

CITY OF BEACON, NEW YORK

Basic Financial Statements
Supplementary Information and
Independent Auditors' Report

December 31, 2016

CITY OF BEACON, NEW YORK

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
City of Beacon, New York

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Beacon, New York, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Errors

As discussed in note 16 to the financial statements, errors resulting in the misstatement of the City's governmental funds, government-wide governmental activities and business-type activities at January 1, 2016, were discovered in the current year. As a result, amounts reported for fund balances in the City's governmental funds and net position in the government-wide statements at January 1, 2016, have been restated to correct the errors. Our opinions are 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, budgetary comparison information, Schedule of Funding Progress - Other Postemployment Benefit Plan, Schedule of Proportionate Share of the Net Pension Liability, and the Schedule of Pension Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 1, 2017, on our consideration of City of Beacon, New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Beacon, New York's internal control over financial reporting and compliance.

EFPR Group, CPAs, PLLC

Williamsville, New York
September 1, 2017

CITY OF BEACON, NEW YORK
Management's Discussion and Analysis
December 31, 2016

Our discussion and analysis of the City's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2016. Please read it in conjunction with the City's basic financial statements, which begin on page 14.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The statement of net position (page 14) and the statement of activities (on page 15) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 16. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. For proprietary funds, the statements reflect business-type activities, but on the same basis as the government-wide statements. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole

The statements for the City as a whole begin on page 14. One of the most important questions about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The statement of net position and the statement of activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets, deferred outflows of resources, liabilities and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid. These two statements report the City's *net position* and changes in them. You can think of the City's net position - assets and deferred outflows less liabilities and deferred inflows - as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

In the statement of net position and the statement of activities, we divide the City into two kinds of activities:

- Governmental activities - Most of the City's basic services are reported here, including the police, fire, public works, and parks departments, and general administration. Property taxes, franchise fees, and state and federal grants finance most of these activities.
- Business-type activities - The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer system are reported here.

CITY OF BEACON, NEW YORK
Management's Discussion and Analysis, Continued

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 8. The fund financial statements begin on page 16 and provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by State law. However, the city council established other funds to show that it is meeting legal responsibilities for using certain grants, and other money (like grants received from the U.S. Department of Housing and Urban Development). The City's two kinds of funds - governmental and proprietary - use different accounting approaches.

- **Governmental funds** - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in reconciliations after each governmental funds financial statement.
- **Proprietary funds** - When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows.

The City as Trustee

The City is the Trustee for its firemen's service award program. It is also responsible for other assets in an agency capacity. All of the City's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position on pages 23 and 24. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

CITY OF BEACON, NEW YORK
Management's Discussion and Analysis, Continued

FINANCIAL HIGHLIGHTS

GOVERNMENTAL ACTIVITIES

Statement of Net Position - Governmental Activities

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Assets:			
Cash and investments	\$ 16,683,674	21,229,980	(4,546,306)
Receivables	3,314,610	2,626,205	688,405
Internal balances	(274,635)	(6,184,400)	5,909,765
Prepaid expenses	92,668	42,145	50,523
Capital assets	<u>53,545,527</u>	<u>44,574,649</u>	<u>8,970,878</u>
Total assets	<u>73,361,844</u>	<u>62,288,579</u>	<u>11,073,265</u>
Deferred outflows of resources	<u>6,042,189</u>	<u>1,371,215</u>	<u>4,670,974</u>
Liabilities:			
Accounts payable and other accrued liabilities	6,973,133	8,270,744	(1,297,611)
Notes and bonds payable	29,925,615	24,271,824	5,653,791
Other postemployment benefits obligation	16,062,377	14,315,603	1,746,774
Net pension liabilities, proportionate share	<u>4,921,806</u>	<u>622,209</u>	<u>4,299,597</u>
Total liabilities	<u>57,882,931</u>	<u>47,480,380</u>	<u>10,402,551</u>
Deferred inflows of resources	<u>2,548,835</u>	<u>6,936,047</u>	<u>(4,387,212)</u>
Net position:			
Net investment in capital assets	28,307,170	20,321,088	7,986,082
Restricted	136,063	131,983	4,080
Unrestricted	<u>(9,470,966)</u>	<u>(11,209,704)</u>	<u>1,738,738</u>
Total net position	\$ <u>18,972,267</u>	<u>9,243,367</u>	<u>9,728,900</u>

CITY OF BEACON, NEW YORK
Management's Discussion and Analysis, Continued

Statement of Activities - Governmental Activities

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Program revenues:			
Charges for services	\$ 1,712,230	1,642,511	69,719
Grants and contributions	914,288	1,920,649	(1,006,361)
General revenues:			
Property taxes	10,484,690	10,783,573	(298,883)
Other taxes	5,171,950	5,006,754	165,196
Unrestricted grants and contributions	1,540,178	1,552,648	(12,470)
Interest earnings	17,076	23,194	(6,118)
Other revenues	<u>599,388</u>	<u>1,185,592</u>	<u>(586,204)</u>
Total revenues	<u>20,439,800</u>	<u>22,114,921</u>	<u>(1,675,121)</u>
Expenses:			
General government support	3,013,362	2,828,500	(184,862)
Public safety	11,045,155	10,637,994	(407,161)
Transportation	4,101,387	4,036,057	(65,330)
Culture and recreation	710,393	660,467	(49,926)
Home and community services	1,565,297	3,106,246	1,540,949
Interest	<u>518,167</u>	<u>849,486</u>	<u>331,319</u>
Total expenses	<u>20,953,761</u>	<u>22,118,750</u>	<u>1,164,989</u>
Deficiency before transfers	(513,961)	(3,829)	(510,132)
Transfers	<u>-</u>	<u>598,000</u>	<u>598,000</u>
Increase (decrease) in net position	\$ <u>(513,961)</u>	<u>594,171</u>	<u>87,868</u>

The City's governmental activities statement of net position reflects an overall increase of \$9,728,900. This was caused by a current year deficiency of revenues over expenses of \$513,961 combined with a prior period adjustment of \$10,242,861. The changes that caused this are discussed below.

