,837,965
Payments to suppliers	(7,410,106)	(8,231,572)
Payments to employees	<u>(10,638,539)</u>	<u>(10,179,348)</u>
Net cash provided by operating activities	<u>13,978,428</u>	<u>11,427,045</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of bonds	4,380,000	4,095,000
Gain on sale of property	26,141	(27,085)
Expenditures of insurance proceeds	-	(645,540)
Disposal of capital assets	(6,083)	-
Acquisition of capital assets	(3,375,054)	(5,075,704)
Premium paid on capital debt	(66,938)	(66,938)
Principal paid on capital debt	(7,920,000)	(7,227,122)
Interest paid on capital debt	<u>(4,147,773)</u>	<u>(4,347,076)</u>
Net cash used in capital and related financing activities	<u>(11,109,707)</u>	<u>(13,294,465)</u>
Cash flows from investing activities:		
Interest earned	618,846	534,736
Change in restricted cash and investments - capital projects	-	(2,453)
Change in restricted cash and investments - debt service reserve	<u>(591,089)</u>	<u>2,552,433</u>
Net cash provided by investing activities	<u>27,757</u>	<u>3,084,716</u>
Net change in cash and equivalents	2,896,478	1,217,296
Cash and equivalents at beginning of year	<u>18,109,983</u>	<u>16,892,687</u>
Cash and equivalents at end of year	<u>\$ 21,006,461</u>	<u>18,109,983</u>

(Continued)

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD  
Statements of Cash Flows, Continued

	<u>2015</u>	<u>2014</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ <u>5,875,062</u>	<u>3,904,840</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	5,663,169	5,232,346
Changes in:		
Accounts receivable	(1,020,185)	30,382
Due from other governments	(304,511)	(30,175)
Prepaid expenses	243,754	(189,816)
Notes receivable	195,134	189,374
Accounts payable	251,631	(792,456)
Accrued liabilities	55,328	(108,657)
Overpayments	(18,717)	7,989
Compensated absences	(99,578)	(99,691)
Postemployment benefits	3,248,127	3,282,909
Net pension liability	(283,297)	-
Deferred outflows	<u>172,511</u>	<u>-</u>
Total adjustments	<u>8,103,366</u>	<u>7,522,205</u>
Net cash provided by operating activities	<u>\$ 13,978,428</u>	<u>11,427,045</u>
Supplemental schedule of cash flow information - adjustment for capital assets financed by accounts payable	<u>\$ 581,172</u>	<u>2,484,740</u>

See accompanying notes to financial statements.

# NIAGARA FALLS WATER BOARD

## Notes to Financial Statements

December 31, 2015 and 2014

### (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 15,941 residential, 281 commercial and 32 large industrial type customers. Total population served by the water system is estimated at 51,000. The average daily demand is 21.5 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 32.3 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, Liabilities 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, 2015 and 2014, the total amount restricted for capital projects amounted to \$15,297,444.
- Restricted Cash and Investments - Debt Service Reserve - 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.

The debt service reserve fund was established to fulfill the debt service reserve requirements on the outstanding bonds as and when they become due.

- 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.

- 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.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(d) Assets, Liabilities and Net Position, Continued

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.

- **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 a liability in the accompanying statements of net position. Bond premiums are deferred and amortized over the life of the respective bonds.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(d) Assets, Liabilities and Net Position, Continued

- Retirement Plan - The Board provides retirement benefits for substantially all of its regular, full-time employees through contributions to the New York State Employees' Retirement System (ERS). The ERS provides various plans and options, some of which require employee contributions.
- Deferred Outflows and Inflows of Resources - Pensions - In the Statement of Net Position, in addition to assets and liabilities, the Board will sometimes report separate section for deferred outflows of resources and another for deferred inflows of resources. Deferred outflows of resources-pensions, 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 district-wide Statement of Net Position. This represents the effect of the net change in the Board's proportion of the collective net pension asset or 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. Deferred inflows of resources - pensions, represents a provision of net position that applies to a future period and so will not be recognized as an inflow of resources until then. The Board has two items that qualify for reporting in this category.

(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) Accounting and Financial Reporting for Pensions

During the fiscal year ended December 31, 2015, the Board adopted the provisions of GASB Statement No. 68 - "Accounting and Financial Reporting for Pensions - an Amendment to GASB Statement No. 27" and GASB Statement No. 71 - "Pension Transitions for Contributions Made Subsequent to the Measurement Date - an Amendment to GASB Statement No. 68." The primary objective of the Statements is to improve accounting and financial reporting by state and local governments for pensions. The implementation of the Statements requires the Board to report as an asset and/or liability

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(f) Accounting and Financial Reporting for Pensions, Continued

its portion of the collective pension asset and/or liability in the New York State Employees' Retirement System. The implementation of the Statements also requires the Board to report a deferred outflow and/or inflow for the effect of the net change in the Board's proportion of the collective net pension asset and/or 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. Also included as deferred outflows are the Board's contributions to the pension system subsequent to the measurement date. See notes 9 and 13 for the financial statement impact of implementation on the financial statements.

(g) 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.

(h) 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.

Subsequent to the completion of the audit fieldwork for the year ended December 31, 2015 and prior to the issuance of the final audit report the Niagara Falls Water Board received a Report of Examination for the period of January 1, 2013 through April 30, 2015 from the State of New York Office of Comptroller regarding the financial management of the Niagara Falls Public Water Authority and Niagara Falls Water Board. The potential impact of the Report of Examination on the financial statements can not be determined as of the date of this report.

(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.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(2) Cash and Equivalents and Investments, Continued

The Board's cash and equivalents at December 31, 2015 and 2014 include the following captions on the statements of net position:

	<u>2015</u>	<u>2014</u>
Cash and equivalents	\$ 21,006,461	18,109,983
Restricted cash and investments:		
Capital projects	15,297,444	15,297,444
Debt service reserve	<u>20,701,070</u>	<u>20,109,981</u>
Total	\$ <u>57,004,975</u>	<u>53,517,408</u>

Cash and equivalents are comprised of the following:

	<u>2015</u>	<u>2014</u>
Petty cash (uncollateralized)	\$ 100	100
Deposits	46,098,270	42,202,048
Investments	<u>10,906,605</u>	<u>11,315,260</u>
Total	\$ <u>57,004,975</u>	<u>53,517,408</u>

All deposits and investments are carried at fair value. Investments at December 31, 2015 and 2014 are in the form of U.S. Treasury securities, notes issued by the Federal National Mortgage Association and Federal Home Loan Bank and investment type money market funds.

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, 2015 and 2014, 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, 2015 and 2014, 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.

(3) Receivables

Major revenues accrued by the Board at December 31, 2015 and 2014 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.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(3) Receivables, Continued

(a) Accounts Receivable, Continued

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.

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.

(b) Due from Other Governments

Due from other governments represents amounts due primarily from the City. Amounts accrued at December 31, 2015 and 2014 consist of:

	<u>2015</u>	<u>2014</u>
City of Niagara Falls - tax transfer	\$ <u>494,160</u>	<u>189,649</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 \$3,670,545 and \$3,846,085 at December 31, 2015 and 2014, respectively. Management has recorded a full allowance for uncollectible accounts with respect to these balances at December 31, 2015 and 2014.

(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

	<u>2015</u>	<u>2014</u>
Cascades Company	\$ 373,291	568,425
Less current portion	<u>(201,069)</u>	<u>(195,134)</u>
Notes receivable - noncurrent portion	\$ <u>172,222</u>	<u>373,291</u>

(5) Capital Assets

The Board's capital assets activity for the years ended December 31, 2015 and 2014 is summarized as follows:

	<u>Balance 1/1/2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/2015</u>
Capital assets, not being depreciated:				
Land	\$ 463,713	-	-	463,713
Construction in progress	<u>7,526,517</u>	<u>3,951,746</u>	<u>(9,932,901)</u>	<u>1,545,362</u>
Total capital assets not being depreciated	<u>7,990,230</u>	<u>3,951,746</u>	<u>(9,932,901)</u>	<u>2,009,075</u>
Capital assets, being depreciated:				
Infrastructure:				
Water system	86,566,694	922,128	-	87,488,822
Wastewater system	73,039,921	5,690,237	-	78,730,158
Machinery and equipment	<u>6,549,953</u>	<u>856,853</u>	<u>(16,597)</u>	<u>7,390,209</u>
Total capital assets being depreciated	<u>166,156,568</u>	<u>7,469,218</u>	<u>(16,597)</u>	<u>173,609,189</u>
Less accumulated depreciation:				
Infrastructure:				
Water system	(31,177,532)	(2,935,787)	-	(34,113,319)
Wastewater system	(14,866,451)	(2,330,571)	-	(17,197,022)
Machinery and equipment	<u>(2,726,487)</u>	<u>(396,811)</u>	<u>6,083</u>	<u>(3,117,215)</u>
Total accumulated depreciation	<u>(48,770,470)</u>	<u>(5,663,169)</u>	<u>6,083</u>	<u>(54,427,556)</u>
Total being depreciated, net	<u>117,386,098</u>	<u>1,806,049</u>	<u>(10,514)</u>	<u>119,181,633</u>
Capital assets, net	\$ <u>125,376,328</u>	<u>5,757,795</u>	<u>(9,943,415)</u>	<u>121,190,708</u>

Insurance proceeds for flood damage incurred in 2014 of \$2,463,683 were recorded in offset increase in construction in progress.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(5) Capital Assets, Continued

	Balance <u>1/1/2014</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/2014</u>
Capital assets, not being depreciated:				
Land	\$ 463,713	-	-	463,713
Construction in progress	<u>6,709,632</u>	<u>6,806,420</u>	<u>(5,989,535)</u>	<u>7,526,517</u>
Total capital assets not being depreciated	<u>7,173,345</u>	<u>6,806,420</u>	<u>(5,989,535)</u>	<u>7,990,230</u>
Capital assets, being depreciated:				
Infrastructure:				
Water system	86,409,563	157,131	-	86,566,694
Wastewater system	68,489,493	4,550,428	-	73,039,921
Machinery and equipment	<u>5,322,252</u>	<u>1,282,475</u>	<u>(54,774)</u>	<u>6,549,953</u>
Total capital assets being depreciated	<u>160,221,308</u>	<u>5,990,034</u>	<u>(54,774)</u>	<u>166,156,568</u>
Less accumulated depreciation:				
Infrastructure:				
Water system	(28,280,036)	(2,897,496)	-	(31,177,532)
Wastewater system	(12,918,259)	(1,948,192)	-	(14,866,451)
Machinery and equipment	<u>(2,394,602)</u>	<u>(386,658)</u>	<u>54,773</u>	<u>(2,726,487)</u>
Total accumulated depreciation	<u>(43,592,897)</u>	<u>(5,232,346)</u>	<u>54,773</u>	<u>(48,770,470)</u>
Total being depreciated, net	<u>116,628,411</u>	<u>757,688</u>	<u>(1)</u>	<u>117,386,098</u>
Capital assets, net	\$ <u>123,801,756</u>	<u>7,564,108</u>	<u>(5,989,536)</u>	<u>125,376,328</u>

(6) Bond Indebtedness

The Authority issued 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 years ended December 31, 2015 and 2014, the Authority issued Series 2015D bonds and Series 2014B bonds, respectively.

The proceeds of the Series 2005A - Clean Water issue were used to obtain the North Gorge Interceptor capital project from the City and to fund further capital improvements.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(6) Bond Indebtedness, Continued

The net proceeds of the Series 2005 issue were used to eliminate outstanding short-term debt, fund current and future capital improvements, and to refund a portion of outstanding debt in the amount of \$16,020,000. Such amount was deposited in an irrevocable trust to provide for future debt service payments on the Series 2003A bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Board's financial statements.

The effect of the refunding transaction was a decrease in debt service payments of \$1,603,619 and an economic gain of \$1,124,676. The economic gain is the difference in present values of the old and new debt service payments.

The premium on the Series 2005 bonds amounted to \$1,495,985, and has been deferred and is being amortized over the life of the bonds. The premium is included in the bonds payable balance in the Board's statements of net position.

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.

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 2015A&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.

Serial bond activity for the year ended December 31, 2015 is presented on the following page:

**NIAGARA FALLS WATER BOARD**  
Notes to Financial Statements, Continued

**6) Bond Indebtedness, Continued**

**Serial Bond Activity:**

**Niagara Falls Public Water Authority Bonds:**

Year of Issue	Year of Maturity	Interest Rate %	Original Amount	Principal Outstanding 1/1/2015	Issued	Paid	Principal Outstanding 12/31/2015
2005	2034	5.00 - 5.50	\$ 23,115,000	23,115,000	-	-	23,115,000
2013	2034	3.0 - 5.0	36,060,000	36,060,000	-	280,000	35,780,000
2013	2024	4.309	8,415,000	7,735,000	-	730,000	7,005,000

**New York State Environmental Facilities**

**Corporation Water Revolving Funds**

**Revenue Bonds:**

2013	2033	3.88 - 5.05	14,030,000	13,510,000	-	535,000	12,975,000
2013	2023	4.75 - 4.91	5,580,000	5,580,000	-	-	5,580,000
2013	2019	5.14 - 5.59	6,770,000	5,700,000	-	1,110,000	4,590,000
2013	2019	5.14 - 5.59	3,385,000	2,850,000	-	555,000	2,295,000
2015	2034	3.81 - 4.57	4,380,000	-	4,380,000	-	4,380,000
2014	2021	5.40	-	4,095,000	-	-	4,095,000
2005	2034	1.56 - 4.57	6,017,960	4,535,000	-	4,535,000	-
2012	2041	0.26 - 4.27	6,607,122	6,075,000	-	175,000	5,900,000
<b>Totals</b>			<b>\$ 114,360,082</b>	<b>109,255,000</b>	<b>4,380,000</b>	<b>7,920,000</b>	<b>105,715,000</b>

**Reconciliation to statements of net position:**

Principal outstanding	\$ 109,255,000	105,715,000
Unamortized premium on bonds	901,914	834,976
Current portion of bonds payable	\$ 110,156,914	106,549,976
Non-current portion of bonds payable	3,540,000	3,655,000
	106,616,914	102,894,976
	\$ 110,156,914	106,549,976

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(6) Bond Indebtedness, Continued

The annual maturities of long-term debt (by debt type) as of December 31, 2015 are as follows:

<u>Year</u>	<u>Premium on bonds</u>	<u>Serial bonds</u>	<u>Total</u>
2016	\$ 66,938	3,655,000	3,721,938
2017	66,938	3,780,000	3,846,938
2018	66,938	3,915,000	3,981,938
2019	66,938	4,055,000	4,121,938
2020	66,938	4,135,000	4,201,938
2021-2025	326,416	23,800,000	24,126,416
2026-2030	140,725	30,710,000	30,850,725
2031-2035	33,145	29,685,000	29,718,145
2035-2040	-	1,250,000	1,250,000
2040	-	730,000	730,000
	<u>\$ 834,976</u>	<u>105,715,000</u>	<u>106,549,976</u>

Annual interest payments due on serial bonds as of December 31, 2015 are as follows:

2016	\$ 4,056,356
2017	3,925,541
2018	3,830,996
2019	3,670,959
2020	3,363,352
2021-2025	14,851,549
2026-2030	10,073,053
2031-2035	3,190,365
2036-2040	227,145
2041	<u>27,331</u>
Total	\$ <u>47,216,647</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, 2015, 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. The current portion of the liability amounted to \$41,836 and \$46,814 at December 31, 2015 and 2014, respectively. The long-term portion of the liability amounted to \$794,878 and \$889,478 at December 31, 2015 and 2015, 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, 2015 and 2014 amounted to \$5,269,304 and \$5,055,866, respectively. At December 31, 2015 and 2014, the current portion of the postemployment benefits liability was \$1,910,713 and \$1,714,479, respectively. The non-current portion of the postemployment benefits liability amounted to \$18,974,047 and \$15,922,154 at December 31, 2015 and 2014, respectively.

The number of participants as of January 1, 2015 and 2014 was as follows:

	<u>2015</u>	<u>2014</u>
Active employees	79	80
Retired employees	<u>77</u>	<u>75</u>
Total	<u>156</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>2015</u>	<u>2014</u>
<u>Benefit Obligations and Normal Costs</u>		
Actuarial accrued liability (AAL):		
Retired employees and dependents	\$ 37,863,374	37,827,312
Active employees	<u>29,845,347</u>	<u>27,681,970</u>
Total	\$ <u>67,708,721</u>	<u>65,509,282</u>
Underfunded actuarial accrued liability (UAAL)	\$ <u>67,708,721</u>	<u>65,509,282</u>
Normal costs at beginning of year	1,107,716	1,065,111
Interest on normal cost	<u>46,155</u>	<u>44,380</u>
	\$ <u>1,153,871</u>	<u>1,109,491</u>

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(8) Postemployment Benefits, Continued

	<u>2015</u>	<u>2014</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	\$ 3,400,266	3,373,009
Interest on amortization payment	715,167	573,366
Normal costs with interest to end of year	<u>1,153,871</u>	<u>1,109,491</u>
Annual required contribution (ARC)	\$ <u>5,269,304</u>	<u>5,055,866</u>
<u>Annual OPEB Cost Contribution</u>		
Contributions made for years ended December 31, 2015 and 2014	2,021,177	1,772,957
Contributions as a percentage of required contribution	38.4%	35.1%
<u>Annual OPEB Cost and Net OPEB Obligation</u>		
Annual required contribution (OPEB cost)	5,269,304	5,055,866
Contributions made on a pay-as-you-go basis	<u>(2,021,177)</u>	<u>(1,772,957)</u>
Increase in net OPEB obligation	3,248,127	3,282,909
Net OPEB obligation at beginning of year	<u>17,636,633</u>	<u>14,353,724</u>
Net OPEB obligation at end of year	\$ <u>20,884,760</u>	<u>17,636,633</u>
Actuarial methods and assumptions:		
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Discount rate	4%	4%
2015 trend rate (Medical)	9.00%	9.00%
2016 trend rate (Medical)	8.50%	8.50%
Yearly decrease after year 2	0.50%	0.50%
Years until ultimate rate	6 years	7 years
The remaining amortization period at December 31, 2015 and 2014	22 years	23 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](http://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>
2015	\$ 725,071
2014	864,054
2013	900,289

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, 2015, 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, 2015. 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.

Actuarial valuation date	3/31/2015
Net pension liability	\$ 478,381
Board's proportion of the Plan's net pension liability	0.0141606%

For the year ended December 31, 2015, the Board recognized pension expense of \$464,170 for ERS. At December 31, 2015 the Board's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 15,314	-
Net difference between projected and actual earnings on pension plan investments	83,089	-
Changes in proportion and differences between the Board's contributions and proportionate share of contributions	124,923	-
Board's contributions subsequent to the March 31, 2015 measurement date	<u>574,956</u>	<u>-</u>
Total	\$ <u>798,282</u>	<u>-</u>

Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

Year ended	<u>ERS</u>
2016	\$ 55,831
2017	55,831
2018	55,831
2019	55,831
2020	-
Thereafter	-

(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, 2015
Actuarial valuation date	April 1, 2014
Interest rate	7.5%
Salary scale	4.9% Average
Decrement tables	April 1, 2005 - March 31, 2010 System's Experience
Inflation rate	2.7%

Annuitant mortality rates are based on April 1, 2005 - March 31, 2011 System's experience with adjustments for mortality improvements based on MP-2014.

The actuarial assumptions used in the April 1, 2011 valuation are based on the results of an actuarial experience study for the period April 1, 2005 - March 31, 2010.

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, 2015
Asset type:	
Domestic equity	7.30%
International equity	8.55%
Real estate	8.25%
Private equity	11.00%
Absolute return strategies	6.75%
Opportunities portfolio	8.60%
Real assets	8.65%
Bonds and mortgages	4.00%
Cash	2.25%
Inflation - indexed bonds	4.00%

(d) Discount Rate

The discount rate used to calculate the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. 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 Assumption

The following presents the Board's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
Employer's proportionate share of the net pension asset (liability)	\$ 3,188,615	478,381	(1,809,729)

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 asset/(liability) of all participating employers as of the respective valuation dates, were as follows:

	(Dollars in Millions)
Valuation date	3/31/2015
Employers' total pension liability	\$(164,592)
Plan net position	<u>161,213</u>
Employers' net pension asset/(liability)	\$ <u>(3,379)</u>
Ratio of plan net position to the Employers' total pension asset/(liability)	97.95%

(g) Contributions to the Pension Plan

Employer contributions are paid annually based on the System's fiscal year which ends on March 31<sup>st</sup>. Retirement contributions as of December 31, 2015 and 2014 represent the projected employer contribution for the period of April 1, 2015 through March 31, 2016 and April 1, 2014 through March 31, 2015, 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 \$14,640,371 and \$15,219,414 at December 31, 2015 and 2014, 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 are \$15,297,444 and \$15,297,444 at December 31, 2015 and 2014, 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. At December 31, 2015, approximately \$9,685,000 of these funds are included in this account.

Restricted for Debt Service:

Board restrictions at December 31, 2015 and 2014 of \$20,701,070 and \$20,109,981, respectively, are for debt service.

Unrestricted Net Position - This category represents net position of the Board not restricted for any project or other purpose.

(11) Labor Relations

The majority of the Board's employees are represented by four bargaining units, 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 is currently in negotiations with the bargaining units regarding new contracts.

(12) Risk Management and Contingent Liabilities

Risk management and contingent liabilities at December 31, 2015 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, 2015 and 2014.

(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.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(12) Risk Management and Contingent Liabilities, Continued

(b) Litigation, Continued

The accompanying 2015 financial statements reflect the result of the jury award of a lawsuit for damages incurred as a result of an accident. The award was made subsequent to year end but prior to the date that the financial statements were made available. The award totaled \$586,479. Management continues to evaluate its options with respect to any potential appeal, but has not yet made a determination as to any further litigation. The Water Board is insured for this claim, but that insurance policy is subject to a \$500,000 self-insured retention (deductible), which includes legal fees and expenses. This amount has been reflected in the financial statements for 2015. The insurance will pay the amount of any settlement or judgment in excess of \$500,000.

(c) New York Office of the State Comptroller

The New York Office of the State Comptroller (OSC) has released an audit of the Water Board. The Board has 90 days to implement a corrective action plan to address the recommendations made by the OSC.

(13) Cumulative Effect of Change in Accounting Principle

During the fiscal year ended December 31, 2015, the Board implemented GASB Statement No. 68 - "Accounting and Financial Reporting for Pensions - an Amendment to GASB Statement No. 27" and GASB Statement No. 71 - "Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment to GASB Statement No. 68." The implementation of these Statements resulted in the reporting of an asset, deferred outflow of resources, liability and deferred inflow of resources related to the Board's participation in the New York State Employees' retirement systems. The Board's net position at January 1, 2015 has been restated as follows:

Net position at beginning of year, as previously stated	\$ <u>56,998,633</u>
GASB Statement No. 68 implementation:	
Beginning System liability - Employees' Retirement System as of December 31, 2014	(637,717)
Reduction in prepaid attributable to contributions subsequent to the March 31, 2014 measurement date	(254,557)
Beginning deferred outflow of resources attributable to contributions subsequent to the March 31, 2014 measurement date	<u>891,340</u>
Cumulative effect of implementation	<u>(934)</u>
Net position at beginning of year, as restated	\$ <u>56,997,699</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>	<u>Actuarial</u>		Unfunded actuarial accrued <u>liability</u>	Funded ratio	Covered <u>payroll</u>	Unfunded liability as a percentage of covered <u>payroll</u>
	<u>Value of assets</u>	<u>Accrued liability</u>				
2015	\$ -	67,708,721	67,708,721	0%	3,649,206	1855%
2014	-	65,509,282	65,509,282	0%	4,881,465	1342%
2013	-	53,231,551	53,231,551	0%	4,911,524	1084%

NIAGARA FALLS WATER BOARD  
Required Supplementary Information  
Schedule of Proportionate Share of the Net Pension Liability  
For the fiscal year ended December 31, 2015

NYSERS Pension Plan

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Fund's proportion of the net pension liability	0.1416060%
Board's proportionate share of the net pension liability	\$ 478,381
Board's covered payroll	\$ 4,082,614
Board's proportionate share of the net pension liability as a percentage of its covered - employee payroll	11.72%
Plan fiduciary net position as a percentage of the total pension liability	97.95%

\* The amounts presented for each fiscal year were determined as of the March 31, 2015 and 2014 measurement dates of the plan.

NIAGARA FALLS WATER BOARD  
Required Supplementary Information  
Schedule of Employer Pension Contributions  
For the year ended December 31, 2015

	NYSERS Pension Plan				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually required contribution	\$ 725,071	864,054	900,289	-	-
Contributions in relation to the contractually required contribution	<u>725,071</u>	<u>864,054</u>	<u>900,289</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered employee payroll	\$ 4,082,614	4,483,962	4,442,277		
Contributions as a percentage of covered employee payroll	17.76%	19.27%	20.27%	N/A	N/A

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS, INCLUDING COMPLIANCE WITH INVESTMENT GUIDELINES,  
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, 2015, and the related notes to financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated May 13, 2016.

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 questioned costs as item 2015-001.

### 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 questioned costs. 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  
May 13, 2016

NIAGARA FALLS WATER BOARD  
Schedule of Findings and Questioned Costs  
Year ended December 31, 2015

(2015-001) 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, 2015 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 - Subsequent to the completion of the audit fieldwork for the year ended December 31, 2015 and prior to issuance of the audit report the Board received a Report of Examination for the period of January 1, 2013 through April 30, 2015 from the State of New York Office of Comptroller (OSC) regarding the financial management of the Niagara Falls Public Water Authority and Niagara Falls Water Board. The issuance of the audit report was delayed until any potential impacts of the Report of Examination on the audited financials, could be determined.

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  
Financial Statements and  
Management's Discussion and Analysis  
December 31, 2014 and 2013  
(With Independent Auditors' Report Thereon)

# NIAGARA FALLS WATER BOARD

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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, 2014 and 2013, 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 financial position of the Niagara Falls Water Board as of December 31, 2014 and 2013, and the changes in financial position, and 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 3 through 9, and the schedule of funding progress other postemployment benefits plan on page 34 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 26, 2015, on our consideration of the Niagara Falls Water 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 Niagara Falls Water Board's internal control over financial reporting and compliance.

Toski & Co., CPAs, P.C.

Williamsville, New York  
March 26, 2015

NIAGARA FALLS WATER BOARD  
Management's Discussion and Analysis  
December 31, 2014 and 2013

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, 2014 and 2013.

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 of the Board exceeded its liabilities by \$56,998,633 and \$56,582,127 (net position) at December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, \$6,371,794 and \$8,178,940 (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, 2014 and 2013 was \$3,904,840 and \$5,588,228, respectively.
- The Board's total bond indebtedness decreased by \$3,199,060 during the current fiscal year, as a result of principal payments made of \$3,132,122 and premium amortization of \$66,938.
- The Board reflected a liability for postemployment benefits of \$17,636,633 and \$14,353,724 at December 31, 2014 and 2013, 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 below.

<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 and liabilities, with the difference between the two 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 15 through 33 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 exceeded liabilities by \$56,998,633 at December 31, 2014, as compared to \$56,582,127 at December 31, 2013, as presented below:

<b><u>Niagara Falls Water Board's Net Position</u></b>				
	December 31,		Increase/(Decrease)	
	<u>2014</u>	<u>2013</u>	<u>Dollars</u>	<u>Percent</u>
Current assets	\$ 30,798,316	29,385,651	1,412,665	4.81%
Noncurrent assets	<u>161,157,044</u>	<u>162,327,586</u>	<u>(1,170,542)</u>	(0.72%)
Total assets	<u>191,955,360</u>	<u>191,713,237</u>	<u>242,123</u>	0.13%
Current liabilities	11,528,181	11,170,992	357,189	3.20%
Noncurrent liabilities	<u>123,428,546</u>	<u>123,960,118</u>	<u>(531,572)</u>	(0.43%)
Total liabilities	<u>134,956,727</u>	<u>135,131,110</u>	<u>(174,383)</u>	(0.13%)
Net investment in capital assets	15,219,414	10,445,782	4,773,632	(45.70%)
Restricted	35,407,425	37,957,405	(2,549,980)	(6.72%)
Unrestricted	<u>6,371,794</u>	<u>8,178,940</u>	<u>(1,807,146)</u>	(22.10%)
Total net position	<u>\$ 56,998,633</u>	<u>56,582,127</u>	<u>416,506</u>	0.74%

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

The Board's net investment in capital assets, is a surplus net position of \$15,219,414 and \$10,445,782 at December 31, 2014 and 2013, 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 \$6,371,794 and \$8,178,940 at December 31, 2014 and 2013, 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 (\$20,109,981 and \$22,662,414 at December 31, 2014 and 2013, respectively) represents funds that are set aside to be used towards debt service. The restricted capital projects portion of the Board's net position (\$15,297,444 and \$15,294,991 at December 31, 2014 and 2013, respectively) represents funds that are set aside primarily for the reconstruction of the Falls Street Tunnel.

A comparison of current assets to current liabilities of the Board at December 31, 2014 and 2013 follows:

	<u>2014</u>	<u>2013</u>
Current assets	\$ 30,798,316	29,385,651
Current liabilities	<u>11,528,181</u>	<u>11,170,992</u>
Ratio of current assets to current liabilities	<u>2.67</u>	<u>2.63</u>

The Board's total net position increased by \$416,506 during the year ended December 31, 2014, as compared to an increase of \$870,794 for the year ended December 31, 2013. Key elements of the current year's increase in net position are as follows:

**Niagara Falls Water Board's Changes in Net Position**

	<u>2014</u>	<u>2013</u>	Increase/ (decrease)
Total operating revenue	\$ 29,640,395	30,107,171	(466,776)
Total operating expenses	<u>(25,735,555)</u>	<u>(24,518,943)</u>	(1,216,612)
Operating income	3,904,840	5,588,228	(1,683,388)
Total non-operating revenue (expenses)	<u>(3,488,334)</u>	<u>(4,717,434)</u>	1,229,100
Change in net position	\$ <u>416,506</u>	<u>870,794</u>	<u>(454,288)</u>

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

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 \$223,000 decrease in operating revenue under 2013. 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 2014 and approved rates for 2015.

The Board's largest operating expense area relates to its employees. Together, personnel costs (salaries) and employee benefits approximate 52% of all operating expenses. In 2014, these costs totaled approximately \$13.3 million as compared to \$12.4 million in 2013, representing an approximate 6.7% increase in this area. This increase is due to the rising costs of providing health care and other employee 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 \$109,255,000 and \$112,387,122 at December 31, 2014 and 2013, respectively.

The following is a summary of the Board's cash flow activities for the years ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Cash flows provided by (used in):		
Operating activities	\$ 11,427,045	11,350,748
Capital and related financing activities	(13,294,465)	(2,543,144)
Investing activities	<u>3,084,716</u>	<u>(7,053,294)</u>
Net increase (decrease) in cash and equivalents	1,217,296	1,754,310
Cash and equivalents at beginning of year	<u>16,892,687</u>	<u>15,138,377</u>
Cash and equivalents at end of year	<u>\$ 18,109,983</u>	<u>16,892,687</u>

The Board's available cash and equivalents increased by \$1,217,296 during the year ended December 31, 2014, as compared to an increase of \$1,754,310 during the year ended December 31, 2013. Cash provided by operating activities reflected a positive balance of \$11,381,975 for the year ended December 31, 2014.

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, 2014, amounted to \$125,376,328, as compared to \$123,801,756 at December 31, 2013. 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 \$5,990,034.
- Construction in progress increased by \$6,806,420, and decreased by \$5,989,535 which represents completed capital projects transferred to their applicable asset categories, net of insurance proceeds.
- The Board recorded total depreciation of \$6,806,420 and \$5,989,535 for the years ended December 31, 2014 and 2013, respectively.

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

	<u>2014</u>	<u>2013</u>
Nondepreciable assets:		
Land	\$ 463,713	463,713
Construction in progress	7,526,517	6,709,632
Depreciable assets:		
Plant and transmission assets (water system)	55,389,162	58,129,527
Plant and transmission assets (wastewater system)	58,173,470	55,571,234
Machinery and equipment	<u>3,823,466</u>	<u>2,927,650</u>
Total	\$ <u>125,376,328</u>	<u>123,801,756</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, 2014, the Board had outstanding serial bonds totaling \$109,255,000, as compared to \$112,387,122 at December 31, 2013. During the year ended December 31, 2014, the Board made principal payments of \$3,132,122 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.

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

**Postemployment Benefits** - Upon retirement, the Board's employees are entitled to continuous health insurance coverage. At December 31, 2014 and 2013, the liability recorded for these benefits amounted to \$17,636,633 and \$14,353,724, respectively. The underfunded actuarial accrued liability is \$65,509,282 and \$53,231,551 at December 31, 2014 and 2013, respectively.

**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, 2014 is \$936,292, compared to \$1,035,983 at December 31, 2013. 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 \$46,814 of such liability is current at December 31, 2014.

**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 2014 and approved rates to be charged for 2015 are as follows:

<u>Amount Consumed</u>	<u>2014</u>		<u>2015</u>	
	<u>Amount to be charged</u>		<u>Amount to be charged</u>	
	<u>(per 100 cubic feet)</u>		<u>(per 100 cubic feet)</u>	
	<u>Inside</u>	<u>Outside</u>	<u>Inside</u>	<u>Outside</u>
	<u>city</u>	<u>city</u>	<u>city</u>	<u>city</u>
First 20,000 cubic feet per quarter	3.13	8.37	3.13	8.37
Next 60,000 cubic feet per quarter	2.71	7.31	2.71	7.31
Next 120,000 cubic feet per quarter	2.30	6.09	2.30	6.09
Over 200,000 cubic feet per quarter	1.91	5.12	1.91	5.12
Minimum charge for water consumption per quarter	40.69	108.81	40.69	108.81

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>2014 Rate (per quarter)</u>	<u>2015 Rate (per quarter)</u>
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 2014 and rates to be charged during 2015 are as follows:

<u>Amount Consumed</u>	<u>2014</u>	<u>2015</u>
Minimum charge per quarter (up to 1,300 cubic feet)	\$ 53.95	53.95
Additional usage in excess of 1,300 cubic feet (\$/cubic feet)	4.15	4.15

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, 2014 were \$2,840 per million gallons for wastewater flow; \$0.94 per pound for all suspended solids discharged; and \$1.62 per pound for all soluble organic carbon compounds discharged. Approved rates for 2015 were \$2,913 per million gallons for wastewater flow; \$0.94 per pound for all suspended solids discharged; and \$1.62 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. Mary Jean Buddenhagen, Michael O'Laughlin Municipal Water Plan, 5815 Buffalo Avenue, Niagara Falls, New York 14304.

NIAGARA FALLS WATER BOARD  
Statements of Net Position  
December 31, 2014 and 2013

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and equivalents	\$ 18,109,983	16,892,687
Accounts receivable, net of allowance for uncollectible accounts	11,395,673	11,426,055
Due from other governments	189,649	159,474
Prepaid expenses	907,877	718,061
Notes receivable - current portion	195,134	189,374
Total current assets	<u>30,798,316</u>	<u>29,385,651</u>
Noncurrent assets:		
Restricted cash and investments - capital projects	15,297,444	15,294,991
Restricted cash and investments - debt service reserve	20,109,981	22,662,414
Notes receivable - noncurrent portion	373,291	568,425
Capital assets:		
Land	463,713	463,713
Plant and transmission assets	159,606,615	154,899,056
Machinery and equipment	6,549,953	5,322,252
Construction in progress	7,526,517	6,709,632
Less accumulated depreciation	<u>(48,770,470)</u>	<u>(43,592,897)</u>
Total capital assets, net of accumulated depreciation	<u>125,376,328</u>	<u>123,801,756</u>
Total noncurrent assets	<u>161,157,044</u>	<u>162,327,586</u>
Total assets	<u>191,955,360</u>	<u>191,713,237</u>
		(Continued)

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD  
Statements of Net Position, Continued

<u>Liabilities</u>	<u>2014</u>	<u>2013</u>
Current liabilities:		
Accounts payable	\$ 2,924,319	1,853,249
Accrued liabilities	3,281,953	3,687,531
Contract retainage payable	-	186,482
Overpayments	20,616	12,627
Unexpended insurance proceeds	-	645,540
Current portion of long-term liabilities:		
Compensated absences	46,814	51,799
Postemployment benefits	1,714,479	1,601,642
Bonds payable	3,540,000	3,132,122
Total current liabilities	<u>11,528,181</u>	<u>11,170,992</u>
Noncurrent liabilities:		
Compensated absences	889,478	984,184
Postemployment benefits	15,922,154	12,752,082
Bonds payable	106,616,914	110,223,852
Total noncurrent liabilities	<u>123,428,546</u>	<u>123,960,118</u>
Risk management and contingent liabilities (note 12)		
Total liabilities	<u>134,956,727</u>	<u>135,131,110</u>
 <u>Net Position</u>		
Net investment in capital assets	15,219,414	10,445,782
Restricted for capital projects	15,297,444	15,294,991
Restricted for debt service	20,109,981	22,662,414
Unrestricted	6,371,794	8,178,940
Total net position	<u>\$ 56,998,633</u>	<u>56,582,127</u>

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD  
Statements of Revenue, Expenses and Changes in Net Position  
Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenue:		
Water rents and charges	\$ 11,246,172	11,097,080
Sewer rents and charges	17,924,980	18,296,694
Licenses and permits	236,549	231,433
Other services	<u>232,694</u>	<u>481,964</u>
Total operating revenue	<u>29,640,395</u>	<u>30,107,171</u>
Operating expenses:		
Personnel costs	4,943,369	4,789,375
Contractual expenses	7,249,300	7,186,059
Employee benefits	8,310,540	7,626,702
Depreciation expense	<u>5,232,346</u>	<u>4,916,807</u>
Total operating expenses	<u>25,735,555</u>	<u>24,518,943</u>
Operating income	<u>3,904,840</u>	<u>5,588,228</u>
Non-operating revenue (expenses):		
Use of money and property	534,736	568,750
Gain on sale of property	27,085	-
Interest expense	(4,050,155)	(4,438,048)
Debt issuance costs	<u>-</u>	<u>(848,136)</u>
Total non-operating revenue (expenses)	<u>(3,488,334)</u>	<u>(4,717,434)</u>
Change in net position	416,506	870,794
Net position at beginning of year	<u>56,582,127</u>	<u>55,711,333</u>
Net position at end of year	<u>\$ 56,998,633</u>	<u>56,582,127</u>

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD  
Statements of Cash Flows  
Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 29,837,965	28,514,397
Payments to suppliers	(8,231,572)	(7,574,719)
Payments to employees	(10,179,348)	(9,588,930)
Net cash provided by operating activities	<u>11,427,045</u>	<u>11,350,748</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of bonds	4,095,000	74,240,000
Gain on sale of property	(27,085)	-
Proceeds from insurance recoveries	-	3,500,000
Expenditures of insurance proceeds	(645,540)	(2,854,460)
Acquisition of capital assets	(5,075,704)	(6,468,870)
Premium paid on capital debt	(66,938)	-
Principal paid on capital debt	(7,227,122)	(66,545,000)
Interest paid on capital debt	(4,347,076)	(4,414,814)
Net cash used in capital and related financing activities	<u>(13,294,465)</u>	<u>(2,543,144)</u>
Cash flows from investing activities:		
Debt issuance costs	-	(848,136)
Interest earned	534,736	568,750
Change in restricted cash and investments - capital projects	(2,453)	(21,067)
Change in restricted cash and investments - debt service reserve	<u>2,552,433</u>	<u>(6,752,841)</u>
Net cash provided by (used in) investing activities	<u>3,084,716</u>	<u>(7,053,294)</u>
Net change in cash and equivalents	1,217,296	1,754,310
Cash and equivalents at beginning of year	<u>16,892,687</u>	<u>15,138,377</u>
Cash and equivalents at end of year	<u>\$ 18,109,983</u>	<u>16,892,687</u>

(Continued)

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD  
Statements of Cash Flows, Continued

	<u>2014</u>	<u>2013</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 3,904,840	5,588,228
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	5,232,346	4,916,807
Changes in:		
Accounts receivable	30,382	(2,480,840)
Due from other governments	(30,175)	193,038
Prepaid expenses	(189,816)	(132,458)
Notes receivable	189,374	683,784
Accounts payable	(792,456)	(256,202)
Accrued liabilities	(108,657)	226,948
Overpayments	7,989	11,244
Compensated absences	(99,691)	(88,561)
Postemployment benefits	3,282,909	2,688,760
Total adjustments	<u>7,522,205</u>	<u>5,762,520</u>
Net cash provided by operating activities	<u>\$ 11,427,045</u>	<u>11,350,748</u>
Supplemental schedule of cash flow information - adjustment for capital assets financed by accounts payable	<u>\$ 2,484,740</u>	<u>621,214</u>

See accompanying notes to financial statements.

# NIAGARA FALLS WATER BOARD

## Notes to Financial Statements

December 31, 2014 and 2013

### (1) Summary of Significant Accounting Policies

The financial statements of the Niagara Falls Water Board (the Board) have been prepared in conformity 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 18,566 residential, 255 commercial and 27 large industrial type customers. Total population served by the water system is estimated at 51,000. The average daily demand is 21.5 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 32.3 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.

In consideration for operating the systems and the financing of capital projects from time to time, the Board leases all of its rights, title and interest in the systems and capital projects to the Authority under terms and conditions of the original financing agreement. In turn, the Authority appoints the Board as the exclusive operator of the systems.

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 conformity 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.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(b) Measurement Focus and Basis of Accounting, Continued

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.

(d) Assets, Liabilities 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, 2014 and 2013, the total amount restricted for capital projects amounted to \$15,297,444 and \$15,294,991, respectively.
- Restricted Cash and Investments - Debt Service Reserve - 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.

The debt service reserve fund was established to fulfill the debt service reserve requirements on the outstanding bonds as and when they become due.

- 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.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(d) Assets, Liabilities and Net Position, Continued

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.

- 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.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(d) Assets, Liabilities and Net Position, Continued

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.

- 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 a liability 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' Retirement System (ERS). The ERS provides various plans and options, some of which require employee contributions.

(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.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(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, 2014 and 2013 include the following captions on the statements of net position:

	<u>2014</u>	<u>2013</u>
Cash and equivalents	\$ 18,109,983	16,892,687
Restricted cash and investments:		
Capital projects	15,297,444	15,294,991
Debt service reserve	<u>20,109,981</u>	<u>22,662,414</u>
Total	<u>\$ 53,517,408</u>	<u>54,850,092</u>

Cash and equivalents are comprised of the following:

	<u>2014</u>	<u>2013</u>
Petty cash (uncollateralized)	\$ 100	100
Deposits	42,202,048	43,510,269
Investments	<u>11,315,260</u>	<u>11,339,723</u>
Total	<u>\$ 53,517,408</u>	<u>54,850,092</u>

All deposits and investments are carried at fair value. Investments at December 31, 2014 and 2013 are in the form of U.S. Treasury securities, notes issued by the Federal National Mortgage Association and Federal Home Loan Bank and investment type money market funds.

**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, 2014 and 2013, 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.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(2) Cash and Equivalents and Investments, Continued

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, 2014 and 2013, 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.

(3) Receivables

Major revenues accrued by the Board at December 31, 2014 and 2013 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.

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.

(b) Due from Other Governments

Due from other governments represents amounts due primarily from the City. Amounts accrued at December 31, 2014 and 2013 consist of:

	<u>2014</u>	<u>2013</u>
City of Niagara Falls - tax transfer	\$ <u>189,649</u>	<u>159,474</u>

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(3) Receivables, Continued

(b) Due from Other Governments, Continued

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 \$3,846,085 and \$3,377,057 at December 31, 2014 and 2013, respectively. Management has recorded a full allowance for uncollectible accounts with respect to these balances at December 31, 2014 and 2013.

(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%).

	<u>2014</u>	<u>2013</u>
Cascades Company	\$ 568,425	757,799
Less current portion	<u>(195,134)</u>	<u>(189,374)</u>
Notes receivable - noncurrent portion	\$ <u>373,291</u>	<u>568,425</u>

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(5) Capital Assets

The Board's capital assets activity for the years ended December 31, 2014 and 2013 is summarized as follows:

	Balance 1/1/2014	Increases	Decreases	Balance 12/31/2014
Capital assets, not being depreciated:				
Land	\$ 463,713	-	-	463,713
Construction in progress	<u>6,709,632</u>	<u>6,806,420</u>	<u>(5,989,535)</u>	<u>7,526,517</u>
Total capital assets not being depreciated	<u>7,173,345</u>	<u>6,806,420</u>	<u>(5,989,535)</u>	<u>7,990,230</u>
Capital assets, being depreciated:				
Infrastructure:				
Water system	86,409,563	157,131	-	86,566,694
Wastewater system	68,489,493	4,550,428	-	73,039,921
Machinery and equipment	<u>5,322,252</u>	<u>1,282,475</u>	<u>(54,774)</u>	<u>6,549,953</u>
Total capital assets being depreciated	<u>160,221,308</u>	<u>5,990,034</u>	<u>(54,774)</u>	<u>166,156,568</u>
Less accumulated depreciation:				
Infrastructure:				
Water system	(28,280,036)	(2,897,496)	-	(31,177,532)
Wastewater system	(12,918,259)	(1,948,192)	-	(14,866,451)
Machinery and equipment	<u>(2,394,602)</u>	<u>(386,659)</u>	<u>54,774</u>	<u>(2,726,487)</u>
Total accumulated depreciation	<u>(43,592,897)</u>	<u>(5,232,347)</u>	<u>54,774</u>	<u>(48,770,470)</u>
Total being depreciated, net	<u>116,628,411</u>	<u>757,687</u>	<u>-</u>	<u>117,386,098</u>
Capital assets, net	\$ <u>123,801,756</u>	<u>7,564,107</u>	<u>(5,989,535)</u>	<u>125,376,328</u>

Insurance proceeds for flood damage incurred in 2013 of \$2,010,514 were recorded in offset increase in construction in progress.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(5) Capital Assets, Continued

	Balance 1/1/2013	Increases	Decreases	Balance 12/31/2013
Capital assets, not being depreciated:				
Land	\$ 463,713	-	-	463,713
Construction in progress	<u>4,206,382</u>	<u>7,205,661</u>	<u>(4,702,411)</u>	<u>6,709,632</u>
Total capital assets not being depreciated	<u>4,670,095</u>	<u>7,205,661</u>	<u>(4,702,411)</u>	<u>7,173,345</u>
Capital assets, being depreciated:				
Infrastructure:				
Water system	85,650,907	758,656	-	86,409,563
Wastewater system	66,313,741	2,175,752	-	68,489,493
Machinery and equipment	<u>3,554,249</u>	<u>1,768,003</u>	<u>-</u>	<u>5,322,252</u>
Total capital assets being depreciated	<u>155,518,897</u>	<u>4,702,411</u>	<u>-</u>	<u>160,221,308</u>
Less accumulated depreciation:				
Infrastructure:				
Water system	(25,402,932)	(2,877,104)	-	(28,280,036)
Wastewater system	(11,172,205)	(1,746,054)	-	(12,918,259)
Machinery and equipment	<u>(2,100,953)</u>	<u>(293,649)</u>	<u>-</u>	<u>(2,394,602)</u>
Total accumulated depreciation	<u>(38,676,090)</u>	<u>(4,916,807)</u>	<u>-</u>	<u>(43,592,897)</u>
Total being depreciated, net	<u>116,842,807</u>	<u>(214,396)</u>	<u>-</u>	<u>116,628,411</u>
Capital assets, net	\$ <u>121,512,902</u>	<u>6,991,265</u>	<u>(4,702,411)</u>	<u>123,801,756</u>

(6) Bond Indebtedness

The Authority issued 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 years ended December 31, 2013, the Authority issued Series 2014B bonds and Series 2013A/B bonds, respectively.

The proceeds of the Series 2005A - Clean Water issue were used to obtain the North Gorge Interceptor capital project from the City and to fund further capital improvements.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(6) Bond Indebtedness, Continued

The net proceeds of the Series 2005 issue were used to eliminate outstanding short-term debt, fund current and future capital improvements, and to refund a portion of outstanding debt in the amount of \$16,020,000. Such amount was deposited in an irrevocable trust to provide for future debt service payments on the Series 2003A bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Board's financial statements.

The effect of the refunding transaction was a decrease in debt service payments of \$1,603,619 and an economic gain of \$1,124,676. The economic gain is the difference in present values of the old and new debt service payments.

The premium on the Series 2005 bonds amounted to \$1,495,985, and has been deferred and is being amortized over the life of the bonds. The premium is included in the bonds payable balance in the Board's statements of net position.

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.

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.