Currently, the City has \$20,870,910 in bond anticipation notes (BANs) outstanding. Of the notes, \$16,554,200 are for general fund purposes and \$4,325,690 of these notes were issued for water and sewer purposes. These projects are individually accounted for in the City's capital projects fund until completed and then transferred to the appropriate fund as fixed assets. For financial statement purposes water and sewer related BANs are reclassified from the capital projects fund (included in the governmental activities) to the water and sewer funds (business-type activities).

CITY OF BEACON, NEW YORK
Management's Discussion and Analysis, Continued

The governmental activities shows a cash balance \$16,683,674. This is a combination of general fund cash of \$11,579,158, capital projects cash of \$4,761,311 and cash of \$343,205 in the non-major fund. The capital cash is a result of unspent monies for projects currently underway.

General fund related projects (roads, sidewalks, buildings, highway and public safety equipment) made with the BANs are reflected in the capital assets of \$20,473,577 which is net of depreciation. The City added \$3,068,921 in road and sidewalk improvements, \$6,864,561 or work towards a new DPW facility. Other additions to assets were public safety equipment budgeted for in operations and also obtained thorough state and federal grants.

Bonds payable and bond anticipation notes increased \$5,653,791. This was a result of \$7,410,295 in new debt being issued, \$460,857 of principal payments on short-term debt, long-term debt principal payments of \$1,283,597 and a correction of \$12,050.

The liabilities also showed an increase of \$1,746,774 in the other postemployment benefits obligation. This change is primarily due to the fact that there is an annual increase in our obligation and it remains unfunded at this point. New York State General Municipal Law Article 2 does not currently permit funding to be used against OPEB obligations.

Prior period adjustments were made in note 16 to the financial statements to recognize previously deferred aid revenue of \$4,714,894 related to capital assets acquisition, remove \$5,175,797 of interfund transactions from business-type activities, and capitalize \$352,170 of assets previously expensed.

GENERAL FUND

The City's general fund accounts for the general operations of the City. It is used to account for all financial resources except those that are required to be accounted for in another fund.

Overall in 2016, the general fund revenues decreased by \$573,513 and expenditures increased by \$422,774. With the adoption of the 2016 budget, the City appropriated \$247,500 of the fund balance and increased the tax levy \$133,312 and managed to stay under the 2% tax cap. Due to conservative budget practices, unanticipated revenues and conservative spending in all departments allowed the City to end the year with a surplus of \$967,094. Specific results to note were revenues received in excess of budget:

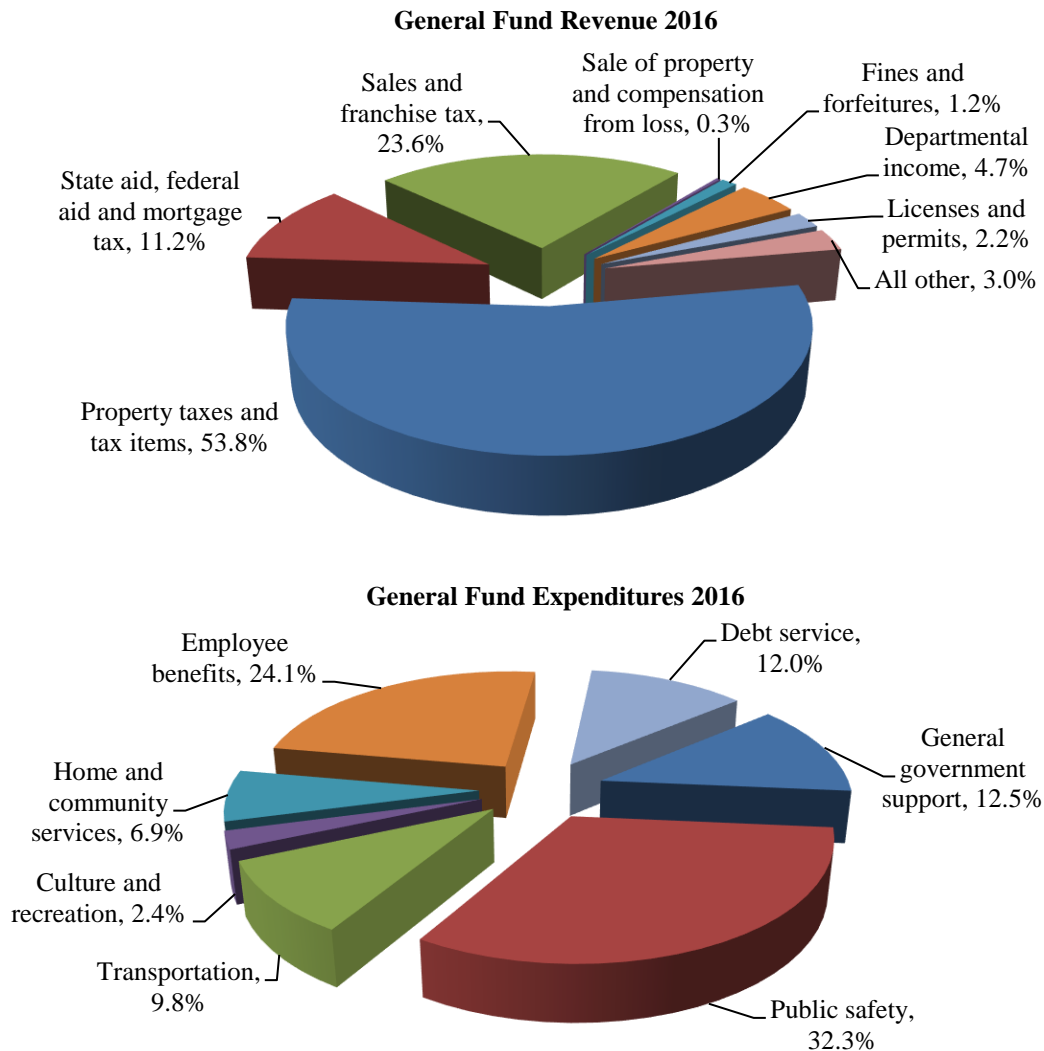
- \$124,224 in additional sales tax (growth) from Dutchess County.
- \$148,312 more in tax interest, back tax collection and installment agreements.
- \$401,113 collection of back taxes.
- \$5,325 in parking tickets.
- \$213,249 in additional mortgage tax receipts.
- \$6,300 in additional planning application fees.
- \$95,714 in additional building department revenue.