Serial bond activity for the year ended December 31, 2014 is presented on the following page:

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(c) Bond Indebtedness, Continued

Serial Bond Activity:

Year of Issue	Year of Maturity	Interest Rate %	Original Amount	Principal Outstanding 1/1/2014	Issued	Paid	Principal Outstanding 12/31/2014
2005	2034	5.00 - 5.50	\$ 23,115,000	23,115,000	-	-	23,115,000
2013	2034	3.0 - 5.0	36,060,000	36,060,000	-	-	36,060,000
2013	2024	4.309	8,415,000	8,415,000	-	680,000	7,735,000

Niagara Falls Public Water Authority Bonds:

Series 2005 Bonds

Series 2013A Bonds

Series 2013B Bonds

New York State Environmental Facilities

Corporation Water Revolving Funds

Revenue Bonds:

Series 2013B - Clean Water

Series 2013B - Drinking Water

Series 2013B - Drinking Water

Series 2013B - Drinking Water

Series 2004 - Drinking Water

Series 2014B - Drinking Water

Series 2005A & B - Clean Water

Series 2012B - Clean Water

2013	2033	3.88 - 5.05	14,030,000	14,030,000	-	520,000	13,510,000
2013	2023	4.75 - 4.91	5,580,000	5,580,000	-	-	5,580,000
2013	2019	5.14 - 5.59	6,770,000	6,770,000	-	1,070,000	5,700,000
2013	2019	5.14 - 5.59	3,385,000	3,385,000	-	535,000	2,850,000
2003	2021	5.40	4,095,000	4,095,000	-	4,095,000	-
2014	2021	5.40	-	-	4,095,000	-	4,095,000
2005	2034	1.56 - 4.57	6,017,960	4,690,000	-	155,000	4,535,000
2012	2041	0.26 - 4.27	6,607,122	6,247,122	-	172,122	6,075,000
Totals			\$ 114,075,082	112,387,122	4,095,000	7,227,122	109,255,000

Reconciliation to statements of net position:

Principal outstanding

Unamortized premium on bonds

\$ 112,387,122	109,255,000
968,852	901,914

Current portion of bonds payable

Non-current portion of bonds payable

\$ 113,355,974	110,156,914
3,132,122	3,540,000
110,223,852	106,616,914
\$ 113,355,974	110,156,914

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(6) Bond Indebtedness, Continued

The annual maturities of long-term debt (by debt type) as of December 31, 2014 are as follows:

<u>Year</u>	<u>Premium on bonds</u>	<u>Serial bonds</u>	<u>Total</u>
2015	\$ 66,938	3,540,000	3,606,938
2016	66,938	3,655,000	3,721,938
2017	66,938	3,780,000	3,846,938
2018	66,938	3,915,000	3,981,938
2019	66,938	4,055,000	4,121,938
2020-2024	334,687	22,565,000	22,899,687
2025-2029	186,313	29,380,000	29,566,313
2030-2034	46,224	36,150,000	36,196,224
2035-2039	-	1,225,000	1,225,000
2040-2041	-	990,000	990,000
	<u>\$ 901,914</u>	<u>109,255,000</u>	<u>110,156,914</u>

Annual interest payments due on serial bonds as of December 31, 2014 are as follows:

2015	\$ 4,234,218
2016	4,078,228
2017	3,955,693
2018	3,860,606
2019	3,701,390
2020-2024	15,581,823
2025-2029	11,531,146
2030-2034	4,736,130
2035-2039	256,118
2040-2041	<u>60,862</u>
Total	\$ <u>51,996,214</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, 2014, 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. The current portion of the liability amounted to \$46,814 and \$51,799 at December 31, 2014 and 2013, respectively. The long-term portion of the liability amounted to \$889,478 and \$984,184 at December 31, 2014 and 2013, 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, 2014 and 2013 amounted to \$5,055,866 and \$4,172,834, respectively. At December 31, 2014 and 2013, the current portion of the postemployment benefits liability was \$1,714,479 and \$1,601,642, respectively. The non-current portion of the postemployment benefits liability amounted to \$15,922,154 and \$12,752,082 at December 31, 2014 and 2013, respectively.

The number of participants as of January 1, 2014 and 2013 was as follows:

	<u>2014</u>	<u>2013</u>
Active employees	80	83
Retired employees	<u>75</u>	<u>74</u>
Total	<u>155</u>	<u>157</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>2014</u>	<u>2013</u>
<u>Benefit Obligations and Normal Costs</u>		
Actuarial accrued liability (AAL):		
Retired employees and dependents	\$ 37,827,312	27,421,172
Active employees	<u>27,681,970</u>	<u>25,810,379</u>
Total	\$ <u>65,509,282</u>	<u>53,231,551</u>
Underfunded actuarial accrued liability (UAAL)	\$ <u>65,509,282</u>	<u>53,231,551</u>
Normal costs at beginning of year	1,065,111	944,964
Interest on normal cost	<u>44,380</u>	<u>39,375</u>
	\$ <u>1,109,491</u>	<u>984,339</u>

The increase in the AAL from 2013 to 2014 was primarily caused by implementation of the excise tax provisions of the Patient Protection and Affordable Care Act.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(8) Postemployment Benefits, Continued

	<u>2014</u>	<u>2013</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	\$ 3,373,009	2,720,571
Interest on amortization payment	573,366	467,924
Normal costs with interest to end of year	<u>1,109,491</u>	<u>984,339</u>
Annual required contribution (ARC)	\$ <u>5,055,866</u>	<u>4,172,834</u>
<u>Annual OPEB Cost Contribution</u>		
Contributions made for years ended December 31, 2014 and 2013	1,772,957	1,484,074
Contributions as a percentage of required contribution	35.1%	35.6%
<u>Annual OPEB Cost and Net OPEB Obligation</u>		
Annual required contribution (OPEB cost)	5,055,866	4,172,834
Contributions made on a pay-as-you-go basis	<u>(1,772,957)</u>	<u>(1,484,074)</u>
Increase in net OPEB obligation	3,282,909	2,688,760
Net OPEB obligation at beginning of year	<u>14,353,724</u>	<u>11,664,964</u>
Net OPEB obligation at end of year	\$ <u>17,636,633</u>	<u>14,353,724</u>
Actuarial methods and assumptions:		
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Discount rate	4%	4%
2014 trend rate (Medical)	8.00%	8.00%
2015 trend rate (Medical)	9.00%	9.00%
Yearly decrease after year 2	0.50%	0.50%
Years until ultimate rate	8 years	8 years
The remaining amortization period at December 31, 2014 and 2013	23 years	24 years

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(9) Pension Plan

Plan Description - The Board participates in the New York State Employees' Retirement System and the Public Employees' Group Life Insurance Plan (collectively, the Retirement Systems). These are cost sharing multiple employer retirement systems. The Retirement Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State (Comptroller) serves as sole trustee and administrative head of the Retirement Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Retirement Systems and for custody and control of their funds. The Retirement Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, New York 12244.

Funding Policy - The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary for the first ten years of membership and employees who join on or after January 1, 2010 who generally contribute 3% of their salary for the entire length of service. For employees joining after April 1, 2012, they are required to contribute between 3% and 6%, depending on their salary, or their entire working career.

Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund. The rates billed by the Comptroller for ERS during the years ended December 31, 2014 and 2013 ranged from 20.3% to 10.9%. The required contributions for the current year and two preceding years were:

<u>Year</u>	<u>Contribution</u>
2014	\$ 979,609
2013	1,042,571
2012	961,791

The Board's contributions made to the Retirement Systems were equal to 100 percent of the contributions required for each year.

(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.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(10) Net Position, Continued

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 \$15,219,414 and \$10,445,782 at December 31, 2014 and 2013, 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.

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 are \$15,297,444 and \$15,294,991 at December 31, 2014 and 2013, 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. At December 31, 2014, approximately \$9,685,000 of these funds are included in this account.

Restricted for Debt Service:

Board restrictions at December 31, 2014 and 2013 of \$20,109,981 and \$22,662,414, respectively, are for debt service.

Unrestricted Net Position - This category represents net position of the Board not restricted for any project or other purpose.

(11) Labor Relations

The majority of the Board's employees are represented by four bargaining units, 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 is currently in negotiations with the bargaining units regarding new contracts.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(12) Risk Management and Contingent Liabilities

Risk management and contingent liabilities at December 31, 2014 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. On March 17, 2011, the Board approved a settlement in the amount of \$635,000 for an accident claim incurred in 2010. The Board is responsible for its \$500,000 deductible related to this claim with insurance covering any amounts in excess of this amount. Accordingly, an accrual of \$500,000 was recorded at December 31, 2010. As of December 31, 2013 the amount was paid in full.

There were no other settlements that significantly exceeded insurance coverage for the years ended December 31, 2014 and 2013.

(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.

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>	<u>Actuarial</u>		Unfunded actuarial accrued <u>liability</u>	Funded ratio	Covered <u>payroll</u>	Unfunded liability as a percentage of covered <u>payroll</u>
	<u>Value of assets</u>	<u>Accrued liability</u>				
2014	\$ -	65,509,282	65,509,282	0%	4,881,465	1,342%
2013	-	53,231,551	53,231,551	0%	4,911,524	1,084%
2012	-	51,591,740	51,591,740	0%	4,771,624	1,081%

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS,  
INCLUDING COMPLIANCE WITH INVESTMENT GUIDELINES, 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, 2014, and the related notes to financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated March 26, 2015.

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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Toski & Co., CPAs, P.C.

Williamsville, New York  
March 26, 2015

NIAGARA FALLS WATER BOARD

Status of Prior Year Audit Findings

Year ended December 31, 2014

(2013-1) Financial Statements

Condition - The financial statements of the Board at December 31, 2013 required significant adjusting journal entries in order to properly reflect them in accordance with accounting principles generally accepted in the United States of America.

Status - During the year ended December 31, 2014, there were no significant adjusting journal entries required.

NIAGARA FALLS WATER BOARD  
Financial Statements and  
Management's Discussion and Analysis  
December 31, 2013 and 2012  
(With Independent Auditors' Report Thereon)

# NIAGARA FALLS WATER BOARD

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## 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, 2013 and 2012, 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 financial position of the Niagara Falls Water Board as of December 31, 2013 and 2012, and the changes in financial position, and 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 3 through 9, and the schedule of funding progress other postemployment benefits plan on page 34 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 30, 2014, on our consideration of the Niagara Falls Water 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 Niagara Falls Water Board's internal control over financial reporting and compliance.

Toski & Co., CPAs, P.C.

Williamsville, New York  
May 30, 2014

NIAGARA FALLS WATER BOARD  
Management's Discussion and Analysis  
December 31, 2013 and 2012

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, 2013 and 2012.

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 of the Board exceeded its liabilities by \$56,582,127 and \$55,711,333 (net position) at December 31, 2013 and 2012, respectively. At December 31, 2013 and 2012, \$8,178,940 and \$8,742,845 (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, 2013 and 2012 was \$5,588,228 and \$703,020, respectively.
- The Board's total bond indebtedness increased by \$7,628,063 during the current fiscal year, as a result of principal payments made of \$66,545,000 and new bonds issued of \$74,240,000.
- The Board reflected a liability for postemployment benefits of \$14,353,724 and \$11,664,964 at December 31, 2013 and 2012, 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 below.

<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 and liabilities, with the difference between the two 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 15 through 33 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 exceeded liabilities by \$56,582,127 at December 31, 2013, as compared to \$55,711,333 at December 31, 2012, as presented below:

<b><u>Niagara Falls Water Board's Net Position</u></b>				
	December 31,		Increase/(Decrease)	
	<u>2013</u>	<u>2012</u>	<u>Dollars</u>	<u>Percent</u>
Current assets	\$ 29,385,651	25,705,491	3,680,160	14.31%
Noncurrent assets	<u>162,327,586</u>	<u>153,454,198</u>	<u>8,873,388</u>	5.80%
Total assets	<u>191,713,237</u>	<u>179,159,689</u>	<u>12,553,548</u>	7.01%
Current liabilities	11,170,992	9,500,802	1,670,190	17.58%
Noncurrent liabilities	<u>123,960,118</u>	<u>113,947,554</u>	<u>10,012,564</u>	8.79%
Total liabilities	<u>135,131,110</u>	<u>123,448,356</u>	<u>11,682,754</u>	9.46%
Net investment in capital assets	10,445,782	15,784,991	(5,339,209)	(3.38%)
Restricted	37,957,405	31,183,497	6,773,908	21.72%
Unrestricted	<u>8,178,940</u>	<u>8,742,845</u>	<u>(563,905)</u>	(6.45%)
Total net position	\$ <u>56,582,127</u>	<u>55,711,333</u>	<u>870,794</u>	1.56%

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

The Board's net investment in capital assets, is a surplus net position of \$10,445,782 and \$15,784,991 at December 31, 2013 and 2012, 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 \$8,178,940 and \$8,742,845 at December 31, 2013 and 2012, 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 (\$22,662,414 and \$15,909,573 at December 31, 2013 and 2012, respectively) represents funds that are set aside to be used towards debt service. The restricted capital projects portion of the Board's net position (\$15,294,991 and \$15,273,924 at December 31, 2013 and 2012, respectively) represents funds that are set aside primarily for the reconstruction of the Falls Street Tunnel.

A comparison of current assets to current liabilities of the Board at December 31, 2013 and 2012 follows:

	<u>2013</u>	<u>2012</u>
Current assets	\$ 29,385,651	25,705,491
Current liabilities	<u>11,170,992</u>	<u>9,500,802</u>
Ratio of current assets to current liabilities	<u>2.63</u>	<u>2.71</u>

The Board's total net position increased by \$870,794 during the year ended December 31, 2013, as compared to a decrease of \$3,106,670 for the year ended December 31, 2012. Key elements of the current year's increase in net position are as follows:

**Niagara Falls Water Board's Changes in Net Position**

	<u>2013</u>	<u>2012</u>	Increase/ (decrease)
Total operating revenue	\$ 30,107,171	25,048,794	5,058,377
Total operating expenses	<u>(24,518,943)</u>	<u>(24,345,774)</u>	<u>(173,169)</u>
Operating income	5,588,228	703,020	4,885,208
Total non-operating revenue (expenses)	<u>(4,717,434)</u>	<u>(3,809,690)</u>	<u>(907,744)</u>
Change in net position	\$ <u>870,794</u>	<u>(3,106,670)</u>	<u>3,977,464</u>

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

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 \$4.7 million increase in operating revenue over 2012. 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 2013 and approved rates for 2014.

The Board's largest operating expense area relates to its employees. Together, personnel costs (salaries) and employee benefits approximate 51% of all operating expenses. In 2013, these costs totaled approximately \$12.4 million as compared to \$12.1 million in 2012, representing an approximate 2.8% increase in this area. This increase is due to the rising costs of providing health care and other employee 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 \$112,387,122 and \$104,692,122 at December 31, 2013 and 2012, respectively.

The following is a summary of the Board's cash flow activities for the years ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Cash flows provided by (used in):		
Operating activities	\$ 11,350,748	8,830,656
Capital and related financing activities	(2,543,144)	(10,646,430)
Investing activities	<u>(7,053,294)</u>	<u>914,985</u>
Net increase (decrease) in cash and equivalents	1,754,310	(900,789)
Cash and equivalents at beginning of year	<u>15,138,377</u>	<u>16,039,166</u>
Cash and equivalents at end of year	\$ <u>16,892,687</u>	<u>15,138,377</u>

The Board's available cash and equivalents increased by \$1,754,310 during the year ended December 31, 2013, as compared to a decrease of \$900,789 during the year ended December 31, 2012. Cash provided by operating activities reflected a positive balance of \$11,350,749 for the year ended December 31, 2013.

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, 2013, amounted to \$123,801,756, as compared to \$121,512,902 at December 31, 2012. 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 \$4,702,411.
- Construction in progress increased by \$7,205,661, and decreased by \$4,702,411 which represents completed capital projects transferred to their applicable asset categories.
- The Board recorded total depreciation of \$4,916,807 and \$4,783,588 for the years ended December 31, 2013 and 2012, respectively.

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

	<u>2013</u>	<u>2012</u>
Nondepreciable assets:		
Land	\$ 463,713	463,713
Construction in progress	6,709,632	4,206,382
Depreciable assets:		
Plant and transmission assets (water system)	58,129,527	60,247,975
Plant and transmission assets (wastewater system)	55,571,234	55,141,536
Machinery and equipment	<u>2,927,650</u>	<u>1,453,296</u>
Total	\$ <u>123,801,756</u>	<u>121,512,902</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, 2013, the Board had outstanding serial bonds totaling \$112,387,122, as compared to \$104,692,122 at December 31, 2012. During the year ended December 31, 2013, the Board made principal payments of \$66,545,000 on these bonds and issued bonds of \$74,240,000.

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.

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

**Postemployment Benefits** - Upon retirement, the Board's employees are entitled to continuous health insurance coverage. At December 31, 2013 and 2012, the liability recorded for these benefits amounted to \$14,353,724 and \$11,664,964, respectively. The underfunded actuarial accrued liability is \$53,231,551 and \$51,591,740 at December 31, 2013 and 2012, respectively.

**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, 2013 is \$1,035,983, compared to \$1,124,544 at December 31, 2012. 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 \$51,799 of such liability is current at December 31, 2013.

**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 2013 and approved rates to be charged for 2014 are as follows:

<u>Amount Consumed</u>	<u>2013</u>		<u>2014</u>	
	<u>Amount to be charged</u>		<u>Amount to be charged</u>	
	<u>(per 100 cubic feet)</u>		<u>(per 100 cubic feet)</u>	
	<u>Inside</u>	<u>Outside</u>	<u>Inside</u>	<u>Outside</u>
	<u>city</u>	<u>city</u>	<u>city</u>	<u>city</u>
First 20,000 cubic feet per quarter	3.05	8.16	3.13	8.37
Next 60,000 cubic feet per quarter	2.64	7.12	2.71	7.31
Next 120,000 cubic feet per quarter	2.24	5.94	2.30	6.09
Over 200,000 cubic feet per quarter	1.86	4.99	1.91	5.12
Minimum charge for water consumption per quarter	39.65	106.08	40.69	108.81

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>2013 Rate (per quarter)</u>	<u>2014 Rate (per quarter)</u>
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 2013 and rates to be charged during 2014 are as follows:

<u>Amount Consumed</u>	<u>2013</u>	<u>2014</u>
Minimum charge per quarter (up to 1,300 cubic feet)	\$ 49.72	53.95
Additional usage in excess of 1,300 cubic feet (\$/cubic feet)	4.04	4.15

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, 2013 were \$2,840 per million gallons for wastewater flow; \$0.94 per pound for all suspended solids discharged; and \$1.62 per pound for all soluble organic carbon compounds discharged. Approved rates for 2014 were \$2,913 per million gallons for wastewater flow; \$0.94 per pound for all suspended solids discharged; and \$1.62 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. Mary Jean Buddenhagen, Michael O'Laughlin Municipal Water Plan, 5815 Buffalo Avenue, Niagara Falls, New York 14304.

NIAGARA FALLS WATER BOARD  
Statements of Net Position  
December 31, 2013 and 2012

<u>Assets</u>	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and equivalents	\$ 16,892,687	15,138,377
Accounts receivable, net of allowance for uncollectible accounts	11,426,055	8,945,215
Due from other governments	159,474	352,512
Prepaid expenses	718,061	585,603
Notes receivable - current portion	<u>189,374</u>	<u>683,784</u>
Total current assets	<u>29,385,651</u>	<u>25,705,491</u>
Noncurrent assets:		
Restricted cash and investments - capital projects	15,294,991	15,273,924
Restricted cash and investments - debt service reserve	22,662,414	15,909,573
Notes receivable - noncurrent portion	568,425	757,799
Capital assets:		
Land	463,713	463,713
Plant and transmission assets	154,899,056	151,964,648
Machinery and equipment	5,322,252	3,554,249
Construction in progress	6,709,632	4,206,382
Less accumulated depreciation	<u>(43,592,897)</u>	<u>(38,676,090)</u>
Total capital assets, net of accumulated depreciation	<u>123,801,756</u>	<u>121,512,902</u>
Total noncurrent assets	<u>162,327,586</u>	<u>153,454,198</u>
Total assets	<u>191,713,237</u>	<u>179,159,689</u>

(Continued)

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD  
Statements of Net Position, Continued

<u>Liabilities</u>	<u>2013</u>	<u>2012</u>
Current liabilities:		
Accounts payable	\$ 1,853,249	1,488,237
Accrued liabilities	3,687,531	3,370,412
Contract retainage payable	186,482	70,905
Overpayments	12,627	1,383
Unexpended insurance proceeds	645,540	-
Current portion of long-term liabilities:		
Compensated absences	51,799	56,227
Postemployment benefits	1,601,642	1,503,638
Bonds payable	<u>3,132,122</u>	<u>3,010,000</u>
Total current liabilities	<u>11,170,992</u>	<u>9,500,802</u>
Noncurrent liabilities:		
Compensated absences	984,184	1,068,317
Postemployment benefits	12,752,082	10,161,326
Bonds payable	<u>110,223,852</u>	<u>102,717,911</u>
Total noncurrent liabilities	<u>123,960,118</u>	<u>113,947,554</u>
Risk management and contingent liabilities (note 12)	<u>                    </u>	<u>                    </u>
Total liabilities	<u>135,131,110</u>	<u>123,448,356</u>
 <u>Net Position</u>		
Net investment in capital assets	10,445,782	15,784,991
Restricted for capital projects	15,294,991	15,273,924
Restricted for debt service	22,662,414	15,909,573
Unrestricted	<u>8,178,940</u>	<u>8,742,845</u>
Total net position	<u>\$ 56,582,127</u>	<u>55,711,333</u>

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD  
Statements of Revenue, Expenses and Changes in Net Position  
Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenue:		
Water rents and charges	\$ 11,097,080	10,158,445
Sewer rents and charges	18,296,694	14,519,527
Licenses and permits	231,433	244,000
Other services	<u>481,964</u>	<u>126,822</u>
Total operating revenue	<u>30,107,171</u>	<u>25,048,794</u>
Operating expenses:		
Personnel costs	4,789,375	4,771,623
Contractual expenses	7,186,059	7,485,844
Employee benefits	7,626,702	7,304,719
Depreciation expense	<u>4,916,807</u>	<u>4,783,588</u>
Total operating expenses	<u>24,518,943</u>	<u>24,345,774</u>
Operating income	<u>5,588,228</u>	<u>703,020</u>
Non-operating revenue (expenses):		
Use of money and property	568,750	568,405
Interest expense	(4,438,048)	(4,331,131)
Debt issuance costs	<u>(848,136)</u>	<u>(46,964)</u>
Total non-operating revenue (expenses)	<u>(4,717,434)</u>	<u>(3,809,690)</u>
Change in net position	870,794	(3,106,670)
Net position at beginning of year	<u>55,711,333</u>	<u>58,818,003</u>
Net position at end of year	<u><u>\$ 56,582,127</u></u>	<u><u>55,711,333</u></u>

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD  
Statements of Cash Flows  
Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 28,514,397	25,926,484
Payments to suppliers	(7,574,719)	(8,279,330)
Payments to employees	<u>(9,588,930)</u>	<u>(8,816,498)</u>
Net cash provided by operating activities	<u>11,350,748</u>	<u>8,830,656</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of bonds	74,240,000	6,607,122
Proceeds from insurance recoveries	3,500,000	-
Expenditures of insurance proceeds	(2,854,460)	-
Acquisition of capital assets	(6,468,870)	(4,479,047)
Payments on revenue note payable	-	(5,416,047)
Principal paid on capital debt	(66,545,000)	(2,930,000)
Interest paid on capital debt	<u>(4,414,814)</u>	<u>(4,428,458)</u>
Net cash used in capital and related financing activities	<u>(2,543,144)</u>	<u>(10,646,430)</u>
Cash flows from investing activities:		
Debt issuance costs	(848,136)	(46,964)
Interest earned	568,750	568,405
Change in restricted cash and investments - capital projects	(21,067)	3,066,740
Change in restricted cash and investments - debt service reserve	<u>(6,752,841)</u>	<u>(2,673,196)</u>
Net cash provided by (used in) investing activities	<u>(7,053,294)</u>	<u>914,985</u>
Net change in cash and equivalents	1,754,310	(900,789)
Cash and equivalents at beginning of year	<u>15,138,377</u>	<u>16,039,166</u>
Cash and equivalents at end of year	<u>\$ 16,892,687</u>	<u>15,138,377</u>

(Continued)

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD  
Statements of Cash Flows, Continued

	<u>2013</u>	<u>2012</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 5,588,228	703,020
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	4,916,807	4,783,588
Changes in:		
Accounts receivable	(2,480,840)	(952,035)
Due from other governments	193,038	(135,935)
Prepaid expenses	(132,458)	(125,059)
Notes receivable	683,784	1,978,360
Accounts payable	(256,202)	(668,427)
Accrued liabilities	226,948	329,831
Overpayments	11,244	(12,700)
Compensated absences	(88,561)	182,890
Postemployment benefits	2,688,760	2,747,123
Total adjustments	5,762,520	8,127,636
Net cash provided by operating activities	<u>\$ 11,350,748</u>	<u>8,830,656</u>
Supplemental schedule of cash flow information - adjustment for capital assets financed by accounts payable	<u>\$ 621,214</u>	<u>(513,059)</u>

See accompanying notes to financial statements.

# NIAGARA FALLS WATER BOARD

## Notes to Financial Statements

December 31, 2013 and 2012

### (1) Summary of Significant Accounting Policies

The financial statements of the Niagara Falls Water Board (the Board) have been prepared in conformity 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 18,666 residential, 251 commercial and 27 large industrial type customers. Total population served by the water system is estimated at 51,000. The average daily demand is 17.9 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 34.17 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.

In consideration for operating the systems and the financing of capital projects from time to time, the Board leases all of its rights, title and interest in the systems and capital projects to the Authority under terms and conditions of the original financing agreement. In turn, the Authority appoints the Board as the exclusive operator of the systems.

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 conformity 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.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(b) Measurement Focus and Basis of Accounting, Continued

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.

(d) Assets, Liabilities 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, 2013 and 2012, the total amount restricted for capital projects amounted to \$15,294,991 and \$15,273,924, respectively.
- Restricted Cash and Investments - Debt Service Reserve - 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.

The debt service reserve fund was established to fulfill the debt service reserve requirements on the outstanding bonds as and when they become due.

- 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, Liabilities 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, Liabilities 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 fully 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 a liability 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' Retirement System (ERS). The ERS provides various plans and options, some of which require employee contributions.

(e) Use of Estimates

The preparation of the financial statements in conformity 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 events after December 31, 2013, and through May 30, 2014, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(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, 2013 and 2012 include the following captions on the statements of net position:

	<u>2013</u>	<u>2012</u>
Cash and equivalents	\$ 16,892,687	15,138,377
Restricted cash and investments:		
Capital projects	15,294,991	15,273,924
Debt service reserve	<u>22,662,414</u>	<u>15,909,573</u>
Total	<u>\$ 54,850,092</u>	<u>46,321,874</u>

Cash and equivalents are comprised of the following:

	<u>2013</u>	<u>2012</u>
Petty cash (uncollateralized)	\$ 100	100
Deposits	43,510,269	35,515,453
Investments	<u>11,339,723</u>	<u>10,806,321</u>
Total	<u>\$ 54,850,092</u>	<u>46,321,874</u>

All deposits and investments are carried at fair value. Investments at December 31, 2013 and 2012 are in the form of U.S. Treasury securities, notes issued by the Federal National Mortgage Association and Federal Home Loan Bank and investment type money market funds.