CITY OF BEACON, NEW YORK
Management's Discussion and Analysis, Continued

The City saved in almost every department budget across the board and only spent 96.0% of its expenditure budget. The City specifically saved:

- \$54,560 due to the decreased cost of gas and diesel.
- \$25,265 in insurance.
- \$24,739 in materials and supplies.
- \$48,168 in unused Contingency.
- \$106,965 in police regular overtime.

Below are graphs of the general fund's revenues and expenditures to illustrate the sources and uses of the operating fund. Specific amounts can be found on page 18 of the financial statements.



CITY OF BEACON, NEW YORK
Management's Discussion and Analysis, Continued

CAPITAL PROJECTS FUND

Starting in 2011 and continuing through 2016, the City has had several major projects underway. These projects are accounted for in the capital projects fund and have been primarily financed through the use of short-term bond anticipation notes (BANs). Currently, the City has one note outstanding in the amount of \$20,879,910, of which \$16,554,220 is general fund funded, \$520,500 is water fund funded, and \$3,805,190 is sewer fund funded.

In 2016, the City spent \$3,068,921 on various roads, sidewalks and building upgrades and parking lots. \$6,864,558 was expended on the DPW garage construction.

PROPRIETARY FUNDS

Water and sewer funds of the City are considered to be proprietary funds (business-type). Below is an analysis to show the 2016 versus 2015 balances and operations.

<u>Statement of Net Position - Business-type Activities</u>			
	<u>2016</u>	<u>2015</u>	<u>Change</u>
Assets:			
Cash and investments	\$ 6,352,538	1,036,818	5,315,720
Receivables	2,266,249	3,756,839	(1,490,590)
Internal balances	274,635	6,184,400	(5,909,765)
Prepaid expenses	424	-	424
Capital assets	<u>19,670,905</u>	<u>20,131,410</u>	<u>(460,505)</u>
Total assets	<u>28,564,751</u>	<u>31,109,467</u>	<u>(2,544,716)</u>
Deferred outflows of resources	<u>814,756</u>	<u>226,372</u>	<u>588,384</u>
Liabilities:			
Accounts payable and other accrued liabilities	692,593	817,944	(125,351)
Notes and bonds payable	19,224,295	18,259,304	964,991
Other postemployment benefits obligation	3,032,643	2,712,400	320,243
Net pension liability	<u>731,799</u>	<u>146,592</u>	<u>585,207</u>
Total liabilities	<u>23,681,330</u>	<u>21,936,240</u>	<u>1,745,090</u>
Deferred inflows of resources	<u>143,523</u>	<u>206,396</u>	<u>(62,873)</u>
Net position:			
Net investment in capital assets	4,249,935	9,607,087	(5,357,152)
Unrestricted	<u>1,304,719</u>	<u>(413,884)</u>	<u>1,718,603</u>
Total net position	\$ <u>5,554,654</u>	<u>9,193,203</u>	<u>(3,638,549)</u>

CITY OF BEACON, NEW YORK
Management's Discussion and Analysis, Continued

The City water and sewer funds (business-type activities) show a combined decrease of \$3,638,549 in net position. This accounts for the significant decrease in internal balances from 2016 to 2015 due to the issuance of short-term notes financed in the capital project and reclassified in the water and sewer fund as explained previously on page 6. Capital assets decreased significantly due mainly to depreciation of \$792,854. Liabilities increased \$1,745,090 mainly due to an increase of short and long-term debt. The postemployment benefits obligation is increasing annually but due to New York State law at this point, it remains unfunded, and increased \$320,243 in 2016.

Statement of Revenue, Expenditures and Changes in
Net Position - Business-type Activities

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Program revenues - Charges for services	\$ 7,593,884	7,293,739	300,145
General revenues - Investment earnings	<u>37,662</u>	<u>55,174</u>	<u>(17,512)</u>
Total revenues	<u>7,631,546</u>	<u>7,348,913</u>	<u>282,633</u>
Expenses:			
Water	2,696,757	2,915,359	(218,602)
Sewer	<u>3,786,710</u>	<u>2,628,795</u>	<u>1,157,915</u>
Total expenses	<u>6,483,467</u>	<u>5,544,154</u>	<u>939,313</u>
Excess before transfers	1,148,079	1,804,759	(656,680)
Transfers	<u>-</u>	<u>(598,000)</u>	<u>598,000</u>
Increase in net position	\$ <u>1,148,079</u>	<u>1,206,759</u>	<u>(58,680)</u>

The water fund shows a change/gain in net position of \$937,602 from current year activities. As these financial statements are on a full accrual basis, expenses such as postemployment benefits as described above, compensated absences (unused but earned employee leave time) and depreciation on fixed assets are calculated in. For 2016, other postemployment benefit costs amounted to \$140,679, and depreciation expense amounted to \$330,298.

The sewer fund shows a change/gain in net position of \$210,477 from current year activities. As noted with the water fund above these financial statements are on a full accrual basis as described above, expenses such as other postemployment benefits amounting to \$179,564 and depreciation on fixed assets of \$462,556 are calculated in that figure.

CITY OF BEACON, NEW YORK
Management's Discussion and Analysis, Continued

ACTIVITIES REGARDING CAPITAL ASSETS

The City has \$18,288,146 of construction in progress as of December 31, 2016. Most of this pertains to road reconstruction, DPW facility construction, and water and sewer main improvements.

LONG TERM DEBT

Total long term serial bond debt as of December 31, 2016 was \$28,270,000. \$13,371,395 of this balance is general fund debt. The water and sewer portions of the debt amount to \$5,567,192 and \$9,331,413, respectively. Water and sewer debt is paid by the water and sewer customers. The general fund paid \$1,719,817 in long-term debt service in 2016. The water and sewer funds paid \$787,415 and \$469,752 respectively in long term debt service.

SIGNIFICANT ECONOMIC FACTORS

As the United States economies are still recovering from the recession, the City of Beacon enjoys continuing development interest in a variety of areas of the community.

Some of the current projects are described below:

Certificates of Occupancy in 2016 were issued for:

- 6 Loft-style condominiums on lot along the creek which was former auto salvage yard.
- Round House phase 2 which includes 18 hotels rooms and 2 artist work/live lofts on the formerly abandoned mill property site.
- Brick row - formerly vacant multi-family housing on East Main Street.
- Melzingah Hotel Phase 1 - the C/o was issued for the 1st floor restaurant as work continues on the stories above to restore the 4 story brick building.
- City of Beacon DPW garage. Construction was completed by the fall of 2016 and the City was able to transition from 2 inconvenient locations to 1 and having all of the operations under 1 roof.

These properties added significantly to the tax base and therefore lowering the tax rate for 2017's budget. As a result of the development and interest in Beacon, the City added 34 Million to the tax base, 28.2 to Homestead and 5.8 to Non-Homestead. The increased tax base helped the City to provide the first tax decrease to homestead and non-homestead in over 10 years.

The City also has several projects approved for and currently under construction including 68 senior housing units, a theatre, as well as several condos, apartments, artist work/live lofts and commercial space. These projects will be issued C/o's in 2017 and 2018 and therefore expanding the tax base in 2018 and 2019.

CITY OF BEACON, NEW YORK
Management's Discussion and Analysis, Continued

The increased population of 14,271 (US Census 2016 estimate) will help keep Main Street which features many restaurants and art galleries, alive during lowered tourist activity during the weekdays.

On September 21, 2015, the City of Beacon was notified by the New York State Comptroller's Office that the review of the Annual Update Document (AUD) FY 2014 for the City was completed and indicates that the City for a third year in a row is classified as "No Designation" with a score of 1.7%. In addition, the City improved its position on the environmental scale; dropping from 29.2% to 17.5%. Moody's continues to classify the City with an outstanding bond rating of Aa3.

After 8 years of recession and downward spirals of property assessments, the City is currently on an upward swing with property prices and assessments on the rise. The City of Beacon continues to enjoy a strong real estate market for both residential and commercial. Following the national trend, people are moving back to the City to enjoy our services, shopping, nightlife and walkable nature of the City.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City of Beacon, New York's finances. Questions about this report should be addressed to Office of the City Administrator, 1 Municipal Plaza, Beacon, New York 12508.

CITY OF BEACON, NEW YORK
Statement of Net Position
December 31, 2016

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Current assets:			
Cash and equivalents	\$ 16,683,674	6,352,538	23,036,212
Receivables, net of allowance for doubtful accounts of \$199,353	2,166,244	2,241,353	4,407,597
Due from other governments	1,148,366	24,896	1,173,262
Internal balances	(274,635)	274,635	-
Prepaid expenses	92,668	424	93,092
Total current assets	<u>19,816,317</u>	<u>8,893,846</u>	<u>28,710,163</u>
Noncurrent assets:			
Land	10,538,141	1,061,955	11,600,096
Infrastructure, net of accumulated depreciation	20,135,780	14,538,172	34,673,952
Buildings, machinery and equipment, net of accumulated depreciation	5,444,952	3,209,286	8,654,238
Construction in progress	17,426,654	861,492	18,288,146
Total noncurrent assets	<u>53,545,527</u>	<u>19,670,905</u>	<u>73,216,432</u>
Total assets	<u>73,361,844</u>	<u>28,564,751</u>	<u>101,926,595</u>
Deferred outflows of resources - pensions	<u>6,042,189</u>	<u>814,756</u>	<u>6,856,945</u>
Liabilities:			
Current liabilities:			
Accounts payable	2,347,372	320,694	2,668,066
Accrued liabilities	591,360	139,952	731,312
Due to other governments	1,882,612	-	1,882,612
Bond anticipation notes payable	16,554,220	4,325,690	20,879,910
Current portion of long-term liabilities:			
Compensated absences	138,646	16,049	154,695
Landfill remediation liability	8,000	-	8,000
Bonds payable, non-capital	48,600	-	48,600
Bonds payable, capital	1,387,462	873,938	2,261,400
Total current liabilities	<u>22,958,272</u>	<u>5,676,323</u>	<u>28,634,595</u>
Noncurrent liabilities:			
Judgments and claims	60,000	-	60,000
Compensated absences	1,865,143	215,898	2,081,041
Landfill remediation liability	80,000	-	80,000
Bonds payable, non-capital	238,516	-	238,516
Bonds payable, capital	11,696,817	14,024,667	25,721,484
Other postemployment benefits obligation	16,062,377	3,032,643	19,095,020
Net pension liabilities, proportionate share	4,921,806	731,799	5,653,605
Total noncurrent liabilities	<u>34,924,659</u>	<u>18,005,007</u>	<u>52,929,666</u>
Total liabilities	<u>57,882,931</u>	<u>23,681,330</u>	<u>81,564,261</u>
Deferred inflows of resources	<u>2,548,835</u>	<u>143,523</u>	<u>2,692,358</u>
Net position:			
Net investment in capital assets	28,307,170	4,249,935	32,557,105
Restricted	136,063	-	136,063
Unrestricted	(9,470,966)	1,304,719	(8,166,247)
Total net position	<u>\$ 18,972,267</u>	<u>5,554,654</u>	<u>24,526,921</u>

See accompanying notes to financial statements.