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, 2013 and 2012, 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.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(2) Cash and Equivalents and Investments, Continued

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, 2013 and 2012, 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.

(3) Receivables

Major revenues accrued by the Board at December 31, 2013 and 2012 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.

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.

(b) Due from Other Governments

Due from other governments represents amounts due primarily from the City. Amounts accrued at December 31, 2013 and 2012 consist of:

	<u>2013</u>	<u>2012</u>
City of Niagara Falls:		
Tax transfer	\$ 159,474	142,993
Cascades note receivable	<u>-</u>	<u>209,519</u>
Total	\$ <u>159,474</u>	<u>352,512</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 \$3,377,057 and \$3,469,961 at December 31, 2013 and 2012, respectively. Management has recorded a full allowance for uncollectible accounts with respect to these balances at December 31, 2013 and 2012.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(3) Receivables, Continued

(b) Due from Other Governments, Continued

Cascades note receivable represents the Board's share of the Cascades Company note receivable (note 4(a)) received by the City but not yet remitted to the Board as of December 31, 2013.

(4) Notes Receivable

(a) 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%).

(b) Occidental Chemical Corporation

On September 10, 1990, the City entered into an agreement with the Occidental Chemical Corporation (the Corporation) in which the Corporation agreed to make certain specified payments to the City to help with the payment and implementation of a new City drinking water treatment plant. The agreement stipulates a total of \$64,900,000 to be paid over 19 years commencing on December 30, 1994, with final payment received in 2013.

Notes receivable at December 31, 2013 and 2012 are detailed as follows:

	<u>2013</u>	<u>2012</u>
Cascades Company	\$ 757,799	941,583
Occidental Chemical Corporation	<u>-</u>	<u>500,000</u>
	757,799	1,441,583
Less current portion	<u>(189,374)</u>	<u>(683,784)</u>
Notes receivable - noncurrent portion	\$ <u>568,425</u>	<u>757,799</u>

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(5) Capital Assets

The Board's capital assets activity for the years ended December 31, 2013 and 2012 is summarized as follows:

	Balance 1/1/2013	Increases	Decreases	Balance 12/31/2013
Capital assets, not being depreciated:				
Land	\$ 463,713	-	-	463,713
Construction in progress	<u>4,206,382</u>	<u>7,205,661</u>	<u>(4,702,411)</u>	<u>6,709,632</u>
Total capital assets not being depreciated	<u>4,670,095</u>	<u>7,205,661</u>	<u>(4,702,411)</u>	<u>7,173,345</u>
Capital assets, being depreciated:				
Infrastructure:				
Water system	85,650,907	758,656	-	86,409,563
Wastewater system	66,313,741	2,175,752	-	68,489,493
Machinery and equipment	<u>3,554,249</u>	<u>1,768,003</u>	<u>-</u>	<u>5,322,252</u>
Total capital assets being depreciated	<u>155,518,897</u>	<u>4,702,411</u>	<u>-</u>	<u>160,221,308</u>
Less accumulated depreciation:				
Infrastructure:				
Water system	(25,402,932)	(2,877,104)	-	(28,280,036)
Wastewater system	(11,172,205)	(1,746,054)	-	(12,918,259)
Machinery and equipment	<u>(2,100,953)</u>	<u>(293,649)</u>	<u>-</u>	<u>(2,394,602)</u>
Total accumulated depreciation	<u>(38,676,090)</u>	<u>(4,916,807)</u>	<u>-</u>	<u>(43,592,897)</u>
Total being depreciated, net	<u>116,842,807</u>	<u>(214,396)</u>	<u>-</u>	<u>116,628,411</u>
Capital assets, net	\$ <u>121,512,902</u>	<u>6,991,265</u>	<u>(4,702,411)</u>	<u>123,801,756</u>

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(5) Capital Assets, Continued

	Balance 1/1/2012	Increases	Decreases	Balance 12/31/2012
Capital assets, not being depreciated:				
Land	\$ 463,713	-	-	463,713
Construction in progress	<u>7,528,960</u>	<u>3,819,073</u>	<u>(7,141,651)</u>	<u>4,206,382</u>
Total capital assets not being depreciated	<u>7,992,673</u>	<u>3,819,073</u>	<u>(7,141,651)</u>	<u>4,670,095</u>
Capital assets, being depreciated:				
Infrastructure:				
Water system	85,487,625	163,282	-	85,650,907
Wastewater system	59,820,190	6,493,551	-	66,313,741
Machinery and equipment	<u>3,089,574</u>	<u>464,675</u>	<u>-</u>	<u>3,554,249</u>
Total capital assets being depreciated	<u>148,397,389</u>	<u>7,121,508</u>	<u>-</u>	<u>155,518,897</u>
Less accumulated depreciation:				
Infrastructure:				
Water system	(22,557,240)	(2,845,692)	-	(25,402,932)
Wastewater system	(9,481,248)	(1,690,957)	-	(11,172,205)
Machinery and equipment	<u>(1,854,014)</u>	<u>(246,939)</u>	<u>-</u>	<u>(2,100,953)</u>
Total accumulated depreciation	<u>(33,892,502)</u>	<u>(4,783,588)</u>	<u>-</u>	<u>(38,676,090)</u>
Total being depreciated, net	<u>114,504,887</u>	<u>2,337,920</u>	<u>-</u>	<u>116,842,807</u>
Capital assets, net	\$ <u>122,497,560</u>	<u>6,156,993</u>	<u>(7,141,651)</u>	<u>121,512,902</u>

(6) Bond Indebtedness

The Authority issued 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 years ended December 31, 2013 and 2012, the Authority issued Series 2013A/B bonds and Series 2012B bond, respectively.

The proceeds of the Series 2005A - Clean Water issue were used to obtain the North Gorge Interceptor capital project from the City and to fund further capital improvements.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(6) Bond Indebtedness, Continued

The net proceeds of the Series 2005 issue were used to eliminate outstanding short-term debt, fund current and future capital improvements, and to refund a portion of outstanding debt in the amount of \$16,020,000. Such amount was deposited in an irrevocable trust to provide for future debt service payments on the Series 2003A bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Board's financial statements.

The effect of the refunding transaction was a decrease in debt service payments of \$1,603,619 and an economic gain of \$1,124,676. The economic gain is the difference in present values of the old and new debt service payments.

The premium on the Series 2005 bonds amounted to \$1,495,985, and has been deferred and is being amortized over the life of the bonds. The premium is included in the bonds payable balance in the Board's statements of net position.

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.

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.

Serial bond activity for the year ended December 31, 2013 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 1/1/2013	Issued	Paid	Principal Outstanding 12/31/2013
<b>Niagara Falls Public Water Authority Bonds:</b>								
Series 2003A Bonds	2003	2034	5.50	\$ 41,530,000	25,510,000	-	25,510,000	-
Series 2003B Bonds	2003	2024	1.85 - 5.50	12,155,000	8,875,000	-	8,875,000	-
Series 2005 Bonds	2005	2034	5.00 - 5.50	23,115,000	23,115,000	-	-	23,115,000
Series 2013A Bonds	2013	2034	3.0 - 5.0	36,060,000	-	36,060,000	-	36,060,000
Series 2013B Bonds	2013	2024	4.309	8,415,000	-	8,415,000	-	8,415,000
<b>New York State Environmental Facilities Corporation Water Revolving Funds</b>								
<b>Revenue Bonds:</b>								
Series 2003A - Clean Water	2003	2033	1.61 - 5.05	18,943,807	14,540,000	-	14,540,000	-
Series 2013B - Clean Water	2013	2033	3.88 - 5.05	14,030,000	-	14,030,000	-	14,030,000
Series 2003B - Drinking Water	2003	2023	1.64 - 4.91	5,582,990	5,580,000	-	5,580,000	-
Series 2013B - Drinking Water	2013	2023	4.75 - 4.91	5,580,000	-	5,580,000	-	5,580,000
Series 2003C - Drinking Water	2003	2019	1.34 - 5.59	19,680,000	7,810,000	-	7,810,000	-
Series 2013B - Drinking Water	2013	2019	5.14 - 5.59	6,770,000	-	6,770,000	-	6,770,000
Series 2003C - Drinking Water	2003	2019	1.34 - 5.59	9,840,000	3,905,000	-	3,905,000	-
Series 2013B - Drinking Water	2013	2019	5.14 - 5.59	3,385,000	-	3,385,000	-	3,385,000
Series 2004 - Drinking Water	2003	2021	5.40	4,095,000	4,095,000	-	-	4,095,000
Series 2005A & B - Clean Water	2005	2034	1.56 - 4.57	6,017,960	4,840,000	-	150,000	4,690,000
Series 2012B - Clean Water	2012	2041	0.26 - 4.27	6,607,122	6,422,122	-	175,000	6,247,122
<b>Totals</b>				<u>\$ 221,806,879</u>	<u>104,692,122</u>	<u>74,240,000</u>	<u>66,545,000</u>	<u>112,387,122</u>

Reconciliation to statements of net position:

Principal outstanding	\$ 104,692,122	112,387,122
Unamortized premium on bonds	1,035,789	968,852
	<u>\$ 105,727,911</u>	<u>113,355,974</u>
Current portion of bonds payable	3,010,000	3,132,122
Non-current portion of bonds payable	102,717,911	110,223,852
	<u>\$ 105,727,911</u>	<u>113,355,974</u>

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(6) Bond Indebtedness, Continued

The annual maturities of long-term debt (by debt type) as of December 31, 2013 are as follows:

<u>Year</u>	<u>Premium on bonds</u>	<u>Serial bonds</u>	<u>Total</u>
2014	\$ 66,938	3,132,122	3,199,060
2015	66,938	3,540,000	3,606,938
2016	66,938	3,655,000	3,721,938
2017	66,938	3,780,000	3,846,938
2018	66,938	3,915,000	3,981,938
2019-2023	334,687	21,475,000	21,809,687
2024-2028	238,423	28,120,000	28,358,423
2029-2033	55,808	34,810,000	34,865,808
2034-2038	5,244	8,715,000	8,720,244
2039-2041	-	1,245,000	1,245,000
	<u>\$ 968,852</u>	<u>112,387,122</u>	<u>113,355,974</u>

Annual interest payments due on serial bonds as of December 31, 2013 are as follows:

2014	\$ 4,522,071
2015	4,264,278
2016	4,103,963
2017	3,982,528
2018	3,889,041
2019-2023	17,028,221
2024-2028	12,512,612
2029-2033	6,116,767
2034-2038	608,256
2039-2041	<u>100,474</u>
Total	\$ <u>57,128,211</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, 2013, 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. The current portion of the liability amounted to \$51,799 and \$56,227 at December 31, 2013 and 2012, respectively. The long-term portion of the liability amounted to \$984,184 and \$1,068,317 at December 31, 2013 and 2012, 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, 2013 and 2012 amounted to \$4,172,834 and \$4,150,593, respectively. At December 31, 2013 and 2012, the current portion of the postemployment benefits liability was \$1,601,642 and \$1,503,638, respectively. The non-current portion of the postemployment benefits liability amounted to \$12,752,082 and \$10,161,326 at December 31, 2013 and 2012, respectively.

The number of participants as of January 1, 2013 and 2012 was as follows:

	<u>2013</u>	<u>2012</u>
Active employees	83	90
Retired employees	<u>74</u>	<u>68</u>
Total	<u>157</u>	<u>158</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>2013</u>	<u>2012</u>
<u>Benefit Obligations and Normal Costs</u>		
Actuarial accrued liability (AAL):		
Retired employees and dependents	\$ 27,421,172	27,599,839
Active employees	<u>25,810,379</u>	<u>23,991,901</u>
Total	\$ <u>53,231,551</u>	<u>51,591,740</u>
Underfunded actuarial accrued liability (UAAL)	\$ <u>53,231,551</u>	<u>51,591,740</u>
Normal costs at beginning of year	944,964	908,620
Interest on normal cost	<u>39,375</u>	<u>37,859</u>
	\$ <u>984,339</u>	<u>946,479</u>

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(8) Postemployment Benefits, Continued

	<u>2013</u>	<u>2012</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	\$ 2,720,571	2,841,034
Interest on amortization payment	467,924	363,080
Normal costs with interest to end of year	<u>984,339</u>	<u>946,479</u>
Annual required contribution (ARC)	\$ <u>4,172,834</u>	<u>4,150,593</u>
<u>Annual OPEB Cost Contribution</u>		
Contributions made for years ended December 31, 2013 and 2012	1,484,074	1,403,470
Contributions as a percentage of required contribution	35.6%	33.8%
<u>Annual OPEB Cost and Net OPEB Obligation</u>		
Annual required contribution (OPEB cost)	4,172,834	4,150,593
Contributions made on a pay-as-you-go basis	<u>(1,484,074)</u>	<u>(1,403,470)</u>
Increase in net OPEB obligation	2,688,760	2,747,123
Net OPEB obligation at beginning of year	<u>11,664,964</u>	<u>8,917,841</u>
Net OPEB obligation at end of year	\$ <u>14,353,724</u>	<u>11,664,964</u>
Actuarial methods and assumptions:		
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Discount rate	4%	4%
2013 trend rate (Medical)	8.50%	8.50%
2014 trend rate (Medical)	8.00%	8.00%
Yearly decrease after year 2	0.50%	0.50%
Years until ultimate rate	8 years	9 years
The remaining amortization period at December 31, 2013 and 2012	24 years	25 years

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(9) Pension Plan

Plan Description - The Board participates in the New York State Employees' Retirement System and the Public Employees' Group Life Insurance Plan (collectively, the Retirement Systems). These are cost sharing multiple employer retirement systems. The Retirement Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State (Comptroller) serves as sole trustee and administrative head of the Retirement Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Retirement Systems and for custody and control of their funds. The Retirement Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, New York 12244.

Funding Policy - The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary for the first ten years of membership and employees who join on or after January 1, 2010 who generally contribute 3% of their salary for the entire length of service. For employees joining after April 1, 2012, they are required to contribute between 3% and 6%, depending on their salary, or their entire working career.

Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund. The rates billed by the Comptroller for ERS during the years ended December 31, 2013 and 2012 ranged from 10.1% to 25.4%. The required contributions for the current year and two preceding years were:

<u>Year</u>	<u>Contribution</u>
2013	\$ 1,042,571
2012	961,791
2011	653,821

The Board's contributions made to the Retirement Systems were equal to 100 percent of the contributions required for each year.

(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.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(10) Net Position, Continued

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 \$10,445,782 and \$15,784,991 at December 31, 2013 and 2012, 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.

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 are \$15,294,991 and \$15,273,924 at December 31, 2013 and 2012, 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. At December 31, 2013, approximately \$12,000,000 of these funds are included in this account.

Restricted for Debt Service:

Board restrictions at December 31, 2013 and 2012 of \$22,662,414 and \$15,909,573, respectively, are for debt service.

Unrestricted Net Position - This category represents net position of the Board not restricted for any project or other purpose.

(11) Labor Relations

The majority of the Board's employees are represented by four bargaining units, 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 is currently in negotiations with the bargaining units regarding new contracts.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(12) Risk Management and Contingent Liabilities

Risk management and contingent liabilities at December 31, 2013 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. On March 17, 2011, the Board approved a settlement in the amount of \$635,000 for an accident claim incurred in 2010. The Board is responsible for its \$500,000 deductible related to this claim with insurance covering any amounts in excess of this amount. Accordingly, an accrual of \$500,000 was recorded at December 31, 2010. As of December 31, 2013 the amount was paid in full.

There were no other settlements that significantly exceeded insurance coverage for the year ended December 31, 2013.

(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.

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>	<u>Actuarial</u>		Unfunded actuarial accrued <u>liability</u>	Funded ratio	Covered <u>payroll</u>	Unfunded liability as a percentage of covered <u>payroll</u>
	<u>Value of assets</u>	<u>Accrued liability</u>				
2013	\$ -	53,231,551	53,231,551	0%	4,911,524	1,084%
2012	-	51,591,740	51,591,740	0%	4,771,624	1,081%
2011	-	49,882,610	49,882,610	0%	4,588,511	1,087%

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS,  
INCLUDING COMPLIANCE WITH INVESTMENT GUIDELINES, 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, 2013, and the related notes to financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated May 30, 2014.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2013-1 that we consider to be a significant deficiency.

### 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

### Niagara Falls Water 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.

Toski & Co., CPAs, P.C.

Williamsville, New York  
May 30, 2014

NIAGARA FALLS WATER BOARD

Schedule of Findings and Responses

Year ended December 31, 2013

(2013-1) Financial Statements

Condition - The financial statements of the Board at December 31, 2013 required significant adjusting journal entries in order to properly report them in accordance with accounting principles generally accepted in the United States of America.

Criteria - Management of the Board is responsible for establishing and maintaining effective internal control over financial reporting and for properly presenting financial statements in accordance with accounting principles generally accepted in the United States of America.

Effect - Several adjusting journal entries, with a gross value of approximately \$5.1 million, were recorded to correct misstatements in the financial statements as of December 31, 2013.

Cause - The misstatements resulted primarily from a deficiency in internal control over financial reporting.

Recommendation - The Board should formalize its accounting procedures and ensure that all accounts are properly reconciled to subsidiary schedules.

Management's Reply - Management is taking more of an active role supervising and reviewing the accounting records of the Board.

NIAGARA FALLS WATER BOARD

Status of Prior Year Audit Findings

Year ended December 31, 2013

(2012-1) Financial Statements

Condition - The financial statements of the Board at December 31, 2012 required significant adjusting journal entries in order to properly reflect them in accordance with accounting principles generally accepted in the United States of America.

Status - During the year ended December 31, 2013, there was a reduction in the gross value of the adjustments required of approximately \$5.1 million down from approximately \$7.9 million in 2012.

NIAGARA FALLS WATER BOARD  
Financial Statements and  
Management's Discussion and Analysis  
December 31, 2012 and 2011  
(With Independent Auditors' Report Thereon)

# NIAGARA FALLS WATER BOARD

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Niagara Falls Water Board:

### Report on the Financial Statements

We have audited the basic financial statements of the Niagara Falls Water Board (the Board) as of and for the years ended December 31, 2012 and 2011, and the related notes to the 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 financial position of the Niagara Falls Water Board as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

As described in note 1 to the financial statements, the Board adopted the provisions of GASB Statement No. 62 - "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements," GASB Statement No. 63 - "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position" and GASB Statement No. 65 - "Items Previously Reported as Assets and Liabilities."

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9, and the schedule of funding progress for other postemployment benefits on page 35 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.

### Reports on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued our report dated April 4, 2013, on our consideration of the Niagara Falls Water 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 Niagara Falls Water Board's internal control over financial reporting and compliance.

Toski & Co., CPAs, P.C.

Williamsville, New York  
April 4, 2013

NIAGARA FALLS WATER BOARD  
Management's Discussion and Analysis  
December 31, 2012 and 2011

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, 2012 and 2011.

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 of the Board exceeded its liabilities by \$55,711,333 and \$58,818,003 (net position) at December 31, 2012 and 2011, respectively. At December 31, 2012 and 2011, \$8,742,845 and \$12,277,176 (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, 2012 and 2011 was \$703,020 and \$554,153, respectively.
- The Board's total bond indebtedness increased by \$3,610,184 during the current fiscal year, as a result of principal payments made of \$2,930,000 and new bonds issued of \$6,607,122.
- The Board reflected a liability for postemployment benefits of \$11,664,964 and \$8,917,841 at December 31, 2012 and 2011, 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 below.

<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 and liabilities, with the difference between the two 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 15 through 34 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 exceeded liabilities by \$55,711,333 at December 31, 2012, as compared to \$58,818,003 at December 31, 2011, as presented below:

<b><u>Niagara Falls Water Board's Net Position</u></b>				
	December 31,		Increase/(Decrease)	
	2012	*2011	Dollars	Percent
Current assets	\$ 25,705,491	26,687,826	(982,335)	(3.68%)
Noncurrent assets	<u>153,454,198</u>	<u>155,516,185</u>	<u>(2,061,987)</u>	<u>(1.33%)</u>
Total assets	<u>179,159,689</u>	<u>182,204,011</u>	<u>(3,044,322)</u>	<u>(1.67%)</u>
Current liabilities	9,500,802	15,755,869	(6,255,067)	(39.70%)
Noncurrent liabilities	<u>113,947,554</u>	<u>107,630,139</u>	<u>6,317,415</u>	5.87%
Total liabilities	<u>123,448,356</u>	<u>123,386,008</u>	<u>62,348</u>	.05%
Invested in capital assets, net of related debt	15,784,991	14,963,786	821,205	5.49%
Restricted	31,183,497	31,577,041	(393,544)	(1.25%)
Unrestricted	<u>8,742,845</u>	<u>12,277,176</u>	<u>(3,534,331)</u>	<u>(28.79%)</u>
Total net position	\$ <u>55,711,333</u>	<u>58,818,003</u>	<u>(3,106,670)</u>	<u>(5.28%)</u>

\* As restated for change in accounting principle.

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

The Board's investment in capital assets, net of related debt, is in a surplus net position of \$15,784,991 and \$14,963,786 at December 31, 2012 and 2011, 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 \$8,742,845 and \$12,277,176 at December 31, 2012 and 2011, 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 (\$15,909,573 and \$13,236,377 at December 31, 2012 and 2011, respectively) represents funds that are set aside to be used towards debt service. The restricted capital projects portion of the Board's net position (\$15,273,924 and \$18,340,664 at December 31, 2012 and 2011, respectively) represents funds that are set aside primarily for the reconstruction of the Falls Street Tunnel.

A comparison of current assets to current liabilities of the Board at December 31, 2012 and 2011 follows:

	<u>2012</u>	<u>2011</u>
Current assets	\$ 25,705,491	26,687,826
Current liabilities	<u>9,500,802</u>	<u>15,755,869</u>
Ratio of current assets to current liabilities	<u>2.71</u>	<u>1.69</u>

The Board's total net position decreased by \$3,106,670 during the year ended December 31, 2012, as compared to a decrease of \$3,110,954 for the year ended December 31, 2011. Key elements of the current year's increase in net position are as follows:

**Niagara Falls Water Board's Changes in Net Position**

	<u>2012</u>	<u>*2011</u>	Increase/ (decrease)
Total operating revenue	\$ 25,048,794	23,496,202	1,552,592
Total operating expenses	<u>(24,345,774)</u>	<u>(22,942,049)</u>	<u>(1,403,725)</u>
Operating income	703,020	554,153	148,867
Total non-operating revenue (expenses)	<u>(3,809,690)</u>	<u>(3,665,107)</u>	<u>(144,583)</u>
Change in net position	\$ <u>(3,106,670)</u>	<u>(3,110,954)</u>	<u>4,284</u>

\* As restated for change in accounting principle.

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

The Board's major sources of operating revenue are charges for water and sewer services which comprise approximately 99% of total operating revenue. These revenues combined comprise an approximate \$1.7 million increase in operating revenue over 2011. 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 2012 and approved rates for 2013.

The Board's largest operating expense area relates to its employees. Together, personnel costs (salaries) and employee benefits approximate 50% of all operating expenses. In 2012, these costs totaled approximately \$12.1 million as compared to \$11.2 million in 2011, representing an approximate 8% increase in this area. This increase is due to the rising costs of providing health care and other employee 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 \$104,692,122 and \$101,015,000 at December 31, 2012 and 2011, respectively.

The following is a summary of the Board's cash flow activities for the years ended December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Cash flows provided by (used in):		
Operating activities	\$ 8,830,656	9,094,293
Capital and related financing activities	(10,646,430)	(12,853,652)
Investing activities	<u>914,985</u>	<u>3,967,381</u>
Net increase in cash and equivalents	(900,789)	208,022
Cash and equivalents at beginning of year	<u>16,039,166</u>	<u>15,831,144</u>
Cash and equivalents at end of year	\$ <u>15,138,377</u>	<u>16,039,166</u>

The Board's available cash and equivalents decreased by \$900,789 during the year ended December 31, 2012, as compared to an increase of \$208,022 during the year ended December 31, 2011. Cash provided by operating activities reflected a positive balance of \$8,830,656 for the year ended December 31, 2012.

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, 2012, amounted to \$121,512,902, as compared to \$122,497,560 at December 31, 2011. 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 \$7,121,508.
- Construction in progress increased by \$3,819,073, and decreased by \$7,141,651 which represents completed capital projects transferred to their applicable asset categories.
- The Board recorded total depreciation of \$4,783,588 and \$4,729,006 for the years ended December 31, 2012 and 2011, respectively.

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

	<u>2012</u>	<u>2011</u>
Nondepreciable assets:		
Land	\$ 463,713	463,713
Construction in progress	4,206,382	7,528,960
Depreciable assets:		
Plant and transmission assets (water system)	60,247,975	62,930,385
Plant and transmission assets (wastewater system)	55,141,536	50,338,942
Machinery and equipment	<u>1,453,296</u>	<u>1,235,560</u>
Total	\$ <u>121,512,902</u>	<u>122,497,560</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, 2012, the Board had outstanding serial bonds totaling \$104,692,122, as compared to \$101,015,000 at December 31, 2011. During the year ended December 31, 2012, the Board made principal payments of \$2,930,000 on these bonds and issued bonds of \$6,607,122.