CITY OF BEACON, NEW YORK
Statement of Activities
Year ended December 31, 2016

Functions	Expenses	Program Revenue			Net Revenue (Expense) and Changes in Net Position		Total
		Charges for Services	Operating Grants	Capital Grants	Governmental Activities	Business-type Activities	
Governmental activities:							
General government support	\$ 3,013,362	377,782	15,959	-	(2,619,621)	-	(2,619,621)
Public safety	11,045,155	841,140	75,731	52,656	(10,075,628)	-	(10,075,628)
Transportation	4,101,387	270,808	-	589,895	(3,240,684)	-	(3,240,684)
Culture and recreation	710,393	116,565	7,210	-	(586,618)	-	(586,618)
Home and community services	1,565,297	105,935	17,649	155,188	(1,286,525)	-	(1,286,525)
Interest	518,167	-	-	-	(518,167)	-	(518,167)
Total governmental activities	20,953,761	1,712,230	116,549	797,739	(18,327,243)	-	(18,327,243)
Business-type activities:							
Water	2,696,757	3,626,236	-	-	-	929,479	929,479
Sewer	3,786,710	3,967,648	-	-	-	180,938	180,938
Total business-type activities	6,483,467	7,593,884	-	-	-	1,110,417	1,110,417
	\$ 27,437,228	9,306,114	116,549	797,739	(18,327,243)	1,110,417	(17,216,826)
General revenue:							
Taxes:							
Real property tax					9,819,656	-	9,819,656
Real property tax items					665,034	-	665,034
Sales tax distribution					4,282,910	-	4,282,910
Mortgage tax					513,249	-	513,249
Utilities tax					142,946	-	142,946
Franchise tax					232,845	-	232,845
Payments from other governments					54,854	-	54,854
Grants and contributions not restricted to specific programs					1,540,178	-	1,540,178
Unrestricted investment earnings					17,076	33,762	50,838
Sale of property and compensation for loss					58,358	3,900	62,258
Miscellaneous					486,176	-	486,176
Change in net position					(513,961)	1,148,079	634,118
Net position at beginning of year, before restatement					9,243,367	9,193,203	18,436,570
Prior period adjustments					10,242,861	(4,786,628)	5,456,233
Net position at beginning of year, as restated					19,486,228	4,406,575	23,892,803
Net position at end of year					\$ 18,972,267	5,554,654	24,526,921

See accompanying notes to financial statements.

CITY OF BEACON, NEW YORK
Balance Sheet - Governmental Funds
December 31, 2016

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Fund</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash and equivalents	\$11,579,158	4,761,311	343,205	16,683,674
Receivables:				
Taxes, net of \$199,353 allowance for doubtful accounts	1,894,963	-	-	1,894,963
Other	246,218	-	-	246,218
Mortgage loans receivable	-	-	25,063	25,063
Due from other funds	187,632	164,189	-	351,821
Due from other governments	243,543	-	-	243,543
State and federal receivables	12,062	737,573	155,188	904,823
Prepaid expenditures	414,103	-	-	414,103
Total assets	<u>\$14,577,679</u>	<u>5,663,073</u>	<u>523,456</u>	<u>20,764,208</u>
<u>Liabilities, Deferred Inflows and Fund Balances</u>				
Liabilities:				
Accounts payable	398,621	1,478,760	-	1,877,381
Accrued expenses	289,895	-	-	289,895
Retainage payable	-	469,991	-	469,991
Bond anticipation notes payable	-	16,554,220	-	16,554,220
Due to other funds	391,385	79,883	155,188	626,456
Due to other governments	1,882,612	-	-	1,882,612
Other liabilities	5,673	-	-	5,673
Total liabilities	<u>2,968,186</u>	<u>18,582,854</u>	<u>155,188</u>	<u>21,706,228</u>
Deferred inflows of resources	<u>1,720,611</u>	<u>203,719</u>	<u>25,063</u>	<u>1,949,393</u>
Fund balances (deficits):				
Nonspendable	414,103	-	-	414,103
Restricted for:				
Debt service	1,623	-	-	1,623
Miscellaneous	11,217	-	-	11,217
Community development	123,223	-	343,205	466,428
Assigned - appropriated	253,362	-	-	253,362
Unassigned (deficit)	9,085,354	(13,123,500)	-	(4,038,146)
Total fund balances (deficit)	<u>9,888,882</u>	<u>(13,123,500)</u>	<u>343,205</u>	<u>(2,891,413)</u>
Total liabilities, deferred inflows and fund balances	<u>\$14,577,679</u>	<u>5,663,073</u>	<u>523,456</u>	<u>20,764,208</u>

See accompanying notes to financial statements.

CITY OF BEACON, NEW YORK
Reconciliation of Balance Sheet - Governmental Funds
to the Statement of Net Position
Saturday, December 31, 2016

Total governmental fund balances	\$ (2,891,413)
Total net position reported for governmental activities in the statement of net position are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and therefore are not reported in the funds.	53,545,527
Long-term liabilities, including bonds payable, compensated absences liability, judgment and claims, landfill remediation liability, postemployment benefits and the City's proportionate share of retirement system's liability are not due and payable in the current period, and therefore, are not reported as liabilities in the funds.	(36,507,367)
Certain uncollected revenue/receivables are deferred in the funds, but are accrued for governmental activity purposes.	318,214
Deferred outflows and inflows of resources related to pension systems are not reported in the funds.	4,808,771
Accrued interest and accrued service award liabilities are not recorded in the funds.	<u>(301,465)</u>
Net position - governmental activities	<u><u>\$ 18,972,267</u></u>

See accompanying notes to financial statements.

CITY OF BEACON, NEW YORK
Statement of Revenue, Expenditures and Changes in Fund Balances -
Governmental Funds
Year ended December 31, 2016

	General <u>Fund</u>	Capital Projects <u>Fund</u>	Nonmajor Governmental <u>Fund</u>	Total Governmental <u>Funds</u>
Revenue:				
Real property taxes	\$ 9,941,508	-	-	9,941,508
Real property tax items	665,034	-	-	665,034
Non property tax items	4,658,700	-	-	4,658,700
Departmental income	922,737	64,278	4,050	991,065
Intergovernmental charges	53,893	-	-	53,893
Use of money and property	12,722	4,155	199	17,076
Licenses and permits	442,855	-	-	442,855
Fines and forfeitures	229,093	-	-	229,093
Sale of property and compensation for loss	58,358	-	-	58,358
Miscellaneous local sources	41,607	50,440	-	92,047
Interfund revenues	468,400	-	-	468,400
State aid	2,175,178	570,532	-	2,745,710
Federal aid	32,526	10,199	155,188	197,913
Total revenue	<u>19,702,611</u>	<u>699,604</u>	<u>159,437</u>	<u>20,561,652</u>
Expenditures:				
General government support	2,346,791	414	-	2,347,205
Public safety	6,053,999	178,265	-	6,232,264
Transportation	1,838,470	9,962,614	-	11,801,084
Culture and recreation	446,224	183,851	-	630,075
Home and community services	1,290,735	82,975	20,000	1,393,710
Employee benefits	4,519,684	-	-	4,519,684
Debt service	2,239,614	-	-	2,239,614
Total expenditures	<u>18,735,517</u>	<u>10,408,119</u>	<u>20,000</u>	<u>29,163,636</u>
Excess (deficiency) revenue over expenditures	<u>967,094</u>	<u>(9,708,515)</u>	<u>139,437</u>	<u>(8,601,984)</u>
Other financing sources (uses):				
BANS redeemed from appropriations	-	460,857	-	460,857
Proceeds from issuance of debt	-	3,408,000	-	3,408,000
Transfers in	-	155,188	-	155,188
Transfers out	-	-	(155,188)	(155,188)
Total other financing sources (uses)	<u>-</u>	<u>4,024,045</u>	<u>(155,188)</u>	<u>3,868,857</u>
Excess (deficiency) of revenue over expenditures and other sources (uses)	<u>967,094</u>	<u>(5,684,470)</u>	<u>(15,751)</u>	<u>(4,733,127)</u>
Fund balances (deficit) at beginning of year, before restatement	9,734,921	(16,970,702)	358,956	(6,876,825)
Prior period adjustments	<u>(813,133)</u>	<u>9,531,672</u>	<u>-</u>	<u>8,718,539</u>
Fund balances (deficit) at beginning of year, as restated	<u>8,921,788</u>	<u>(7,439,030)</u>	<u>358,956</u>	<u>1,841,714</u>
Fund balances (deficit) at end of year, as restated	<u>\$ 9,888,882</u>	<u>(13,123,500)</u>	<u>343,205</u>	<u>(2,891,413)</u>

See accompanying notes to financial statements.

CITY OF BEACON, NEW YORK
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances -
Governmental Funds to the Statement of Activities
Year ended December 31, 2016

Net change in fund balances	\$ (4,733,127)
The change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of certain assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	8,618,708
Bond proceeds are reported on the financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.	
Proceeds from issuance of debt	(3,408,000)
Repayment of serial bond principal	1,283,597
Some expenses reported in the statement of activities, such as accrued interest, compensated absences, accrued service award liabilities, landfill liabilities and other postemployment benefits do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	(1,652,312)
Increase in retirement expense as a result increases in the net pension liabilities.	(500,975)
Certain uncollected revenue/receivables are deferred in the funds, but are fully accrued for governmental activity purposes.	<u>(121,852)</u>
Change in net position of governmental activities	<u><u>\$ (513,961)</u></u>

See accompanying notes to financial statements.

CITY OF BEACON, NEW YORK
Statement of Net Position - Proprietary Funds
December 31, 2016