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.

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

**Environmental Facilities Corporation (EFC) Revenue Note** - During December 31, 2012, the Board repaid the EFC Revenue Note in the amount of \$5,416,047 from the New York State Environmental Facilities Corporation used for the North Gorge Project.

**Postemployment Benefits** - Upon retirement, the Board's employees are entitled to continuous health insurance coverage. At December 31, 2012 and 2011, the liability recorded for these benefits amounted to \$11,664,964 and \$8,917,841, respectively. The underfunded actuarial accrued liability is \$51,591,740 and \$49,882,610 at December 31, 2012 and 2011, respectively.

**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, 2012 is \$1,124,544, compared to \$941,654 at December 31, 2011. 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 \$56,227 of such liability is current at December 31, 2012.

**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 2012 and approved rates to be charged for 2013 are as follows:

<u>Amount Consumed</u>	<u>2012</u>		<u>2013</u>	
	<u>Amount to be charged</u>		<u>Amount to be charged</u>	
	<u>(per 100 cubic feet)</u>		<u>(per 100 cubic feet)</u>	
	<u>Inside</u>	<u>Outside</u>	<u>Inside</u>	<u>Outside</u>
	<u>city</u>	<u>city</u>	<u>city</u>	<u>city</u>
First 20,000 cubic feet per quarter	2.88	7.70	3.05	8.16
Next 60,000 cubic feet per quarter	2.49	6.72	2.64	7.12
Next 120,000 cubic feet per quarter	2.11	5.60	2.24	5.94
Over 200,000 cubic feet per quarter	1.75	4.71	1.86	4.99
Minimum charge for water consumption				
per quarter	37.44	100.10	39.65	106.08

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>2012 Rate (per quarter)</u>	<u>2013 Rate (per quarter)</u>
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 2012 and rates to be charged during 2013 are as follows:

<u>Amount Consumed</u>	<u>2012</u>	<u>2013</u>
Minimum charge per quarter (up to 1,300 cubic feet)	\$ 46.91	49.72
Additional usage in excess of 1,300 cubic feet (\$/cubic feet)	3.83	4.04

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, 2012 were \$2,679 per million gallons for wastewater flow; \$0.89 per pound for all suspended solids discharged; and \$1.53 per pound for all soluble organic carbon compounds discharged. Approved rates for 2013 were \$2,840 per million gallons for wastewater flow; \$0.94 per pound for all suspended solids discharged; and \$1.62 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. Mary Jean Buddenhagen, Michael O'Laughlin Municipal Water Plan, 5815 Buffalo Avenue, Niagara Falls, New York 14304.

NIAGARA FALLS WATER BOARD  
Statements of Net Position  
December 31, 2012 and 2011

<u>Assets</u>	<u>2012</u>	<u>2011</u> (As restated)
Current assets:		
Cash and equivalents	\$ 15,138,377	16,039,166
Accounts receivable, net of allowance for uncollectible accounts	8,945,215	7,993,180
Due from other governments	352,512	216,577
Prepaid expenses	585,603	460,544
Notes receivable - current portion	683,784	1,978,359
Total current assets	<u>25,705,491</u>	<u>26,687,826</u>
Noncurrent assets:		
Restricted cash and investments - capital projects	15,273,924	18,340,664
Restricted cash and investments - debt service reserve	15,909,573	13,236,377
Notes receivable - noncurrent portion	757,799	1,441,584
Capital assets:		
Land	463,713	463,713
Plant and transmission assets	151,964,648	145,307,815
Machinery and equipment	3,554,249	3,089,574
Construction in progress	4,206,382	7,528,960
Less accumulated depreciation	<u>(38,676,090)</u>	<u>(33,892,502)</u>
Total capital assets, net of accumulated depreciation	<u>121,512,902</u>	<u>122,497,560</u>
Total noncurrent assets	<u>153,454,198</u>	<u>155,516,185</u>
Total assets	<u>179,159,689</u>	<u>182,204,011</u>
		(Continued)

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD  
Statements of Net Position, Continued

<u>Liabilities</u>	<u>2012</u>	2011 (As restated)
Current liabilities:		
Accounts payable	\$ 1,488,237	2,669,723
Accrued liabilities	3,370,412	3,070,970
Contract retainage payable	70,905	237,963
Overpayments	1,383	14,083
Current portion of long-term liabilities:		
Compensated absences	56,227	47,083
Postemployment benefits	1,503,638	1,370,000
Revenue note payable	-	5,416,047
Bonds payable	<u>3,010,000</u>	<u>2,930,000</u>
Total current liabilities	<u>9,500,802</u>	<u>15,755,869</u>
Noncurrent liabilities:		
Compensated absences	1,068,317	894,571
Postemployment benefits	10,161,326	7,547,841
Bonds payable	<u>102,717,911</u>	<u>99,187,727</u>
Total noncurrent liabilities	<u>113,947,554</u>	<u>107,630,139</u>
Risk management and contingent liabilities (note 13)		
Total liabilities	<u>123,448,356</u>	<u>123,386,008</u>
 <u>Net Position</u>		
Invested in capital assets, net of related debt	15,784,991	14,963,786
Restricted for capital projects	15,273,924	18,340,664
Restricted for debt service	15,909,573	13,236,377
Unrestricted	<u>8,742,845</u>	<u>12,277,176</u>
Total net position	<u>\$ 55,711,333</u>	<u>58,818,003</u>

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD  
Statements of Revenue, Expenses and Changes in Net Position  
Years ended December 31, 2012 and 2011

	<u>2012</u>	2011 (As restated)
Operating revenue:		
Water rents and charges	\$ 10,158,445	8,599,911
Sewer rents and charges	14,519,527	14,374,294
Licenses and permits	244,000	220,089
Other services	<u>126,822</u>	<u>301,908</u>
Total operating revenue	<u>25,048,794</u>	<u>23,496,202</u>
Operating expenses:		
Personnel costs	4,771,623	4,588,511
Contractual expenses	7,485,844	6,992,507
Employee benefits	7,304,719	6,632,025
Depreciation expense	<u>4,783,588</u>	<u>4,729,006</u>
Total operating expenses	<u>24,345,774</u>	<u>22,942,049</u>
Operating income	<u>703,020</u>	<u>554,153</u>
Non-operating revenue (expenses):		
Use of money and property	568,405	679,094
Gain on sale of property	-	16,500
Interest expense	(4,331,131)	(4,360,701)
Debt issuance costs	<u>(46,964)</u>	<u>-</u>
Total non-operating revenue (expenses)	<u>(3,809,690)</u>	<u>(3,665,107)</u>
Change in net position	<u>(3,106,670)</u>	<u>(3,110,954)</u>
Net position at beginning of year, as previously stated	58,818,003	65,674,521
Restatement - note 1(e)	<u>-</u>	<u>(3,745,564)</u>
Net position at beginning of the year, as restated	<u>58,818,003</u>	<u>61,928,957</u>
Net position at end of year	<u>\$ 55,711,333</u>	<u>58,818,003</u>

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD  
Statements of Cash Flows  
Years ended December 31, 2012 and 2011

	<u>2012</u>	2011 (As restated)
Cash flows from operating activities:		
Receipts from customers and users	\$ 25,926,484	25,641,222
Payments to suppliers	(8,279,330)	(7,594,903)
Payments to employees	<u>(8,816,498)</u>	<u>(8,952,026)</u>
Net cash provided by operating activities	<u>8,830,656</u>	<u>9,094,293</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of bonds	6,607,122	-
Acquisition of capital assets	(4,479,047)	(8,638,229)
Proceeds from sales of capital assets	-	18,594
Proceeds from (payments on) revenue note payable	(5,416,047)	2,825,952
Principal paid on capital debt	(2,930,000)	(2,660,000)
Interest paid on capital debt	<u>(4,428,458)</u>	<u>(4,399,969)</u>
Net cash used in capital and related financing activities	<u>(10,646,430)</u>	<u>(12,853,652)</u>
Cash flows from investing activities:		
Debt issuance costs	(46,964)	-
Interest earned	568,405	679,094
Change in restricted cash and investments - capital projects	3,066,740	835,743
Change in restricted cash and investments - debt service reserve	<u>(2,673,196)</u>	<u>2,452,544</u>
Net cash provided by investing activities	<u>914,985</u>	<u>3,967,381</u>
Net change in cash and equivalents	(900,789)	208,022
Cash and equivalents at beginning of year	<u>16,039,166</u>	<u>15,831,144</u>
Cash and equivalents at end of year	<u><u>\$ 15,138,377</u></u>	<u><u>16,039,166</u></u>

(Continued)

See accompanying notes to financial statements.

NIAGARA FALLS WATER BOARD  
Statements of Cash Flows, Continued

	<u>2012</u>	2011 (As restated)
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 703,020	554,153
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	4,783,588	4,729,006
Changes in:		
Accounts receivable	(952,035)	(15,012)
Due from other governments	(135,935)	103,438
Prepaid expenses	(125,059)	(96,258)
Notes receivable	1,978,360	2,073,094
Accounts payable	(668,427)	(506,138)
Accrued liabilities	329,831	(226,194)
Overpayments	(12,700)	(16,500)
Compensated absences	182,890	(57,987)
Postemployment benefits	2,747,123	2,552,691
Total adjustments	8,127,636	8,540,140
Net cash provided by operating activities	<u>\$ 8,830,656</u>	<u>9,094,293</u>
Supplemental schedule of cash flow information - adjustment for capital assets financed by accounts payable	<u>\$ (513,059)</u>	<u>(512,494)</u>

See accompanying notes to financial statements.

# NIAGARA FALLS WATER BOARD

## Notes to Financial Statements

December 31, 2012 and 2011

### (1) Summary of Significant Accounting Policies

The financial statements of the Niagara Falls Water Board (the Board) have been prepared in conformity with generally accepted accounting principles (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 19,500 residential, 250 commercial and 26 large industrial type customers. Total population served by the water system is estimated at 51,000. The average daily demand is 18.4 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 34.17 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.

In consideration for operating the systems and the financing of capital projects from time to time, the Board leases all of its rights, title and interest in the systems and capital projects to the Authority under terms and conditions of the original financing agreement. In turn, the Authority appoints the Board as the exclusive operator of the systems.

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 of Focus and Basis of Accounting

The financial statements of the Board have been prepared in conformity 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. Beginning in 2012, the Authority adopted the provisions of GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." This statement codifies all sources of accounting principles generally accepted in the United States of America into the GASB's authoritative literature. Also, during 2012, the Authority adopted Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position," and Statement No. 65, "Items Previously Reported as Assets and Liabilities." These Statements provide guidance on presenting deferred outflows, deferred inflows and net position.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(b) Measurement of Focus and Basis of Accounting, Continued

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.

(d) Assets, Liabilities 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, 2012 and 2011, the total amount restricted for capital projects amounted to \$15,273,924 and \$18,340,664, respectively.
- Restricted Cash and Investments - Debt Service Reserve - As a result of the purchase of the water and sewer systems from the City, certain bond covenants, as disclosed in note 7, 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.

The debt service reserve fund was established to fulfill the debt service reserve requirements on the outstanding bonds as and when they become due.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(d) Assets, Liabilities and Net Position, Continued

- 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.

- 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

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(d) Assets, Liabilities and Net Position, Continued

- **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.

- **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 fully disclosed under note 9.
- **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 a liability 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' Retirement System (ERS). The ERS provides various plans and options, some of which require employee contributions.

(e) Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position - Restatement

For the year ended December 31, 2012, the Board implemented GASB Statements No. 63 - "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position" and Statement No. 65 - "Items Previously Reported as Assets and Liabilities." Statement No. 63 amends the net asset reporting requirements in Statement No. 34 - "Basic Financial Statements - and Managements' Discussion and Analysis - for State and Local Governments" and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. Statement No. 65 established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(e) Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position - Restatement, Continued

The implementation of these standards reduced previously reported net position as of the beginning of the year ended December 31, 2011 by \$3,745,564 to eliminate unamortized bond and note issuance costs. In addition, 2011 amortization expense was reduced by \$275,985. This resulted in a reduction of the net position previously reported at year end December 31, 2011 by \$3,469,579. This restatement has been recorded in the statements of net position, revenue, expenses and changes in net position and cash flows for the year ended December 31, 2011.

(f) Use of Estimates

The preparation of the financial statements in conformity 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.

(g) 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.

(h) Reclassifications

Reclassifications have been made to certain 2011 balances in order to conform them to the 2012 presentation.

(i) Subsequent Events

The Board has evaluated events after December 31, 2012, and through April 4, 2013, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

(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.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(2) Cash and Equivalents and Investments, Continued

The Board's cash and equivalents at December 31, 2012 and 2011 include the following captions on the statements of net position:

	<u>2012</u>	<u>2011</u>
Cash and equivalents	\$ 15,138,377	16,039,166
Restricted cash and investments:		
Capital projects	15,273,924	18,340,664
Debt service reserve	<u>15,909,573</u>	<u>13,236,377</u>
Total	\$ <u>46,321,874</u>	<u>47,616,207</u>

Cash and equivalents are comprised of the following:

	<u>2012</u>	<u>2011</u>
Petty cash (uncollateralized)	\$ 100	100
Deposits	35,515,453	36,772,197
Investments	<u>10,806,321</u>	<u>10,843,910</u>
Total	\$ <u>46,321,874</u>	<u>47,616,207</u>

All deposits and investments are carried at fair value. Investments at December 31, 2012 and 2011 are in the form of U.S. Treasury securities, notes issued by the Federal National Mortgage Association and Federal Home Loan Bank and investment type money market funds.

**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, 2011, 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 however, as of December 31, 2012, all uninsured bank deposits were not fully collateralized with securities held by the pledging financial institution's trust department or agent in the Board's name. The Board's bank deposits were under collateralized by \$4,675.

**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, 2012 and 2011, 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.

(3) Receivables

Major revenues accrued by the Board at December 31, 2012 and 2011 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.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(3) Receivables, Continued

(a) Accounts Receivable, Continued

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.

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.

(b) Due from Other Governments

Due from other governments represents amounts due primarily from the City. Amounts accrued at December 31, 2012 and 2011 consist of:

	<u>2012</u>	<u>2011</u>
City of Niagara Falls:		
Tax transfer	\$ 142,993	216,577
Cascades note receivable	<u>209,519</u>	<u>-</u>
Total	\$ <u>352,512</u>	<u>216,577</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 \$3,469,961 and \$3,752,982 at December 31, 2012 and 2011, respectively. Management has recorded a full allowance for uncollectible accounts with respect to these balances at December 31, 2012 and 2011.

Cascades note receivable represents the Board's share of the Cascades Company note receivable (note 4(a)) received by the City but not yet remitted to the Board as of December 31, 2012.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(4) Notes Receivable

(a) 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%).

(b) Occidental Chemical Corporation

On September 10, 1990, the City entered into an agreement with the Occidental Chemical Corporation (the Corporation) in which the Corporation agreed to make certain specified payments to the City to help with the payment and implementation of a new City drinking water treatment plant. The agreement stipulates a total of \$64,900,000 to be paid over 19 years commencing on December 30, 1994, with final payment scheduled in 2013. The remaining balance due under this agreement transferred to the Board on September 25, 2003.

Notes receivable at December 31, 2012 and 2011 are detailed as follows:

	<u>2012</u>	<u>2011</u>
Cascades Company	\$ 941,583	1,119,943
Occidental Chemical Corporation	<u>500,000</u>	<u>2,300,000</u>
	1,441,583	3,419,943
Less current portion	<u>(683,784)</u>	<u>(1,978,359)</u>
Notes receivable - noncurrent portion	\$ <u>757,799</u>	<u>1,441,584</u>

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(5) Capital Assets

The Board's capital assets activity for the years ended December 31, 2012 and 2011 is summarized as follows:

	Balance <u>1/1/2012</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/2012</u>
Capital assets, not being depreciated:				
Land	\$ 463,713	-	-	463,713
Construction in progress	<u>7,528,960</u>	<u>3,819,073</u>	<u>(7,141,651)</u>	<u>4,206,382</u>
Total capital assets not being depreciated	<u>7,992,673</u>	<u>3,819,073</u>	<u>(7,141,651)</u>	<u>4,670,095</u>
Capital assets, being depreciated:				
Infrastructure:				
Water system	85,487,625	163,282	-	85,650,907
Wastewater system	59,820,190	6,493,551	-	66,313,741
Machinery and equipment	<u>3,089,574</u>	<u>464,675</u>	<u>-</u>	<u>3,554,249</u>
Total capital assets being depreciated	<u>148,397,389</u>	<u>7,121,508</u>	<u>-</u>	<u>155,518,897</u>
Less accumulated depreciation:				
Infrastructure:				
Water system	(22,557,240)	(2,845,692)	-	(25,402,932)
Wastewater system	(9,481,248)	(1,690,957)	-	(11,172,205)
Machinery and equipment	<u>(1,854,014)</u>	<u>(246,939)</u>	<u>-</u>	<u>(2,100,953)</u>
Total accumulated depreciation	<u>(33,892,502)</u>	<u>(4,783,588)</u>	<u>-</u>	<u>(38,676,090)</u>
Total being depreciated, net	<u>114,504,887</u>	<u>2,337,920</u>	<u>-</u>	<u>116,842,807</u>
Capital assets, net	\$ <u>122,497,560</u>	<u>6,156,993</u>	<u>(7,141,651)</u>	<u>121,512,902</u>
	Balance <u>1/1/2011</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/2011</u>
Capital assets, not being depreciated:				
Land	\$ 463,713	-	-	463,713
Construction in progress	<u>13,345,752</u>	<u>7,830,611</u>	<u>(13,647,403)</u>	<u>7,528,960</u>
Total capital assets not being depreciated	<u>13,809,465</u>	<u>7,830,611</u>	<u>(13,647,403)</u>	<u>7,992,673</u>

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(5) Capital Assets, Continued

	<u>Balance</u> <u>1/1/2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2011</u>
Capital assets, being depreciated:				
Infrastructure:				
Water system	\$ 85,080,670	406,955	-	85,487,625
Wastewater system	46,832,828	12,987,362	-	59,820,190
Machinery and equipment	<u>2,819,988</u>	<u>269,586</u>	<u>-</u>	<u>3,089,574</u>
Total capital assets being depreciated	<u>134,733,486</u>	<u>13,663,903</u>	<u>-</u>	<u>148,397,389</u>
Less accumulated depreciation:				
Infrastructure:				
Water system	(19,639,075)	(2,918,165)	-	(22,557,240)
Wastewater system	(7,955,479)	(1,525,769)	-	(9,481,248)
Machinery and equipment	<u>(1,568,942)</u>	<u>(285,072)</u>	<u>-</u>	<u>(1,854,014)</u>
Total accumulated depreciation	<u>(29,163,496)</u>	<u>(4,729,006)</u>	<u>-</u>	<u>(33,892,502)</u>
Total being depreciated, net	<u>105,569,990</u>	<u>8,934,897</u>	<u>-</u>	<u>114,504,887</u>
Capital assets, net	\$ <u>119,379,455</u>	<u>16,765,508</u>	<u>(13,647,403)</u>	<u>122,497,560</u>

(6) Environmental Facilities Corporation Revenue Note

During the year ended December 31, 2010, the Board commenced its North Gorge Interceptor Capacity Restoration Project (the Project), which was an \$11 million initiative to repair a large wastewater tunnel originally constructed in 1937. The Project was funded by the New York State Environmental Facilities Corporation (EFC) through the Clean Water State Revolving Funds. In connection with the Project, the Board obtained an \$11 million EFC Revenue Note, of which \$5,470,953 was eligible for principal forgiveness under the American Recovery and Reinvestment Act of 2009 (ARRA).

As of December 31, 2011, the Board incurred total principal draws of \$11,000,000 under the Revenue Note for Project expenditures, of which \$5,470,953 was considered forgiven during 2010 under the ARRA portion of the funding package. The remaining balance of \$5,416,047 was a non-interest bearing note and was paid in full during 2012.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(7) Bond Indebtedness

The Authority issued 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, 2011, the Authority issued no bonds. However, during the year ended December 31, 2012, the Authority issued a Series 2012B bond.

The proceeds of the Series 2005A - Clean Water issue were used to obtain the North Gorge Interceptor capital project from the City and to fund further capital improvements.

The net proceeds of the Series 2005 issue were used to eliminate outstanding short-term debt, fund current and future capital improvements, and to refund a portion of outstanding debt in the amount of \$16,020,000. Such amount was deposited in an irrevocable trust to provide for future debt service payments on the Series 2003A bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Board's financial statements.

The effect of the refunding transaction was a decrease in debt service payments of \$1,603,619 and an economic gain of \$1,124,676. The economic gain is the difference in present values of the old and new debt service payments.

The premium on the Series 2005 bonds amounted to \$1,495,985, and has been deferred and is being amortized over the life of the bonds. The premium is included in the bonds payable balance in the Board's statements of net position.

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.

Serial bond activity for the year ended December 31, 2012 is presented on the following page:

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(7) Bond Indebtedness, Continued

Serial Bond Activity:

	Year of		Interest Rate %	Original Amount	Principal Outstanding		Issued	Paid		Principal Outstanding 12/31/2012
	Issue	Maturity			1/1/2012					
Niagara Falls Public Water Authority Bonds:										
Series 2003A Bonds	2003	2034	5.50	\$ 41,530,000	25,510,000	-	-	-	-	25,510,000
Series 2003B Bonds	2003	2024	1.85 - 5.50	12,155,000	9,455,000	-	-	580,000	-	8,875,000
Series 2005 Bonds	2005	2034	5.00 - 5.50	23,115,000	23,115,000	-	-	-	-	23,115,000
New York State Environmental Facilities Corporation Water Revolving Funds Revenue Bonds:										
Series 2003A - Clean Water	2003	2033	1.61 - 5.05	18,943,807	15,040,000	-	-	500,000	-	14,540,000
Series 2003B - Drinking Water	2003	2023	1.64 - 4.91	5,582,990	5,580,000	-	-	-	-	5,580,000
Series 2003C - Drinking Water	2003	2019	1.34 - 5.59	19,680,000	8,820,000	-	-	1,010,000	-	7,810,000
Series 2003C - Drinking Water	2003	2019	1.34 - 5.59	9,840,000	4,410,000	-	-	505,000	-	3,905,000
Series 2004 - Drinking Water	2003	2021	5.40	4,095,000	4,095,000	-	-	-	-	4,095,000
Series 2005A & B - Clean Water	2005	2034	1.56 - 4.57	6,017,960	4,990,000	-	-	150,000	-	4,840,000
Series 2012B - Clean Water	2012	2041	0.26 - 4.27	6,607,122	-	6,607,122	6,607,122	185,000	-	6,422,122
Totals				\$ 147,566,879	101,015,000	6,607,122	6,607,122	2,930,000	-	104,692,122

Reconciliation to statements of net position:

Principal outstanding	\$ 101,015,000	104,692,122
Unamortized premium on bonds	1,102,727	1,035,789
	<u>\$ 102,117,727</u>	<u>105,727,911</u>
Current portion of bonds payable	2,930,000	3,010,000
Non-current portion of bonds payable	99,187,727	102,717,911
	<u>\$ 102,117,727</u>	<u>105,727,911</u>

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(7) Bond Indebtedness, Continued

The annual maturities of long-term debt (by debt type) as of December 31, 2012 are as follows:

<u>Year</u>	<u>Premium on bonds</u>	<u>Serial bonds</u>	<u>Total</u>
2013	\$ 66,938	3,010,000	3,076,938
2014	66,938	3,107,122	3,174,060
2015	66,938	3,215,000	3,281,938
2016	66,938	3,330,000	3,396,938
2017	66,938	3,450,000	3,516,938
2018-2022	334,687	19,395,000	19,729,687
2023-2027	278,787	23,710,000	23,988,787
2028-2032	75,047	29,205,000	29,280,047
2033-2037	12,578	14,775,000	14,787,578
2038-2041	-	1,495,000	1,495,000
	<u>\$ 1,035,789</u>	<u>104,692,122</u>	<u>105,727,911</u>

Annual interest payments due on serial bonds as of December 31, 2012 are as follows:

2013	\$ 4,347,877
2014	4,255,374
2015	4,150,672
2016	4,040,240
2017	3,922,955
2018-2022	17,585,503
2023-2027	13,448,984
2028-2032	7,721,538
2033-2037	1,311,494
2038-2041	<u>146,046</u>
Total	\$ <u>60,930,683</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, 2012, 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

(7) 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.

(8) 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. The current portion of the liability amounted to \$56,227 and \$47,083 at December 31, 2012 and 2011, respectively. The long-term portion of the liability amounted to \$1,068,317 and \$894,571 at December 31, 2012 and 2011, respectively.

(9) Postemployment Benefits

The Board provides postretirement 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

(9) 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, 2012 and 2011 amounted to \$4,150,593 and \$3,908,098, respectively. At December 31, 2012 and 2011, the current portion of the postemployment benefits liability was \$1,503,638 and \$1,370,000, respectively. The non-current portion of the postemployment benefits liability amounted to \$10,161,326 and \$7,547,841 at December 31, 2012 and 2011, respectively.

The number of participants as of January 1, 2012 and 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Active employees	90	86
Retired employees	<u>68</u>	<u>68</u>
Total	<u>158</u>	<u>154</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>2012</u>	<u>2011</u>
<u>Benefit Obligations and Normal Costs</u>		
Actuarial accrued liability (AAL):		
Retired employees and dependents	\$ 27,599,839	27,665,829
Active employees	<u>23,991,901</u>	<u>22,216,781</u>
Total	\$ <u>51,591,740</u>	<u>49,882,610</u>
Underfunded actuarial accrued liability (UAAL)	\$ <u>51,591,740</u>	<u>49,882,610</u>
Normal costs at beginning of year	908,620	873,673
Interest on normal cost	<u>37,859</u>	<u>36,403</u>
	\$ <u>946,479</u>	<u>910,076</u>

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(9) Postemployment Benefits, Continued

	<u>2012</u>	<u>2011</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	\$ 2,841,034	2,740,828
Interest on amortization payment	363,080	257,194
Normal costs with interest to end of year	<u>946,479</u>	<u>910,076</u>
Annual required contribution (ARC)	\$ <u>4,150,593</u>	<u>3,908,098</u>
<u>Annual OPEB Cost Contribution</u>		
Contributions made for years ended December 31, 2012 and 2011	1,403,470	1,355,407
Contributions as a percentage of required contribution	33.8%	34.7%
<u>Annual OPEB Cost and Net OPEB Obligation</u>		
Annual required contribution (OPEB cost)	4,150,593	3,908,098
Contributions made on a pay-as-you-go basis	<u>(1,403,470)</u>	<u>(1,355,407)</u>
Increase in net OPEB obligation	2,747,123	2,552,691
Net OPEB obligation at beginning of year	<u>8,917,841</u>	<u>6,365,150</u>
Net OPEB obligation at end of year	\$ <u>11,664,964</u>	<u>8,917,841</u>
Actuarial methods and assumptions:		
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Discount rate	4%	4%
2012 trend rate (Medical)	9.00%	9.00%
2013 trend rate (Medical)	8.50%	8.50%
Yearly decrease after year 2	0.50%	0.50%
Years until ultimate rate	9 years	10 years
The remaining amortization period at December 31, 2012 and 2011	25 years	26 years

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(10) Pension Plan

Plan Description - The Board participates in the New York State Employees' Retirement System and the Public Employees' Group Life Insurance Plan (collectively, the Retirement Systems). These are cost sharing multiple employer retirement systems. The Retirement Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State (Comptroller) serves as sole trustee and administrative head of the Retirement Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Retirement Systems and for custody and control of their funds. The Retirement Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, New York 12244.

Funding Policy - The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary for the first ten years of membership and employees who join on or after January 1, 2010 who generally contribute 3% of their salary for the entire length of service. For employees joining after April 1, 2012, they are required to contribute between 3% and 6%, depending on their salary, or their entire working career.

Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund. The rates billed by the Comptroller for ERS during the year ended December 31, 2012 ranged from 10.1% to 25.4% and during the year ended December 31, 2011 ranged from 12.7% to 21.5%. The required contributions for the current year and two preceding years were:

<u>Year</u>	<u>Contribution</u>
2012	\$ 961,791
2011	653,821
2010	508,156

The Board's contributions made to the Retirement Systems were equal to 100 percent of the contributions required for each year.

(11) Net Position

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

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(11) Net Position, Continued

Invested in Capital Assets, Net of Related Debt - 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 \$15,784,991 and \$14,963,786 at December 31, 2012 and 2011, respectively. The increasing 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.

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 are \$15,273,924 and \$18,340,664 at December 31, 2012 and 2011, 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. At December 31, 2012, approximately \$12,000,000 of these funds are included in this account.

Restricted for Debt Service:

Board restrictions at December 31, 2012 and 2011 of \$15,909,573 and \$13,236,377, respectively, are for debt service.

Unrestricted Net Position - This category represents net position of the Board not restricted for any project or other purpose.

(12) Labor Relations

The majority of the Board's employees are represented by four bargaining units, 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 is currently in negotiations with the bargaining units regarding new contracts.

NIAGARA FALLS WATER BOARD  
Notes to Financial Statements, Continued

(13) Risk Management and Contingent Liabilities

Risk management and contingent liabilities at December 31, 2012 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. On March 17, 2011, the Board approved a settlement in the amount of \$635,000 for an accident claim incurred in 2010. The Board is responsible for its \$500,000 deductible related to this claim with insurance covering any amounts in excess of this amount. Accordingly, an accrual of \$500,000 was recorded at December 31, 2010. As of December 31, 2012 and 2011, \$125,000 and \$250,000, respectively, remains payable.

There were no other settlements that significantly exceeded insurance coverage for the year ended December 31, 2012.

(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.

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

Fiscal year ended <u>December 31,</u>	<u>Actuarial</u>		Unfunded actuarial accrued <u>liability</u>	Funded ratio	Covered payroll	Unfunded liability as a percentage of covered payroll
	<u>Value of assets</u>	<u>Accrued liability</u>				
2012	\$ -	51,591,740	51,591,740	0%	4,771,624	1,081%
2011	-	49,882,610	49,882,610	0%	4,588,511	1,087%
2010	-	36,401,220	36,401,220	0%	4,690,329	776%

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS,  
INCLUDING COMPLIANCE WITH INVESTMENT GUIDELINES, 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, 2012, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated April 4, 2013.

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 over financial reporting.

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

Our consideration of 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2012-1 that we consider to be a significant deficiency.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

### Niagara Falls Water 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.

Toski & Co., CPAs, P.C.

Williamsville, New York  
April 4, 2013

NIAGARA FALLS WATER BOARD

Schedule of Findings and Responses

Year ended December 31, 2012

(2012-1) Financial Statements

Condition - The financial statements of the Board at December 31, 2012 required significant adjusting journal entries in order to properly report them in accordance with accounting principles generally accepted in the United States of America.

Criteria - Management of the Board is responsible for establishing and maintaining effective internal control over financial reporting and for properly presenting financial statements in accordance with accounting principles generally accepted in the United States of America.

Effect - Several adjusting journal entries, with a gross value of approximately \$7.9 million, were recorded to correct misstatements in the financial statements as of December 31, 2012.

Cause - The misstatements resulted primarily from a deficiency in internal control over financial reporting.

Recommendation - The Board should formalize its accounting procedures and ensure that all accounts are properly reconciled to subsidiary schedules.

Management's Reply - Management is taking more of an active role supervising and reviewing the accounting records of the Board.

NIAGARA FALLS WATER BOARD

Status of Prior Audit Findings

Year ended December 31, 2012

(2011-1) Financial Statements

Condition - The financial statements of the Board at December 31, 2011 required significant adjusting journal entries in order to properly reflect them in accordance with accounting principles generally accepted in the United States of America.

Status - During the year ended December 31, 2012, there was a significant reduction in the gross value of the adjustments required of approximately \$7.9 million down from approximately \$29 million in 2011.

NIAGARA FALLS PUBLIC WATER AUTHORITY RESOLUTION 2019-02

RESOLUTION AUTHORIZING THE ISSUANCE OF THE AUTHORITY'S WATER AND SEWER SYSTEM REVENUE BONDS AND THE APPROVAL AND EXECUTION OF RELATED DOCUMENTS

WHEREAS, Title 10-B of the Public Authorities Law of the State of New York, as amended (the "Act") created the Niagara Falls Public Water Authority (the "Authority") with the authority and power to issue its revenue bonds for the purpose of among other things, planning, developing, acquiring, constructing and financing the cost of any facility (as defined in the Act), including the acquisition of facilities of the City of Niagara Falls ("the City") (the "System") by the Niagara Falls Water Board (the "Board") or for any other corporate purpose, including the establishment of reserves to secure the bonds, the payment of principal of, premium, if any, and interest on the bonds and the payment of incidental expenses in connection therewith; and

WHEREAS, the City has sold, transferred and otherwise conveyed the City's title and interest in the System to the Board; and

WHEREAS, the Board has approved various capital improvements to be undertaken to the System and has requested that the Authority finance same; and

WHEREAS, in connection therewith, it is now desired to authorize the issuance of not exceeding \$13,500,000 of bonds, including any notes issued in anticipation thereof (the "Bonds") plus any amounts necessary to fund reserves and to pay costs of issuance, and to approve and authorize the execution of related documents; NOW, THEREFORE,

BE IT RESOLVED by the Niagara Falls Public Water Authority as follows:

Section 1.

The Authority hereby finds and determines:

- (a) By virtue of the Act, the Authority has been vested with all powers necessary and convenient to carry out and effectuate the purposes and provisions of the Act and to exercise all powers granted to it under the Act.
- (b) It is desirable and in the public interest for the Authority to issue and sell the Bonds pursuant to a certain General Revenue Bond Resolution dated as of May 1, 2003 (the "General Resolution"), adopted by the Authority, and pursuant to a Supplemental Resolution(s) (the "Supplemental Resolution") by and between the Authority and Manufacturers and Traders Trust Company, as trustee (the "Trustee") (the Supplemental Resolution, collectively with the General Resolution, the "Resolution") and to use the proceeds of said Bonds to pay for improvements to the System, any required reserves and costs of issuance.

Section 2.

In consequence of the foregoing, the Authority hereby determines to: (i) issue and sell the Bonds pursuant to the Supplemental Resolution and the General Resolution; (ii) use the proceeds of the Bonds as previously described and as provided in the Supplemental Resolution, (iii) enter into each agreement hereafter identified in this resolution; and (iv) execute such other documents and take such other action as may be necessary to effectuate the purposes of this resolution.

Section 3.

The Authority is hereby authorized to issue, execute, sell and deliver the Bonds in the aggregate principal amount, maturing in such years at such amounts, in serial or term form, at the rate of interest and upon such terms as shall be approved by the Chairman or the vice-Chairman and in substantially the form heretofore approved in this resolution, provided that:

- (a) The Bonds are hereby authorized to be issued, executed and delivered and shall be issued, executed and delivered at such time as the Chairman or the Vice-Chairman of the Authority shall determine.
- (b) The Bonds shall be issued solely for the purposes previously described.
- (c) The Bonds and the interest thereon are not and shall never be a debt of the State of New York or any political subdivision thereof other than the Authority, including without limitation the City of Niagara Falls, and neither the State of New York nor any political subdivision thereof other than the Authority, including without limitation the City of Niagara Falls, shall be liable thereon.

Section 4.

The Authority is hereby authorized to enter into a Project Finance Agreement (the "Finance Agreement") with the New York State Environmental Facilities Corporation ("EFC") and such other agreements and documents relating to the Bonds as required by EFC.

Section 5.

The Bonds shall not be issued, executed or delivered until the prior approval of the State Comptroller shall have been obtained as required by the Act.

Section 6.

- (a) The Chairman or the vice-Chairman of the Authority are hereby authorized, on behalf of the Authority, to execute and deliver the Supplemental Resolution, the Bonds, and the Finance Agreement, all as described above (collectively, the "Financing Documents"), and the Secretary of the Authority is hereby authorized to affix the seal of the Authority to the Supplemental Resolution and the Bonds and to attest the same. The execution thereof by the Chairman or the Vice-Chairman shall constitute conclusive evidence of such approval.
- (b) The Chairman or the vice-Chairman of the Authority are further hereby authorized, on behalf of the Authority, to designate any additional Authorized Representatives of the Authority (as used or defined in and pursuant to the Resolution) to execute, on behalf of the Authority, any Financing Documents.

Section 7.

The members, officers, employees and agents of the Authority are hereby authorized and directed for and in the name and on behalf of the Authority to do all acts and things required or provided for by the provisions of the Financing Documents, and to execute and deliver all such additional certificates, instruments and documents, pay all such fees, charges and expenses and to do all such further acts and things as may be necessary or, in the opinion of the member, officer, employee or agent acting, desirable and proper to effect the purposes of this resolution and to

cause compliance by the Authority with all of the terms, covenants and provisions of the Financing Documents.

Section 8.

This resolution shall take effect immediately and the Bonds are hereby ordered to be issued in accordance with this resolution.

At a regular meeting of the Niagara Falls Public Water Authority, held at the Authority's office, \_\_\_\_\_, Niagara Falls, New York 14302, at \_\_\_\_ o'clock P.M., on the 13th day of June, 2019, the following members of the Authority were:

PRESENT:

ABSENT:

ALSO PRESENT:

After the meeting had been duly called to order, the Chairman announced that among the purposes of the meeting was to consider and take action on certain matters pertaining to the issuance and sale of the Authority's proposed Water and Sewer System Revenue Bonds.

The following resolution was duly moved, seconded, discussed and adopted with the *following members voting in open session*:

AYE

NAY

STATE OF NEW YORK )  
 )  
 ) ss.:  
COUNTY OF NIAGARA )

I, the undersigned Secretary of the Niagara Falls Public Water Authority, DO HEREBY CERTIFY:

That I have compared the annexed extract of the minutes of the meeting of the Niagara Falls Public Water Authority, including the resolution contained therein, held on June 13, 2019, with the original thereof on file in my office, and that the same is a true and correct transcript therefrom and of the whole of said original so far as the same relates to the subject matters therein referred to.

I FURTHER CERTIFY that all members of said Authority had due notice of said meeting.

I FURTHER CERTIFY that, pursuant to Section 103 of the Public Officers Law (Open Meetings Law), said meeting was open to the general public.

I FURTHER CERTIFY that, PRIOR to the time of said meeting, I duly caused a public notice of the time and place of said meeting to be given to the following newspapers and/or other news media as follows:

Newspaper and/or other news media

Date given

I FURTHER CERTIFY that PRIOR to the time of said meeting, I duly caused public notice of the time and place of said meeting to be conspicuously posted in the following designated public location on the following dates:

Designated Location of Posted NoticeDate of posting

None

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said Authority on  
June \_\_\_\_\_, 2019.

(CORPORATE SEAL)

Sean W. Costello, Secretary

# NFPWA Resolution 2019-02 Supporting Documents

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3	Letter from DASNY Regarding Grant Award .....	13
4	NFWB Resolution 2019-05-010 - Adopting 5 Year Capital Plan 2019-2023 .....	20
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DECEMBER 5, 2018 Albany, NY

## **Governor Cuomo Announces \$27 Million Investment to Upgrade Niagara Falls Wastewater Treatment Plant**

State Directs Niagara Falls Water Board to Immediately Undertake Projects as Required by Department of Environmental Conservation

Plant Upgrades Will Protect Iconic Niagara Falls and River

Governor Andrew M. Cuomo today announced \$27 million in investments to upgrade the Niagara Falls Wastewater Treatment Plant. The State will invest \$13.5 million, which will be matched by the Niagara Falls Water Board, in immediate projects to address water quality impairments caused by the aging wastewater treatment plant. Introduced as one of Governor Cuomo's 2018 State of the State priorities, the State is directing the Niagara Falls Water Board to immediately undertake the projects as required by the binding terms of a consent order with the Department of Environmental Conservation.

"Protecting water quality and our natural resources is essential to the health of our residents and the future growth of our communities," **Governor Cuomo said.** "These investments will help the Niagara Falls Water Board modernize its aging water infrastructure and prevent future pollution of one of our state's most treasured waterways."

"This investment by the State and the Niagara Falls Water Board will provide funding for critical projects to improve the wastewater treatment plant and protect our water," **said Lieutenant Governor Kathy Hochul.** "The upgrades to the aging plant will help keep Niagara Falls and the Niagara River clean and safe, ensuring the health of residents and continuing to grow the economy of the area."

Department of Environmental Conservation engineering experts that continue to oversee the Niagara Falls Water Board are reviewing additional longer-term options to fully upgrade the wastewater treatment plant. The improvement projects funded by this investment are consistent with the longer-term infrastructure improvements that are currently in development and under consideration.

The projects to upgrade the Niagara Falls Wastewater Treatment Plant include:

- improving primary treatment systems and equipment;
- making improvements to the sedimentation basin and related equipment;
- rehabilitating the Gorge Pumping Station;
- replacing screens and equipment to remove grit;
- upgrading the dewatering system;
- replacing the granular activated carbon system and filter support equipment;
- completing critical repairs and improvements to the electrical, lighting, and heating and ventilation systems;
- optimizing disinfectant dosage; and

- replacing blower equipment and piping.

**DEC Commissioner Basil Seggos said,** "Niagara Falls is a national and natural treasure and thanks to the Governor's leadership, today's investment to upgrade the Niagara Falls Wastewater Treatment plant is a major step forward to protect this irreplaceable resource. DEC will continue to oversee the Niagara Falls Water Board's efforts to advance these projects as directed and improve the quality and reliability of its wastewater treatment plant and collection system, as we work across the state to ensure municipalities have the resources to improve aging water infrastructure through the historic \$2.5 billion Clean Water Infrastructure Act and \$300 million annual Environmental Protection Fund."

At Governor Cuomo's direction, the DEC has taken aggressive action in response to the Niagara Falls Wastewater Treatment Plant's discharge of black water into the Niagara River that occurred in July 2017. The discharge was caused by the wastewater treatment plant's excessive accumulation of solids/sludge, failure to follow proper maintenance procedures, and a lack of operator training.

Since the incident, the DEC has provided rigorous oversight of the Niagara Falls Water Board (NFWB) as they implemented a number of immediate measures, directed by the state, to improve operations and maintenance at the treatment plant, resulting in a substantial reduction in the discharge of pollution. These measures included repairs to sludge processing equipment, retention of an outside contractor to process sludge, improved sludge handling procedures, additional staff, and improved staff training. Following the implementation of these actions, there have been no discharges of dark-colored effluent since October 2017.

The December 2017 consent order executed with the NFWB required numerous engineering evaluations and reports to improve plant operations. Among other actions, the consent order required the NFWB to retain an engineering firm to evaluate the conversion of the existing carbon treatment plant to a more effective biological treatment system. That evaluation is ongoing.

A list of the \$27 million in projects required to be implemented following an amended consent order approved by the NFWB can be viewed [here](#).

**Senator Robert G. Ort** said, "Niagara Falls is a natural wonder of the world. Its ecosystem must be preserved in order to protect the tourism economy as well as the city's residents. The events of the July 2017 black water discharge demonstrated the importance in critical infrastructure. This \$27 million investment will not only help improve the environment and quality of life, it will also ensure tourists attracted to the beauty of the Falls have the best experience possible."

**Assemblymember Angelo J. Morinello** said, "Thank you Governor Cuomo for your assistance to upgrade an aging waste water treatment plant. Thank you also to the Niagara Falls Water Board for your 100 percent compliance with the Consent Order. Working together with the DEC and the Governor serves to benefit the community."

**City of Niagara Falls Mayor Paul Dyster** said, "This is yet another welcome investment by Governor Cuomo who continues to take an aggressive stance on addressing the critical need for the modernization of our aging water infrastructure. The improvement projects announced today will help to ensure

cleaner, more efficient operations at our waste water treatment plant for many years to come."

## Contact the Governor's Press Office



**Contact us  
by phone:**

Albany: (518) 474 - 8418

New York City: (212) 681 - 4640



**Contact us  
by email:**

[Press.Office@exec.ny.gov](mailto:Press.Office@exec.ny.gov)

**NEW YORK STATE DEPARTMENT OF ENVIRONMENTAL CONSERVATION**

**Niagara Falls Water Board**

**SCHEDULE A  
Order on Consent R9-20170906-129  
REVISED SEPTEMBER 17, 2018**

Respondent shall, on or before the dates indicated:

<b>Item</b>	<b>Date</b>
1. Update Operation and Maintenance (O&M) and training procedures and staffing plans as necessary and submit revisions to the Department for review and approval. O&M and staffing plans must address preventative maintenance as well as corrective maintenance. If any current O&M/training practices are not routinely performed in accordance with the latest Department approved version and schedule set forth in the O&M manual or training and staffing plans, Respondent must provide a summary of the practice(s), rationale for any proposed modification, and incorporate the changes into the updated O&M manual and/or training and staffing plans for Department review and approval. Respondent shall begin implementing the updated O&M manual, training and staffing plans, and any approved schedules, within 30 days of receiving approval from the Department.	March 19, 2019
2. Operate all treatment processes in accordance with the latest Department approved O&M manual and training plan for the facility (including approved revisions). Discharges of effluent from Sediment Basin 5, only when Sediment Basin 5 is on-line, shall be permitted to the Chlorine Contact Tank without prior approval from the Department. Processes and equipment that have been properly decommissioned are exempt from this requirement.	Immediate
3. The current O&M manual procedures for sedimentation tank dewatering are specified in Section 3.4.7 and state that grit pumps and sludge pumps are to be used for basin dewatering. Sedimentation tank dewatering must be performed using either the current O&M manual or Department approved modifications to the O&M manual.	Immediate
4. Submit an approvable work plan and schedule which will remove excess solids from the treatment plant within 30 days. Respondent shall implement the approved work plan consistent with the approved schedule of compliance. The work plan and proposed schedule must address the following:	Completed

- a. Ensure that all three sludge belt press systems are available for operation at all time (except for normal maintenance). Each belt press system includes a belt press and all supporting equipment including a thickened sludge pump and a polymer pump. All process piping and valving shall allow all three belts presses to operate simultaneously.
  - b. Upon elimination of the excess sludge inventory in the thickener tanks, plant sludge inventory shall be maintained at sufficiently low levels to enable all treatment processes to function as intended.
  - c. Identify and either repair or replace all sludge dewatering equipment which is currently not functioning appropriately.
  - d. Evaluate and provide a summary of recommendations to improve the reliability of the thickened sludge pumping system including replacing plastic piping with ductile iron piping.
5. Improve the reliability of all Sedimentation Basin traveling bridge and chain & flight equipment. Specific actions should include:
- a. Revise the O&M manual, training plan, and standard operating procedures so that preventative maintenance and corrective actions will be undertaken in the sludge collection equipment as soon as practicable. Depending on the nature of the failure, this may require taking the basin off-line and dewatering for repairs. March 19, 2019
  - b. Evaluate and summarize appropriate recommendations and maintenance schedules for the operation of sludge collector equipment in order to prevent significant damage in the event of failure. Such items may include, but are not limited to, the installation of torque sensors and/or automatic shut-offs. Completed
  - c. As improper sludge removal contributes to septic conditions and causes the sedimentation basins to be more susceptible to wash-out, the basins should not routinely remain in service if they are not properly removing sludge. However, in certain instances, such as emergency situations, basins in such a condition may be returned to service upon Department approval. Immediate

- |   |   |
|---|---|
| <p>d. Submit a report which identifies the causes of the recurring failures of this equipment, and provides specific recommendations and schedules for improvements including the conversion from travelling bridge collectors to chain and flight collectors. Upon approval, implement the recommendations in accordance with the approved schedules.</p>  | <p>Sept 19, 2018</p>  |
| <p>6. Submit a work plan to evaluate alternatives to the use of ferric chloride as a flocculant for removing phosphorus with the goal of reducing iron sulfide contributions to effluent color. The plan shall include bench scale and pilot scale testing of alternative flocculants.</p>  | <p>Sept. 19, 2018</p>                                       |
| <p>7. Submit a work plan for an evaluation of how to best manage the effluent from Sedimentation Basin 5. This evaluation should consider whether treatment of the backwash can be improved through chemical addition or other methods. The work plan must identify additional data needs and include a schedule of completion. Respondent shall implement the approved work plan consistent with the approved schedule of compliance.</p>  | <p>Sept. 19, 2018</p>                                       |
| <p>8. While continuing to follow the current Wet Weather Operating Plan (WWOP), evaluate and identify any potential changes to the WWOP – at the plant and in the collection system - which would reduce or eliminate plant bypasses due to excessive wet weather influent flows, and submit proposed changes for Department approval. Respondent shall begin implementing the updated WWOP within 30 days of receiving approval from the Department.</p>   | <p>Sept. 19, 2018</p>                                       |
| <p>9. Evaluate and summarize recommendations to improve the plant's disinfection processes, including, but not limited to those alternatives previously identified in the October 2015 WWTP Effluent Turbidity Engineering Report. Respondent shall begin implementing a disinfection process within 30 days of receiving approval from the Department.</p>   | <p>Sept. 19, 2018</p>                                       |
| <p>10. Evaluate and provide a work plan and approvable schedule to conduct a pilot study to add oxidizer to carbon filter influent and backwash water to determine if sulfide generation in the carbon filters can be reduced or prevented. As part of the study, review the plant's previous use of sodium nitrate as an oxidizer. The study shall also evaluate the effect of the oxidizer on effluent disinfection and determine the most effective feed point for the oxidizer. Respondent shall begin implementing the pilot study within 30 days of receiving approval from the Department.</p> | <p>Submitted June 19, 2018; Revision due Sept. 19, 2018</p> |

- |  |   |
|--|---|
| <p>11. Submit a comprehensive planning level engineering report which evaluates the conversion or modification of the existing plant into an aerobic biological treatment process. The report should incorporate and utilize appropriate elements of the October 2015 WWTP Effluent Turbidity Engineering Report. The report must:</p> <p>A. Include a detailed alternatives evaluation (including appropriate pilot testing), identification of the recommended process technology, optimizing the collection system and treatment plant to capture and treat combined sewer overflows, the new or modified facilities that would be required, and an updated cost estimate; and</p> <p>B. identify any necessary upgrades and modifications needed to capture between 95% and 97% of CSOs.</p> | <p>March 19, 2019</p>   |
| <p>12. Submit a detailed description of the means and methods used to record: a) the activation and volumes of CSO discharges from the Falls Street Tunnel and the Gorge Pump Station; and b) activations and volumes of SSO discharges from the LaSalle area.</p>   | <p>Completed</p>  |
| <p>13. Submit a detailed summary of the procedures followed, and the specific personnel responsible for notifications to the NYAlert system for reporting of CSO and SSO discharges.</p>   | <p>Completed</p>  |
| <p>14. Submit an evaluation of re-locating Outfalls 001 and 003. This evaluation should consider the effect on the water quality of the receiving water if Outfalls 001 and 003 were to be re-located. The evaluation must identify all suitable locations, costs, and applicable schedules of compliance.</p>   | <p>Sept. 19, 2018</p>   |
| <p>15. Submit Quarterly progress reports summarizing all actions completed.</p>  | <p>Every 3 months; ending when the last deliverable is submitted pursuant to Schedule A</p> |
| <p>16. Respondent shall not conduct any further dewatering of Sedimentation Basin 5 without the prior written approval and without direct supervision of the Department. In addition, all facility operations conducted by the Respondent shall be under the direct supervision and oversight of the Department as set forth in this Consent Order.</p>  | <p>On-going</p>   |

17. Respondent shall immediately update its day to day training and operating plans, including hiring new operators and providing clear verbal instructions to staff.