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Assets:			
Current assets:			
Cash and equivalents	\$ 3,313,763	3,038,775	6,352,538
Receivables, net of allowances:			
Charges for services	1,158,125	746,352	1,904,477
Other	17,267	319,609	336,876
Due from other governments	24,896	-	24,896
Internal balances	267,370	7,265	274,635
Prepaid expenses	424	-	424
Total current assets	<u>4,781,845</u>	<u>4,112,001</u>	<u>8,893,846</u>
Capital assets:			
Land	993,722	68,233	1,061,955
Infrastructure, net of accumulated depreciation	5,859,432	8,678,740	14,538,172
Buildings, machinery and equipment, net of accumulated depreciation	1,349,397	1,859,889	3,209,286
Construction in progress	<u>160,230</u>	<u>701,262</u>	<u>861,492</u>
Total capital assets	<u>8,362,781</u>	<u>11,308,124</u>	<u>19,670,905</u>
Total assets	<u>13,144,626</u>	<u>15,420,125</u>	<u>28,564,751</u>
Deferred outflows of resources - pensions	<u>337,712</u>	<u>477,044</u>	<u>814,756</u>
Liabilities:			
Current liabilities:			
Accounts payable	61,850	258,844	320,694
Accrued expenses	40,047	99,905	139,952
Bond anticipation notes payable	520,500	3,805,190	4,325,690
Current portion of compensated absences	6,839	9,210	16,049
Current portion of bonds payable	<u>298,682</u>	<u>575,256</u>	<u>873,938</u>
Total current liabilities	<u>927,918</u>	<u>4,748,405</u>	<u>5,676,323</u>
Noncurrent liabilities:			
Compensated absences	92,003	123,895	215,898
Bonds payable	5,268,510	8,756,157	14,024,667
Other postemployment benefits obligation	1,389,795	1,642,848	3,032,643
Net pension liabilities, proportionate share	<u>303,326</u>	<u>428,473</u>	<u>731,799</u>
Total noncurrent liabilities	<u>7,053,634</u>	<u>10,951,373</u>	<u>18,005,007</u>
Total liabilities	<u>7,981,552</u>	<u>15,699,778</u>	<u>23,681,330</u>
Deferred inflows of resources	<u>43,829</u>	<u>99,694</u>	<u>143,523</u>
Net position:			
Net investment in capital assets	4,249,935	-	4,249,935
Unrestricted	<u>1,207,022</u>	<u>97,697</u>	<u>1,304,719</u>
Total net position	<u>\$ 5,456,957</u>	<u>97,697</u>	<u>5,554,654</u>

See accompanying notes to financial statements.

CITY OF BEACON, NEW YORK
Statement of Revenue, Expenses and Changes in Net Position -
Proprietary Funds
Year ended December 31, 2016

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating revenue - charges for services and other fees	<u>\$ 3,626,236</u>	<u>3,967,648</u>	<u>7,593,884</u>
Operating expenses:			
Personal services	541,469	703,683	1,245,152
Administrative expenses	544,482	340,440	884,922
Maintenance, operations and contractual expenses	567,093	1,189,534	1,756,627
Employee benefits	608,927	915,243	1,524,170
Depreciation	<u>330,298</u>	<u>462,556</u>	<u>792,854</u>
Total operating expenses	<u>2,592,269</u>	<u>3,611,456</u>	<u>6,203,725</u>
Operating income	<u>1,033,967</u>	<u>356,192</u>	<u>1,390,159</u>
Nonoperating revenues (expenses):			
Sale of property	3,900	-	3,900
Investment income	4,223	29,539	33,762
Interest expense	<u>(104,488)</u>	<u>(175,254)</u>	<u>(279,742)</u>
Total nonoperating expenses	<u>(96,365)</u>	<u>(145,715)</u>	<u>(242,080)</u>
Change in net position	<u>937,602</u>	<u>210,477</u>	<u>1,148,079</u>
Net position at beginning of year, before restatement	5,106,242	4,086,961	9,193,203
Prior period adjustments	<u>(586,887)</u>	<u>(4,199,741)</u>	<u>(4,786,628)</u>
Net position at beginning of year, as restated	<u>4,519,355</u>	<u>(112,780)</u>	<u>4,406,575</u>
Net position at end of year	<u><u>\$ 5,456,957</u></u>	<u><u>97,697</u></u>	<u><u>5,554,654</u></u>

See accompanying notes to the financial statements.

CITY OF BEACON, NEW YORK
Statement of Cash Flows - Proprietary Funds
Year ended December 31, 2016

	Water <u>Fund</u>	Sewer <u>Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from users	\$4,423,050	4,661,423	9,084,473
Cash paid for employees and employee benefits	(1,055,144)	(1,356,604)	(2,411,748)
Cash paid for operating expenses	<u>(1,231,474)</u>	<u>(1,428,957)</u>	<u>(2,660,431)</u>
Net cash provided by operating activities	<u>2,136,432</u>	<u>1,875,862</u>	<u>4,012,294</u>
Cash flows from investing activities - advances from (payments to) other funds	<u>1,956,239</u>	<u>(1,024,861)</u>	<u>931,378</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(142,366)	(189,983)	(332,349)
Interest payments on debt	(130,563)	(208,878)	(339,441)
Repayments of debt	(738,700)	(474,672)	(1,213,372)
Proceeds from debt issuance	<u>106,405</u>	<u>2,113,143</u>	<u>2,219,548</u>
Net cash provided by (used in) capital and related financing activities	<u>(905,224)</u>	<u>1,239,610</u>	<u>334,386</u>
Cash flows from investing activities:			
Investment income	4,223	29,539	33,762
Sale of property	<u>3,900</u>	<u>-</u>	<u>3,900</u>
Net cash provided by investing activities	<u>8,123</u>	<u>29,539</u>	<u>37,662</u>
Net change in cash and equivalents	3,195,570	2,120,150	5,315,720
Cash and equivalents at beginning of year	<u>118,193</u>	<u>918,625</u>	<u>1,036,818</u>
Cash and equivalents at end of year	<u>\$3,313,763</u>	<u>3,038,775</u>	<u>6,352,538</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$1,033,967	356,192	1,390,159
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	330,298	462,556	792,854
Change in:			
Receivables	796,814	693,775	1,490,589
Prepaid expenses	(424)	-	(424)
Accounts payable	(119,475)	91,461	(28,014)
Accrued expenses	(57,050)	9,556	(47,494)
Compensated absences	(23,410)	33,266	9,856
Net pension liabilities, proportionate share	242,564	342,643	585,207
Other postemployment benefits obligation	140,679	179,564	320,243
Deferred outflow of resources - pensions	(243,882)	(344,502)	(588,384)
Deferred inflows of resources - pensions	<u>36,351</u>	<u>51,351</u>	<u>87,702</u>
Net cash provided by operating activities	<u>\$2,136,432</u>	<u>1,875,862</u>	<u>4,012,294</u>

See accompanying notes to financial statements.