Completed

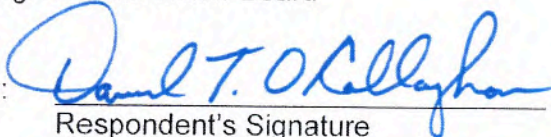
18. Submit a workplan and schedule for the design and construction of the recommendations in the attached Table 4.1 from the July 24, 2018 Engineering Report – Wastewater Treatment Plant and Gorge Pump Station Rehabilitation, attached hereto as Appendix A.

June 19,  
2019

Niagara Falls Water Board

NYS Department of Environmental  
Conservation

By:



Respondent's Signature

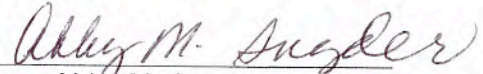
DANIEL T. O'Callaghan

Respondent's Name

CHAIRMAN

Respondent's title

By:



Abby M. Snyder  
Regional Director

Dated:

11/20/2018



## 4. Recommended Alternative

The recommended alternatives that were evaluated, compared, selected, and estimated under Section 2.0 are summarized in Table 4.1. The recommended alternatives were bundled into nine project groups based on relative priority. Recommended alternatives are sorted according to project group number.

**Table 4.1 Summary of Recommendations**

Project Group	Alternative	Description	Cost
1	2B	Primary Scum Removal and Treatment Improvements – Restore Scum Pumping and Install Fine Screen	\$1,020,000
	4C	Sedimentation Basin Improvements – Replacement of Traveling Bridges with Chain and Flight Equipment	\$8,680,000
	10C	Sedimentation Basin Isolation Plate Replacement – Replacement of Both Isolation Plate Guides	\$140,000
2	19C	Sedimentation Basin No. 5 Effluent Management Improvements – Submersible Pumping System Upgrades	\$550,000
	7C	Gorge Pumping Station Rehabilitation – Comprehensive Gorge Pumping Station Rehabilitation	\$4,110,000
3	3B	Screenings and Grit Transport Equipment Improvements – Replacement in Kind	\$560,000
	5C	Polymer Equipment Upgrades – Replacement and Upgrade of Polymer Equipment	\$820,000
	14C	Dewatering Equipment Control Upgrades – Comprehensive Dewatering System Control Upgrades	\$740,000
4	8B	Granular Activated Carbon Replacement – Replacement with Recycled Reactivated Carbon	\$1,500,000
	9B	Carbon Filter Support Gravel Replacement – Replacement of Support Gravel	\$500,000
5	1B	Electrical System Improvements – Complete Critical Repairs	\$2,360,000
	17B	Lighting Improvements – Needs Assessment and Lighting Improvements	\$250,000
	6B	Disinfectant Dosage and Location Optimization – Optimize Sodium Hypochlorite Dosage and Location	\$650,000
6	11B	Chemical Coagulant Optimization – Alternate Coagulant	\$1,500,000
	12B	Minimization of Sulfide Formation – Oxidant Addition	\$1,500,000
7	13B	Heating and Ventilation Improvements – Replacement of Critical Heating and Ventilation Equipment	\$1,160,000
8	15B	Backwash Blower Equipment Improvements – Replacement of Blower Equipment	\$300,000
9	16C	Thickened Sludge Building Waterline Replacement – Replacement of Plant Waterline and Process Waterline	\$140,000
	18B	Interior Process Piping Replacement – Needs Assessment and Piping Improvements	\$500,000
<b>Total Project Cost (Rounded)</b>			<b>\$27,000,000</b>



**DASNY**

**ANDREW M. CUOMO**  
Governor

**ALFONSO L. CARNEY, JR.**  
Chair

**GERRARD P. BUSHELL, Ph.D.**  
President & CEO

November 5, 2018

**VIA REGULAR MAIL**

Mr. Rolfe Porter  
Executive Director  
Niagara Falls Water Board  
5815 Buffalo Avenue  
Niagara Falls, NY 14304

Re: *State and Municipal Facilities Program ("SAM")  
Phase I - Upgrade and Improve the Niagara Falls  
Waste Water Treatment Plant  
Project ID: #15688*

Dear Mr. Porter:

As you know, the State has awarded the Niagara Falls Water Board ("Grantee") a State and Municipal Facilities Program ("SAM") grant for the above-referenced project in the amount of \$13,500,000 (the "Grant").

DASNY will be undertaking a number of reviews as outlined in the attached Frequently Asked Questions (FAQs). ***Please read the FAQs. They provide information you will need throughout the grant administration process.***

This letter explains the documentation you will need to complete and return to DASNY. ***Please return the completed documentation described below within thirty days or send an email to [grants@dasny.org](mailto:grants@dasny.org) to let us know when you anticipate being able to return the information.***

To initiate the review process, enclosed you will find the "**Project Information Sheet**" for your SAM Grant. Please complete the four (4) sections in the attached Project Information Sheet, sign and date the Project Information Sheet certifying that the information you provided to DASNY is true and correct. Even if some of the information has been submitted to other parties previously, the enclosed Project Information Sheet and attachments must be provided to DASNY.

**CORPORATE HEADQUARTERS**  
515 Broadway  
Albany, NY 12207-2964

T 518-257-3000  
F 518-257-3100

**NEW YORK CITY OFFICE**  
One Penn Plaza, 52nd Floor  
New York, NY 10119-0098

T 212-273-5000  
F 212-273-5121

**BUFFALO OFFICE**  
539 Franklin Street  
Buffalo, NY 14202-1109

T 716-884-9780  
F 716-884-9787

**DORMITORY AUTHORITY STATE OF NEW YORK**

**WE FINANCE, BUILD AND  
DELIVER.**

In addition, as part of the legal review of your Grant, DASNY will need you to complete and return the following documents. The documents and their purposes are summarized below.

**Note:** An Authorized Officer is someone who can bind the Grantee to a contract. Please contact the Grantee's attorney if there are any questions as to who can sign on behalf of the Grantee. By signing these documents, the person signing is certifying that they are authorized to bind the Grantee to the terms of the documents.

### Grantee Certification

- Certain laws prohibit the use of public funds to finance religious programs or programs that may favor one religion over another. As the issuer of the bonds that will finance the project to be funded with Grant funds, DASNY must verify that it is in compliance with all applicable Federal and State laws and regulations.

Accordingly, please review the attached Grantee Certification (at the end of this letter) to ensure it accurately states the purposes for which the Grant funds will be used. Please arrange for two Authorized Officers of your organization to sign the Grantee Certification.

### Project Certification

- As the issuer of the bonds that will finance the project to be funded with Grant funds, DASNY must verify that it is in compliance with all applicable Federal and State laws and regulations. This includes verifying that Grant funds will not be used for a project that was previously funded with Grant proceeds, administered by DASNY, for substantially the same project at the same location as described in a Preliminary Application or Project Information Sheet DASNY processed within the last six (6) years.

Accordingly, please review the attached Project Certification (at the end of this letter) and arrange for an Authorized Officer of your organization to sign the Project Certification.

### W-9 Form

- This form is utilized to set up the Grantee as a vendor in the DASNY's financial system. The Grantee's Federal Employer Identification Number (FEIN) or Taxpay Identification Number (TIN) is required to make payment. Please be sure that the FEIN number and Legal Organization name (as well as any d/b/a) is accurately reflected on the W-9. The Legal Organization name and FEIN should match the Legal Organization name and FEIN that the Internal Revenue Service has on file for the Grantee which should also correspond with the Grantee's Incorporation Papers.

**Grantee Questionnaire (GQ)**

- As the trustee of public funds, DASNY needs to be certain that bond proceeds are paid only to organizations that are deemed to be responsible entities. Full and accurate responses on the GQ will help to achieve this goal. The GQ must be completed, signed by an Authorized Officer of the Grantee, Chair of the Board (or other Authorized Officer) and each signature must be notarized by a New York State Notary Public before DASNY can process the grant. Please be advised that the GQ will be incorporated into the Grant Disbursement Agreement (the contract between DASNY and the Grantee) and that the submission of false information on the GQ could be a violation of Federal and State Penal Laws.

**Evidence of Site Control**

- Site control is required to evidence that the Grantee has sufficient authorization and control to undertake the project at the project location. In order to verify the Grantee owns, leases, or otherwise has control over the site where the project will be located, please provide a copy of the deed, lease, or other document evidencing site control by the Grantee. In the case of a vehicle purchase, title and registration will be needed at the time that requisitions for Grant funds are submitted. DASNY will also need to know the location for where the vehicle will be kept

**Financial Documentation**

- Please send a copy of quotes, proposals, cost estimates or any other document that will justify the overall project value. As part of DASNY's financial review of the project, we must receive an estimate setting forth the projects costs necessary to complete the project. If the cost estimate is higher than the value of the grant, DASNY will need to see evidence of the other source(s) of funding for the project. Please see the attached checklist as a reference for what is needed for the financial review.

In addition to the above, an Environmental Manager from DASNY's Office of Environmental Affairs (OEA) will be contacting you regarding the environmental review required pursuant to the State Environmental Quality Review Act (SEQRA). If another agency, such as a municipality, has previously undertaken an environmental review for this project, you will be asked to set forth the lead agency for the review and provide a copy of its SEQR determination. If DASNY is the lead agency for the review, or the project to be funded with the grant is a Type II project, OEA will work with you to complete the required documentation.

For your convenience, we have enclosed a form cover letter for you to use when you return the completed documents to DASNY. Emailing your documents to Grants Administration staff will not expedite the process, so please send the package as directed to the address noted in the template



cover letter. **Incomplete documents will delay the processing of your Grant application.** You will be contacted during the review process if additional information is needed.

In the meantime, please review the enclosed list of **Frequently Asked Questions**. This list was designed to answer many of the questions that you may have about the Grant process. **Please keep this document to use as a reference during the administration of the Grant.**

Should you have any questions concerning the enclosed documentation, please email [grants@dasny.org](mailto:grants@dasny.org) and someone from Grants Administration will contact you.

Sincerely,

A handwritten signature in blue ink, appearing to read "Sarah D. Antonacci".

Sarah D. Antonacci  
Assistant Director, Grants Administration

Enc.

cc (w/out enc.): Adrian Swierczewski, NYS Division of the Budget  
Darby Putnam, NYS Division of the Budget  
Sara Richards, Esq., DASNY

PLEASE PRINT ON ORGANIZATIONAL ("GRANTEE") LETTERHEAD

Grants Administration  
DASNY  
515 Broadway  
Albany, NY 12207

**SUBJECT:** *State and Municipal Facilities Program ("SAM")  
Phase I - Upgrade and Improve the Niagara Falls  
Waste Water Treatment Plant  
Project ID: #15688*

Dear Grants Administration:

Enclosed please find the following documents in connection with the SAM Grant awarded to our organization:

1. Completed Project Information Sheet signed by an authorized officer;
2. Completed Grantee Certification signed by two (2) authorized officers;
3. Completed Project Certification signed by an authorized officer;
4. Completed and signed W-9 with correct Legal Organization name and Tax ID Number filled in;
5. Completed Grantee Questionnaire signed by two (2) authorized officers and notarized;
6. Evidence of Site Control;
7. Financial documentation; and
8. SEQRA documentation

If any further information is needed or if you have any questions, please give [Grantee Contact Person] a call at ( ) .

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Title

Enclosures

## GRANTEE CERTIFICATION

### Niagara Falls Water Board

Phase I - Upgrade and Improve the Niagara Falls

Waste Water Treatment Plant

Project ID: #15688

WE HEREBY WARRANT, REPRESENT AND CERTIFY TO DASNY that:

- The Niagara Falls Water Board has applied for a State and Municipal Facilities Program ("SAM") Grant in the amount of \$13,500,000. This Grant will be used for phase I - upgrade and improve the Niagara Falls Waste Water Treatment Plant. We understand that the Grant funds may be used only for certain community improvement purposes as set forth in the enabling legislation and that the Grant Disbursement Agreement to be executed in connection with this Grant contains a provision that states that Grant funds may not be used to finance a program or project that will in any way promote or facilitate religious worship, instruction or proselytizing. We have been informed that this provision exists to ensure compliance with Federal and State law. Therefore, as Authorized Officers of the Niagara Falls Water Board, we hereby certify the following in connection with the project to be financed by the Grant:
  - no religious purpose shall be advanced or promoted by the project or program funded by the Grant;
  - the project or program will provide no religious instruction or counseling, conduct no religious worship or services, engage in no religious proselytizing, and exert no other religious influence in the provision of services or the use of facilities or furnishings assisted in any way by public funds;
  - the project or program shall be open to all without regard to religion; and
  - the Grantee shall take affirmative steps to ensure that information is widely disseminated with respect to the following aspects of the project or program:
    - the project or program is publicly funded;
    - the project or program is open to all, regardless of religious affiliation; and
    - the project or program beneficiaries are not limited to any particular sect or group.
- We understand that the State of New York, DASNY and other entities that may be involved in the Grant process are relying on the above information in making the determination whether to award a SAM Grant to the Niagara Falls Water Board.
- We have the authority to submit this certification on behalf of the Niagara Falls Water Board.
- By signing these documents, I certify that I am an authorized officer for the Grantee.

\_\_\_\_\_  
Authorized Officer Signature

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Date

\_\_\_\_\_  
Title

\_\_\_\_\_  
Authorized Officer Signature

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Date

\_\_\_\_\_  
Title

**PROJECT CERTIFICATE OF THE  
Niagara Falls Water Board  
State and Municipal Facilities Program (the "SAM")  
For the Phase I - Upgrade and Improve the Niagara Falls  
Waste Water Treatment Plant  
(Project ID: 15688)**

I, the undersigned, an Authorized Officer of Niagara Falls Water Board (the "Grantee"), DO  
HEREBY CERTIFY that:

- All contractors and vendors retained to perform services in connection with the Project shall be authorized to do business in the State of New York and shall possess and maintain all professional licenses and/or certifications required to perform the tasks undertaken in connection with the Project.
- To the extent that SAM Grant proceeds are used to reimburse the Grantee for the cost of any portion of the Project noted above, the Grantee certifies that no other external funding source, including but not limited to, State or Federal restructuring loans, State or Federal grants, or grants, loans, or other funding from any other public or private source (currently or within the last six (6) years), will be used for substantially the same project costs at the same location as described in the Application or Project Information Sheet provided to DASNY.
- If the Project includes removable equipment or furnishings including but not limited to, computer hardware and software, air conditioning units, lab equipment, office furniture and telephone systems, the Grantee will develop, implement and maintain an inventory system for tracking such removable equipment and furnishings.
- The Grantee acknowledges that Grant proceeds cannot be utilized to pay for:
  - Deposits advance payments, or progress payments until work is completed, or goods received by grantee;
  - to pay down long term debt;
  - internal labor costs;
  - rental or leased equipment;
  - stockpiled materials;
  - materials and/or services provided by another entity other than a licensed contractor or vendor.
- The Grantee will maintain accurate books and records through project completion/payout of the Grant as well as for six (6) years from the date the Project is completed and will make those books and records available to DASNY, its agents, officers and employees during the Grantee's business hours upon reasonable request.

IN WITNESS WHEREOF, I have hereunto set my hand this \_\_\_\_\_ day of  
\_\_\_\_\_, 20\_\_\_\_\_.

By signing these documents, I certify that I am an authorized officer for the Grantee.

Niagara Falls Water Board

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title \_\_\_\_\_

NIAGARA FALLS WATER BOARD RESOLUTION # 2019-05-010

ADOPTING FIVE YEAR CAPITAL PLAN

**WHEREAS**, the Niagara Falls Water Board ("Water Board") is committed to maintaining and improving its drinking water and wastewater systems through fiscally prudent, well planned, and strategic investments in its capital infrastructure; and

**WHEREAS**, the Water Board has developed a five-year plan to implement projects necessary to continue to meet the water and wastewater needs of the City of Niagara Falls; and

**WHEREAS**, the Water Board desires to adopt a formal five-year capital plan to provide Water Board staff and the public with guidance on its future plans and the anticipated source of the funds for those capital improvements; and

**WHEREAS**, adoption of a five-year capital plan will assist the Water Board in setting appropriate rates, fees, and charges;

**NOW THEREFORE BE IT**

**RESOLVED**, that the Water Board hereby adopts the five-year capital plan that is attached to this resolution.

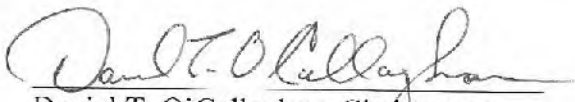
*Water Board Personnel Responsible for Implementation of this Resolution:*  
Executive Director

*Water Board Budget Line or Capital Plan Item with Funds for this Resolution:*  
Not applicable.

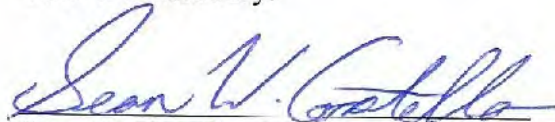
On May 20, 2019, the question of the adoption of the foregoing Resolution was duly put to a vote on roll call, which resulted as follows:

	Yes	No	Abstain	Absent
Board Member Forster	[ ]	[ ]	[ ]	[ X ]
Board Member Kimble	[ X ]	[ ]	[ ]	[ ]
Board Member Larkin <i>1st</i>	[ X ]	[ ]	[ ]	[ ]
Board Member Leffler <i>2nd</i>	[ X ]	[ ]	[ ]	[ ]
Chairman O'Callaghan	[ X ]	[ ]	[ ]	[ ]

Signed By:

  
Daniel T. O'Callaghan, Chairperson

Vote Witnessed By:

  
Sean W. Costello, Secretary to Board

ITEM NO.	PROJECT NAME	PROJECT DESCRIPTION	PROJECT JUSTIFICATION	ENGINEER	CONTRACTOR	STATUS	RATING	JUSTIFICATION	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2439	2440	2441	2442	2443	2444	2445	2446	2447	2448	2449	2450	2451	2452	2453	2454	2455	2456	2457	2458	2459	2460	2461	2462	2463	2464	2465	2466	2467	2468	2469	2470	2471	2472	2473	2474	2475	2476	2477	2478	2479	2480	2481	2482	2483	2484	2485	2486	2487	2488	2489	2490	2491	2492	2493	2494	2495	2496	2497	2498	2499	2500	2501	2502	2503	2504	2505	2506	2507	2508	2509	2510	2511	2512	2513	2514	2515	2516	2517	2518	2519	2520	2521	2522	2523	2524	2525	2526	2527	2528	2529	2530	2531	2532	2533	2534	2535	2536	2537	2538	2539	2540	2541	2542	2543	2544	2545	2546	2547	2548	2549	2550	2551	2552	2553	2554	2555	2556	2557	2558	2559	2560	2561	2562	2563	2564	2565	2566	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580	2581	2582	2583	2584	2585	2586	2587	2588	2589	2590	2591	2592	2593	2594	2595	2596	2597	2598	2599	2600	2601	2602	2603	2604	2605	2606	2607	2608	2609	2610	2611	2612	2613	2614	2615	2616	2617	2618	2619	2620	2621	2622	2623	2624	2625	2626	2627	2628	2629	2630	2631	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646	2647	2648	2649	2650	2651	2652	2653	2654	2655	2656	2657	2658	2659	2660	2661	2662	2663	2664	2665	2666	2667	2668	2669	2670	2671	2672	2673	2674	2675	2676	2677	2678	2679	2680	2681	2682	2683	2684	2685	2686	2687	2688	2689	2690	2691	2692	2693	2694	2695	2696	2697	2698	2699	2700	2701	2702	2703	2704	2705	2706	2707	2708	2709	2710	2711	2712	2713	2714	2715	2716	2717	2718	2719	2720	2721	2722	2723	2724	2725	2726	2727	2728	2729	2730	2731	2732	2733	2734	2735	2736	2737	2738	2739	2740	2741	2742	2743	2744	2745	2746	2747	2748	2749	2750	2751	2752	2753	2754	2755	2756	2757	2758	2759	2760	2761	2762	2763	2764	2765	2766	2767	2768	2769	2770	2771	2772	2773	2774	2775	2776	2777	2778	2779	2780	2781	2782	2783	2784	2785	2786	2787	2788	2789	2790	2791	2792	2793	2794	2795	2796	2797	2798	2799	2800	2801	2802	2803	2804	2805	2806	2807	2808	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827	2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846	2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865	2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903	2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922	2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	2938	2939	2940	2941	2942	2943	2944	2945	2946	2947	2948	2949	2950	2951	2952	2953	2954	2955	2956	2957	2958	2959	2960	2961	2962	2963	2964	2965	2966	2967	2968	2969	2970	2971	2972	2973	2974	2975	2976	2977	2978	2979	2980	2981	2982	2983	2984	2985	2986	2987	2988	2989	2990	2991	2992	2993	2994	2995	2996	2997	2998	2999	3000	3001	3002	3003	3004	3005	300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ITEM	NO.	PROJECT NAME	PROJECT DESCRIPTION	PROJECT JUSTIFICATION	PROJECT MANAGER	ENGINEER	CONTRACTOR	STATUS	PROJECT RATING		FORECASTED EXPENDITURES					
									RATING	JUSTIFICATION	2019	2020	2021	2022	2023	Deferred
COMBINED PROJECTS (WATER AND WASTEWATER) - C																
C	1	IT Plan Implementation	Develop & implement IT solution	Efficiencies and cost savings	NFWB	NFWB	TBD	Ongoing - yearly	MEDIUM	AS NEEDED	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000
C	2	Meter Replacement & Upgrades	Replace inaccurate & old meters	To insure meter accuracy and automated reading	NFWB	NFWB	NFWB	Ongoing - yearly	MEDIUM	AS NEEDED	\$130,000	\$70,000	\$70,000	\$70,000	\$70,000	\$70,000
C	3	Fleet Replacement	Replenish fleet	Replace aging and unsafe vehicle stock	NFWB	-----	TBD	Ongoing - yearly	MEDIUM	AS NEEDED	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000
C	4	Water/sewer GIS/GPS Mapping	Document system assets	Better asset management with CMMS	NFWB	NFWB	-----	Ongoing - yearly	MEDIUM	AS NEEDED	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000
C	5	Combined Projects - Miscellaneous	Projects not forecasted or based on an emergency	Necessary for continued operation	NFWB	NFWB	TBD	As needed	HIGH	AS NEEDED	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
SUBTOTALS (Annual Coverage Transfer Only)											\$345,000	\$285,000	\$285,000	\$285,000	\$285,000	\$285,000
WASTEWATER TREATMENT PLANT INFRASTRUCTURE PROJECTS - WWTP																
WWTP	1	WWTP Rehab Phase 4A - Sed. Basins & Scum	Project no.1 of the NYSDEC Order on Consent	NYSDEC Order on Consent R9-20170906-129, Schedule A, Item 18 Work	CPL	AECOM	TBD	Engineering ongoing	HIGH	CONSENT ORDER - ON GOING, GRANT FUNDING IN PLACE	\$550,000 \$1,100,000	\$1,500,000 \$3,000,000	\$1,500,000 \$3,000,000	\$1,650,000 \$3,300,000		\$0
WWTP	2	WWTP Rehab Phase 4B - GPS Rehabilitation	Project no.2 of the NYSDEC Order on Consent	NYSDEC Order on Consent R9-20170906-129, Schedule A, Item 18 Work	CPL	GHD	TBD	Engineering ongoing	HIGH	CONSENT ORDER - ON GOING, GRANT FUNDING IN PLACE	\$550,000 \$1,000,000	\$1,500,000 \$3,000,000	\$1,500,000 \$3,000,000	\$1,650,000		\$0
WWTP	3	WWTP Rehab Phase 4C - Polymer & Dewatering Controls	Project no.3 of the NYSDEC Order on Consent	NYSDEC Order on Consent R9-20170906-129, Schedule A, Item 18 Work	CPL	Arcadis	TBD	Engineering ongoing	HIGH	CONSENT ORDER - ON GOING, GRANT FUNDING IN PLACE	\$500,000 \$1,800,000	\$1,500,000				\$0
WWTP	4	WWTP Rehab Phase 4D - Carbon & Support Gravel	Project no.4 of the NYSDEC Order on Consent	NYSDEC Order on Consent R9-20170906-129, Schedule A, Item 18 Work	CPL	AECOM	TBD	Engineering ongoing	HIGH	CONSENT ORDER - ON GOING, GRANT FUNDING IN PLACE	\$900,000 \$1,000,000	\$2,000,000				\$0
WWTP	5	WWTP Rehab Phase 4E - Electrical Improvements	Project no.5 of the NYSDEC Order on Consent	NYSDEC Order on Consent R9-20170906-129, Schedule A, Item 18 Work	CPL	EI Team	TBD	Engineering ongoing	HIGH	CONSENT ORDER - ON GOING, GRANT FUNDING IN PLACE	\$312,500 \$625,000	\$312,500 \$625,000				\$0
WWTP	6	WWTP Rehab Phase 4F - Chemical Improvements	Project no.6 of the NYSDEC Order on Consent	NYSDEC Order on Consent R9-20170906-129, Schedule A, Item 18 Work	CPL	AECOM	TBD	On hold	HIGH	CONSENT ORDER - ON GOING, GRANT FUNDING IN PLACE	\$312,500 \$1,800,000	\$312,500 \$3,600,000				\$0
WWTP	7	WWTP Rehab Phase 4G - HVAC Improvements	Project no.7 of the NYSDEC Order on Consent	NYSDEC Order on Consent R9-20170906-129, Schedule A, Item 18 Work	CPL	EI Team	TBD	Engineering ongoing	HIGH	CONSENT ORDER - ON GOING, GRANT FUNDING IN PLACE	\$281,250 \$562,500	\$281,250 \$562,500				\$0
WWTP	8	WWTP Rehab Phase 4H - Backwash Blower & Piping	Project no.8 of the NYSDEC Order on Consent	NYSDEC Order on Consent R9-20170906-129, Schedule A, Item 18 Work	NFWB	NFWB	Mollenberg Betz	Ongoing construction	HIGH	CONSENT ORDER - ON GOING, GRANT FUNDING IN PLACE	\$170,000 \$340,000					\$0
WWTP	9	WWTP Rehab Phase 4I - Piping Improvements	Project no.9 of the NYSDEC Order on Consent	NYSDEC Order on Consent R9-20170906-129, Schedule A, Item 18 Work	CPL	O'Brien & Gere	TBD	Engineering ongoing	HIGH	CONSENT ORDER - ON GOING, GRANT FUNDING IN PLACE	\$170,000 \$275,000	\$550,000				\$0
WWTP	10	WWTP SCADA Improvements	Project no.10 of the NYSDEC Order on Consent	NYSDEC Order on Consent R9-20170906-129, Schedule A, Item 18 Work	CPL	TBD	TBD	RFP ongoing	HIGH	CONSENT ORDER - ON GOING, GRANT FUNDING IN PLACE	\$125,000 \$250,000	\$125,000 \$250,000	\$125,000 \$250,000	\$125,000 \$250,000		\$0
WWTP	11	Outfalls	Relocation of WWTP and CSO Outfalls	NYSDEC Order on Consent R9-20170906-129, Schedule A, Item 18 Work	On hold	On hold	On hold	On hold	HIGH	ON HOLD, GRANT FUNDING IN PLACE						\$8,000,000
WWTP	12	WWTP Roof Repairs	Replace & repair large sections of the WWTP roofs	Necessary for facility protection and longevity	On hold	On hold	On hold	On hold	LOW	ON HOLD						\$1,800,000
WWTP	13	WWTP Chemical Tanks	Removal of old chemical tanks that are not used	Better utilize space for sludge storage	CPL	CPL	Mark Cerrone	Construction ongoing	HIGH	ON GOING	\$125,000					\$0
WWTP	14	WWTP Structural/Masonry Repairs	Repair aging and failing structural components	Restore structural integrity	On hold	On hold	On hold	On hold	LOW	ON HOLD						\$554,000
WWTP	15	WWTP Flood Hazard Mitigation Grant Projects	Harden utility infrastructure against extreme weather	Prevent rainfall-related impacts and damage	NFWB	GHD	TBD	Engineering complete, funding ongoing	HIGH	WWTP FLOODING RELIEF, GRANT FUNDING IN PLACE	\$2,619,277.50 \$1,549,346 \$5,717,970 \$1,549,346.25					\$0
WWTP	16	WWTP Standby Generator	Replace and upgrade WWTP power generator	Improve reliability	On hold	On hold	On hold	On hold	MEDIUM	ON HOLD	\$150,000					\$0
WWTP	17	WWTP Infrastructure Projects - Miscellaneous	Repairs / replacements not associated with Phased Projects	Necessary for continued operation	NFWB	NFWB	TBD	As needed	HIGH	AS NEEDED	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Phase I NYS WWTP Grant Funding											\$2,838,750	\$6,793,750	\$1,625,000	\$1,775,000	\$0	
Phase I NYS WWTP - Matching Funds											\$2,838,750	\$6,793,750	\$1,625,000	\$1,775,000	\$0	
Phase II NYS WWTP Grant Funding											\$1,549,346	\$0	\$0	\$0	\$0	
Phase II NYS WWTP - Matching Funds											\$1,549,346	\$0	\$0	\$0	\$0	
FEMA Grant											\$2,619,277.50	\$0	\$0	\$0	\$0	
Annual Coverage Transfer											\$375,000	\$100,000	\$100,000	\$100,000	\$100,000	
SUB-TOTALS											\$11,770,470	\$13,687,500	\$3,350,000	\$3,650,000	\$100,000	\$10,454,000
SEWER INFRASTRUCTURE PROJECTS - S																
S	1	GPS Elevator	Replace and upgrade GPS elevator	Improve reliability	CPL	CPL	TBD	Engineering ongoing	HIGH	ON GOING	\$600,000					\$0
S	2	Sanitary Lift Station Electrical Upgrades	Provide standby power generation and SCADA to lift stations	Improve reliability	CPL	CPL	Ferguson, Flygt	Installation Ongoing	HIGH	ON GOING	\$250,000					\$0
S	3	LaSalle Area Sewer Improvements (SSO)	Sewer repairs to mitigate SSO's	DEC mandated regulatory requirement	NFWB	Arcadis	TECsmith	Ongoing	HIGH	ON GOING, NEED EPG	\$200,000	\$170,000	\$590,000	\$355,000	\$500,000	\$4,000,000
S	4	Combined Sewer Overflow Long Term Control Plan (CSO LTCP) Implementation	Implement sewer improvements to mitigate CSO's	DEC mandated regulatory requirement	On hold	On hold	On hold	On hold	LOW	ON HOLD	\$10,000					\$0
S	5	CSO Outfall Structural Repairs	Repairs to CSO outfalls on lower river	Restore structural integrity	On hold	On hold	On hold	On hold	LOW	ON HOLD						\$4,000,000
S	6	Tunnel Inspection	Inspect large diameter conveyance systems	Plan repairs prior to failures	On hold	On hold	On hold	On hold	LOW	ON HOLD						\$350,000
S	7	Falls Street Tunnel Regulator Repairs	Electrical and air leak repairs to the FST regulators	Necessary for proper operation of sewer system during wet weather	NFWB	NFWB	TBD	Ongoing - RFP needed	HIGH	NECESSARY FOR SEWER SYSTEM	\$50,000					\$0
S	8	Sewer/GPS Infrastructure Projects - Miscellaneous	Sewer/GPS projects not forecasted or arise based on an emergency situation	Necessary for continued operation	NFWB	NFWB	TBD	As needed	HIGH	AS NEEDED	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Not Funded by Grant - Need Funding											\$800,000	\$170,000	\$590,000	\$355,000	\$500,000	
Annual Coverage Transfer											\$410,000	\$100,000	\$100,000	\$100,000	\$100,000	
SUB-TOTALS											\$1,210,000	\$270,000	\$690,000	\$455,000	\$600,000	



ITEM	NO.	PROJECT NAME	PROJECT DESCRIPTION	PROJECT JUSTIFICATION	PROJECT MANAGER	ENGINEER	CONTRACTOR	STATUS	PROJECT RATING		FORECASTED EXPENDITURES					
									RATING	JUSTIFICATION	2019	2020	2021	2022	2023	Deferred
WATER TREATMENT PLANT INFRASTRUCTURE PROJECTS - WTP																
WTP	1	WTP Pump Replacements	Replacement of old WTP pumps necessary to process drinking water	Maintain treatment plant integrity	NFWB	NFWB	TBD	Ongoing	HIGH	ON GOING	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$100,000
WTP	2	Automation & Security Upgrades at WTP	Automate WTP operations and perform necessary VA identified upgrades	Maintain facility security	On hold	On hold	On hold	On hold	MEDIUM	AS NEEDED	\$70,000					\$500,000
WTP	3	WTP Vent Line Replacement	Replace corroding process vent piping	Maintain treatment plant integrity	On hold	On hold	On hold	On hold	LOW	ON HOLD						\$100,000
WTP	4	WTP Laboratory Instrumentation	New instruments for sample analysis	Regulation-driven water testing	On hold	On hold	On hold	On hold	MEDIUM	AS NEEDED						\$100,000
WTP	5	WTP Caulking	Repair aging and failing structural components	Restore structural integrity	NFWB	CPL	TBD	Ongoing	HIGH	ON GOING	\$125,000					\$0
WTP	6	WTP Building Improvements	WTP renovations necessary for operation	Necessary for continued operation	NFWB	CPL	TBD	On hold	MEDIUM	AS NEEDED						\$150,000
WTP	7	Water Treatment Plant Infrastructure Projects - Miscellaneous	WTP projects not forecasted or arise based on an emergency situation	Necessary for continued operation	NFWB	NFWB	TBD	As needed	HIGH	AS NEEDED	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
SUBTOTALS (Annual Coverage Transfer Only)											\$325,000	\$130,000	\$130,000	\$130,000	\$130,000	\$1,050,000
WATER INFRASTRUCTURE PROJECTS - W																
W	1	Hydrant Replacement	Hydrant Replacement - old and inoperable hydrants	Fire protection reliability	NFWB	NFWB	NFWB	Ongoing	HIGH	ON GOING	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000
W	2	Beech Avenue Tank Replacement	Tank Replacement - existing water storage tank	Distribution system operation & reliability	On hold	CPL	On hold	On hold	LOW	ON HOLD						\$6,000,000
W	3	Large Valve Replacement	Valve Replacement - water valves >12"	System reliability	City Engineering	City Engineering	4th Generation	Ongoing	HIGH	ON GOING	\$100,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
W	4	Buffalo Avenue Water Valves	Valve Replacement - water valves that are damaged	Road reconstruction opportunity	On hold	On hold	On hold	On hold	LOW	ON HOLD						\$1,250,000
W	5	Leak Detection / Distribution Modeling	Water Distribution Study - Identify and control system losses	Resolve water quality & pressure issues; better asset management	CPL	CPL	not applicable	Engineering ongoing	LOW	ON HOLD						\$200,000
W	6	Abandon 20" Victory Pipe WM	Water Main Abandon - unnecessary and failing watermain	Victory pipe, potential for breaks	On hold	On hold	On hold	On hold	LOW	ON HOLD						\$170,000
W	7	Loop "D" Street Main - Falls Street to Gill Creek	Water Main New - Install & loop with new main	Eliminate dead end and blow-off	On hold	On hold	On hold	On hold	LOW	ON HOLD						\$70,000
W	8	Loop Niagara Avenue Main to Parkview Drive	Water Main New - Install & loop with new main	Eliminate dead end and blow-off	On hold	On hold	On hold	On hold	LOW	ON HOLD						\$110,000
W	9	10th Street and Michigan Avenue Mains - Lockport Street to Ontario Avenue (8") and 10th Street to 11th Street (8")	Water Main Replacement - replace main and install new services	Replacement of watermain due to frequent breaks	City Engineering	City Engineering	TBD	Engineering ongoing, 5 years to complete	HIGH	ON GOING, GRANT FUNDING IN PLACE			\$394,000 \$788,000 \$394,000			\$0
W	10	18th Street Main - Ontario Avenue to Whitney Avenue (14" PE Sliplining)	Water Main Replacement - replace main and install new services	Replacement of watermain due to frequent breaks	City Engineering	City Engineering	TBD	Engineering ongoing, 5 years to complete	HIGH	ON GOING, GRANT FUNDING IN PLACE			\$554,800 \$1,109,600 \$554,800			\$0
W	11	77th Street Main - Stephenson Avenue to Niagara Falls Boulevard (8")	Water Main Replacement - replace main and install new services	Replacement of watermain due to frequent breaks	City Engineering	City Engineering	TBD	Engineering ongoing, 5 years to complete	HIGH	ON GOING, GRANT FUNDING IN PLACE			\$584,000 \$1,168,000 \$584,000			\$0
W	12	80th Street - Niagara Falls Blvd. to Rick Manning Drive	Water Main Replacement - replace main and install new services	Replacement of watermain due to frequent breaks	NFWB	TBD	TBD	Needs funding	HIGH	PRIORITY PROJECT, NEED FUNDING	\$300,000					\$0
W	13	81st Street Main - Frontier Avenue to Pine Avenue	Water Main Replacement - replace main and install new services	Replacement of watermain due to frequent breaks	On hold	On hold	On hold	On hold	LOW	ON HOLD						\$850,000
W	14	Bollier Avenue Main - 82nd Street to Military Road	Water Main Replacement - replace main and install new services	Replacement of watermain due to frequent breaks	City Engineering	City Engineering	TBD	Ongoing	HIGH	ON GOING, GRANT FUNDING IN PLACE	\$240,000 \$500,000 \$260,000					\$0
W	15	College Terrace - Madison to College Avenue	Water Main Replacement - replace main and install new services	Replacement of watermain due to frequent breaks	NFWB	TBD	TBD	Needs funding	HIGH	PRIORITY PROJECT, NEED FUNDING	\$155,000					\$0
W	16	LaSalle Avenue Main - Hyde Park Blvd to 11th Street	Water Main Replacement - replace main and install new services	Replacement of watermain due to frequent breaks	On hold	On hold	On hold	On hold	LOW	ON HOLD						\$1,600,000
W	17	Laughlin Drive Main - 82nd Street to Bollier Ave	Water Main Replacement - replace main and install new services	Replacement of watermain due to frequent breaks	NFWB	TBD	TBD	Needs funding	MEDIUM	NEED FUNDING		\$610,592				\$0
W	18	McKoon Avenue Main - DeVeaux Avenue to James Avenue	Water Main Replacement - replace main and install new services	Replacement of watermain due to frequent breaks	NFWB	TBD	TBD	Needs funding	MEDIUM	NEED FUNDING			\$878,302			\$0
W	19	Military Road Main - Jacob Place to Bollier Avenue	Water Main Replacement - replace main and install new services	Replacement of watermain due to frequent breaks	NFWB	TBD	TBD	Engineering ongoing, 5 years to complete	MEDIUM	ON GOING, GRANT FUNDING IN PLACE		\$105,100 \$210,200 \$105,100				\$0
W	20	Military Road Main - Jacob Place to Cayuga Drive	Water Main Replacement - replace main and install new services	Replacement of watermain due to frequent breaks	On hold	On hold	On hold	On hold	LOW	ON HOLD						\$210,000
W	21	Ontario Avenue Main - 13th Street to Main Street	Water Main Replacement - replace main and install new services	Replacement of watermain due to frequent breaks	NFWB	TBD	TBD	Needs funding	MEDIUM	NEED FUNDING		\$763,633				\$0
W	22	Pierce Avenue Main - 11th Street to 18th Street	Water Main Replacement - replace main and install new services	Replacement of watermain due to frequent breaks	On hold	On hold	On hold	On hold	LOW	ON HOLD						\$570,000
W	23	Pierce Avenue Main - 18th Street to Hyde Park Blvd.	Water Main Replacement - replace main and install new services	Replacement of watermain due to frequent breaks	On hold	On hold	On hold	On hold	LOW	ON HOLD						\$750,000
W	24	Rivershore Drive Main - S.86th Street to 91st Street	Water Main Replacement - replace main and install new services	Replacement of watermain due to frequent breaks	On hold	On hold	On hold	On hold	LOW	ON HOLD						\$280,000
W	25	Van Rensselaer Ave - 900 Block	Water Main Replacement - replace main and install new services	Replacement of watermain due to frequent breaks	NFWB	TBD	TBD	Needs funding	HIGH	PRIORITY PROJECT, NEED FUNDING	\$100,000					\$0
W	26	Welch Avenue Main - 19th Street to 24th Street (16")	Water Main Replacement - replace main and install new services	Replacement of watermain due to frequent breaks	On hold	On hold	On hold	On hold	LOW	ON HOLD						\$600,000
W	27	Whitney Avenue Main - 11th Street to Hyde Park Blvd.	Water Main Replacement - replace main and install new services	Replacement of watermain due to frequent breaks	City Engineering	City Engineering	TBD	Engineering ongoing, 5 years to complete	HIGH	ON GOING, GRANT FUNDING IN PLACE			\$1,109,600 \$2,219,200 \$1,109,600			\$0
W	28	Willow Avenue Main - 11th Street to 17th Street (8")	Water Main Replacement - replace main and install new services	Replacement of watermain due to frequent breaks	On hold	On hold	On hold	On hold	LOW	ON HOLD						\$460,000
W	29	Witkop Avenue and 85th Street Loop (all 8")	Water Main Replacement - replace main and install new services	Replacement of watermain due to frequent breaks	NFWB	TBD	TBD	Needs funding	MEDIUM	NEED FUNDING		\$718,978				\$0
W	30	Water Infrastructure Projects - Miscellaneous	Water Projects - not forecasted or arise based on an emergency situation	Necessary for continued operation	NFWB	NFWB	TBD	As needed	HIGH	AS NEEDED	\$120,000	\$120,000	\$120,000	\$120,000	\$120,000	\$100,000
EFC Grants											\$240,000	\$105,100	\$2,642,400	\$0	\$0	\$13,350,000
EFC Grant - Matching Funds											\$260,000	\$105,100	\$2,642,400	\$0	\$0	
Not Funded by Grant - Need Funding											\$555,000	\$2,093,203	\$878,302	\$0	\$0	
Annual Coverage Transfer											\$300,000	\$250,000	\$250,000	\$250,000	\$250,000	
SUBTOTALS											\$1,355,000	\$2,553,403	\$6,413,102	\$250,000	\$250,000	
TOTALS											\$15,005,470	\$16,925,903	\$10,868,102	\$4,770,000	\$1,365,000	\$33,589,000
NOTES:																

- NOTES:
- 1 Phase I NYS WWTP funding - \$13.5 million award through State DASNY grant (50% NFWB match), \$13.5 million remainder to be sought in loan with low or no interest rate from EFC by end of July, according to CPL memo (3/14/19)
  - 2 Phase II NYS WWTP funding - \$6.5 million award through State DASNY grant (50% NFWB match), currently waiting on NYSDEC approval of funds to be used for the WWTP-14 WWTP Flood Hazard Mitigation Grant Project
  - 3 LaSalle Area Sewer Improvements (SSO) - Engineering Planning Grant program exists to help with costs to prepare engineering report (up to \$100K grant with 25% NFWB match) for the S-3 LaSalle Area Sewer Improvements (SSO) projects
  - 4 NYS Water Infrastructure Improvement Act ("WIIA") grant from EFC - \$2.76 million awarded for 5 watermain replacement projects that were identified in 2018 application, NFWB to provide remaining \$2.735 million.
    - iii. 18th Street Main - Ontario Avenue to Whitney Avenue
    - iii. Whitney Avenue Main - 11th Street to Hyde Park Blvd.
    - iv. 10th Street and Michigan Avenue Mains - Lockport Street to Ontario Avenue and 10th Street to 11th Street
    - v. Military Road Main - Jacob Place to Bollier Avenue
  - 5 NYSEFC SRF Loans are to be applied for by the end of July 2019 by CPL for several potential watermain but are not currently in place.

Fund Sources Total		2019	2020	2021	2022	2023	Sum 2019 - 2023
Annual Coverage Transfer		\$1,755,000	\$865,000	\$865,000	\$865,000	\$865,000	\$5,215,000.00
Bonded		\$0	\$0	\$0	\$0	\$0	\$0.00
FEMA Grant (WWTP Flood Hazard Mitigation Grant Project)		\$2,619,277.50	\$0	\$0	\$0	\$0	\$2,619,277.50
Phase I NYS WWTP Funding from DASNY (see note #1)		\$2,838,750	\$6,793,750	\$1,625,000	\$1,775,000	\$0	\$13,032,500.00
Phase I NYS WWTP - Matching Funds		\$2,838,750	\$6,793,750	\$1,625,000	\$1,775,000	\$0	\$13,032,500.00
Phase II NYS WWTP Funding from DASNY (see note #2)		\$1,549,346	\$0	\$0	\$0	\$0	\$1,549,346.25
Phase II NYS WWTP - Matching Funds		\$1,549,346	\$0	\$0	\$0	\$0	\$1,549,346.25
EFC Grant (see note #4)		\$240,000.00	\$105,100	\$2,642,400	\$0	\$0	\$2,987,500.00
EFC Grant - Matching Funds (see note #5)		\$260,000	\$105,100	\$2,642,400	\$0	\$0	\$3,007,500.00
Not Funded by Grant - Need Funding		\$1,355,000	\$2,263,203	\$1,468,302	\$355,000	\$500,000	\$5,441,505.00
TOTALS		\$15,005,470	\$16,925,903	\$10,868,102	\$4,770,000	\$1,365,000	\$47,569,475.00

NIAGARA FALLS WATER BOARD RESOLUTION # 2019-05-011

**REQUESTING THE ISSUANCE BY THE NIAGARA FALLS PUBLIC WATER  
AUTHORITY OF BONDS TO FINANCE CAPITAL IMPROVEMENTS**

**WHEREAS**, the Title 10-C of the Public Authorities Law of the State of New York, as amended ("the Act") created the Niagara Falls Water Board ("Water Board") with the authority and power to undertake the planning, developing, acquiring, and construction of any facility (as defined in the Act); and

**WHEREAS**, the Water Board has previously approved a capital improvement plan to the System (as defined in the Act) and now desires the Niagara Falls Public Water Authority (the "Authority") to finance \$13,500,000 of improvements to the System identified in the capital improvement plan; and

**NOW THEREFORE BE IT**

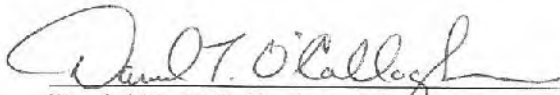
**RESOLVED**, that the Water Board hereby requests the Authority to finance \$13,500,000 of improvements to the System by the issuance of bonds and also to finance any reserve required and costs of issuance associated therewith; and

**IT IS FURTHER RESOLVED**, that this resolution takes effect immediately and the Authority hereby is requested to take action upon this request within 30 days.

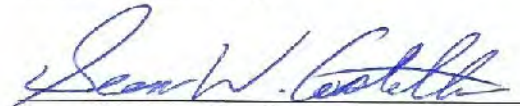
On May 20, 2019, the question of the adoption of the foregoing Resolution was duly put to a vote on roll call, which resulted as follows:

	Yes	No	Abstain	Absent
Board Member Forster	[ ]	[ ]	[ ]	[ X ]
Board Member Kimble <i>1st</i>	[ X ]	[ ]	[ ]	[ ]
Board Member Larkin <i>2nd</i>	[ X ]	[ ]	[ ]	[ ]
Board Member Lefler	[ X ]	[ ]	[ ]	[ ]
Chairman O'Callaghan	[ X ]	[ ]	[ ]	[ ]

Signed By:

  
Daniel T. O'Callaghan, Chairperson

Vote Witnessed By:

  
Sean W. Costello, Secretary to Board



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# NIAGARA FALLS WATER BOARD

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## Financial Projections and User Rates



DECEMBER 10, 2018

# Projection of cash flows and rates

Line		2018	2019	2020	2021	2022
	<b>Revenues</b>					
1	Operating revenues	30,930,211	31,629,512	33,132,488	33,784,737	34,450,032
2	Total	30,930,211	31,629,512	33,132,488	33,784,737	34,450,032
	<b>Operations and Maintenance Expenses</b>					
3	Salaries and benefits	11,784,754	12,366,580	12,738,250	13,122,327	13,519,257
4	Chemicals/sludge	4,383,484	4,318,403	4,086,738	4,174,771	4,264,564
5	Insurance/safety	489,163	481,901	456,049	465,873	475,893
6	Maintenance	1,218,325	1,200,236	1,135,849	1,160,316	1,185,273
7	Utilities	1,263,246	1,244,490	1,177,729	1,203,098	1,228,975
8	Other expenses	1,541,041	1,518,161	1,436,718	1,467,666	1,499,234
9	Authority/Board expenses	849,420	836,809	791,918	808,976	826,376
10	PILOT payment to City	700,000	700,000	700,000	700,000	700,000
11	Total	22,229,432	22,666,580	22,523,250	23,103,027	23,699,571
12	<b>Revenues available for debt service</b>	8,700,779	8,962,932	10,609,238	10,681,711	10,750,461
	<b>Debt Service</b>					
13	Debt service on outstanding bonds	7,401,817	7,187,360	7,363,716	7,021,537	7,369,642
14	Debt service on future Authority bonds	-	240,000	1,470,000	1,480,000	1,480,000
15	Total	7,401,817	7,427,360	8,833,716	8,501,537	8,849,642
16	<b>Surplus (line 12 - line 15)</b>	1,298,962	1,535,572	1,775,522	2,180,174	1,900,819
17	<b>Debt Service Coverage (minimum 1.15)</b>	1.18	1.21	1.20	1.26	1.21
18	<b>Proposed Rate Increase</b>	2.4%	2.0%	5.0%	2.0%	2.0%