CITY OF BEACON, NEW YORK
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2016

	<u>Service Award Program</u>	<u>Agency Funds</u>
Assets:		
Cash and cash equivalents	\$ 10,616	287,161
Contributions receivable	61,542	-
Investments, at fair value:		
Mutual funds equity	196,146	-
Mutual funds fixed income	245,993	-
Mixed assets	<u>96,827</u>	<u>-</u>
Total investments	<u>538,966</u>	<u>-</u>
Prepaid benefits	<u>3,780</u>	<u>-</u>
Total assets	<u>614,904</u>	<u>287,161</u>
Liabilities - escrow funds returnable and other liabilities	<u>-</u>	<u>287,161</u>
Net position - held in trust for service award program benefits	<u><u>\$ 614,904</u></u>	<u><u>-</u></u>

See accompanying notes to financial statements.

CITY OF BEACON, NEW YORK
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year ended December 31, 2016

	<u>Service Award Program</u>
Additions:	
Contributions	\$ 61,542
Investment earnings:	
Interest and dividends	18,830
Net increase in fair value of investments	<u>18,715</u>
Net investment earnings	<u>37,545</u>
Total additions	<u>99,087</u>
Deductions:	
Benefits	43,600
Administrative costs	<u>4,832</u>
Total deductions	<u>48,432</u>
Change in net position	50,655
Net position at beginning of year	<u>564,249</u>
Net position at end of year	<u><u>\$ 614,904</u></u>

See accompanying notes to financial statements.

CITY OF BEACON, NEW YORK

Notes to Financial Statements

December 31, 2016

(1) Summary of Significant Accounting Policies

The City of Beacon, New York ("City") was incorporated on May 15, 1913, under the provisions of the State of New York. The City operates under a Charter form of government and provides the following services as authorized by its charter: public safety (police and fire), streets, sanitation, culture-recreation, public improvements, planning and zoning, and general administrative services. Other services include utilities.

The financial statements of the City of Beacon have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. The more significant accounting policies established in GAAP and used by the City are discussed below.

(a) Financial Reporting Entity

The City, for financial purposes, includes all of the funds relevant to the operations of the City of Beacon, New York. The financial statements include organizations, functions and activities that are controlled by or dependent upon the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing board. The City has determined that the following entities are not component units for the purposes of the financial statements of the City of Beacon: City of Beacon Housing Authority, Beacon City School District and The Howland Public Library.

(b) Government-Wide Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole), the fund financial statements (reporting the City's major funds and fiduciary funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's police and fire protection, parks and recreation, public works, and general administrative services are classified as governmental activities. The City's water and sewer services are classified as business-type activities.

In the government-wide statement of net position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts: net investment in capital assets; restricted net position; and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(b) Government-Wide Financial Statements, Continued

The government-wide statement of activities reports both the gross and net cost of each of the City's functions and business-type activities. The functions are also supported by general revenues (property and sales taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, which include charges for services, operating and capital grants. Program revenues must be directly associated with the function (police, public works, community and youth services, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales or mortgage taxes, intergovernmental revenues, interest income, etc).

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

(c) Basic Financial Statements - Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental fund is at least 10 percent of the corresponding total for all funds of that category or type; and
- Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The following fund types are used by the City:

(1) Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income.

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(c) Basic Financial Statements - Fund Financial Statements, Continued

(1) Governmental Funds, Continued

The following is a description of the governmental funds of the City:

- General fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds).
- Nonmajor governmental fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

(2) Proprietary Funds

Proprietary funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs. Most revenues are considered operating revenues, except for investment income. The City's sewer and water funds are reported as proprietary fund.

(3) Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net position and changes in net position and are reported using accounting principles similar to proprietary funds.

The City's fiduciary funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

(d) Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

(1) Accrual

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary funds financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(d) Basis of Accounting, Continued

(2) Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

(e) Fund Balances

Fund balance is broken down into five different classifications: non-spendable, restricted, committed, assigned, and unassigned.

Non-spendable consists of assets that are inherently non-spendable in the current period either because of their form or because they must be maintained intact, including prepaid items, inventories, long-term portions of loans receivable, financial assets held for resale, and principal of endowments.

Restricted consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.

Committed consists of amounts that are subject to a purpose constraint imposed by a formal action of the government's highest level of decision-making authority before the end of the fiscal year, and that require the same level of formal action to remove the constraint. The City is the decision-making authority that can, by city ordinance prior to the end of the fiscal year, commit fund balance.

Assigned consists of amounts that are subject to a purpose constraint that represents an intended use established by the government's highest level of decision-making authority, or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance. The City, city ordinance, has authorized the City administrator to assign fund balance.

Unassigned represents the residual classification for the government's general fund, and could report a surplus or deficit. In funds other than the general fund, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

When resources are available from multiple classifications, the City spends funds in the following order: restricted, committed, assigned, unassigned.

See note 1(p) for an analysis of the City's classified fund equity.

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(f) Adoption of New Accounting Standards

During the year ended December 31, 2016, the City adopted the following standards:

GASB Statement No. 72 - "Fair Value Measurement and Application." This Statement 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) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under generally accepted accounting principles are as follows:

- Level 1 - Valuations are based on quoted prices in active markets for identical asset or liabilities that the component units have the ability to access.
- Level 2 - Valuations are based on quoted prices in markets that are not active or for which all significant inputs are observable directly, or indirectly.
- Level 3 - Valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

GASB Statement No. 77 - "Tax Abatement Disclosures." This Statement requires disclosure of the tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues.

(g) Cash and Investments

Cash includes amounts in demand and time deposits as well as short-term investments. State statutes govern the investment policies of the City. Special time deposits and certificates of deposit not covered by Federal Deposit Insurance must be collateralized by the banking institutions with investments governed under state statutes.

For purposes of the proprietary funds statement of cash flows, the City considers all cash and cash equivalents with an original maturity of three months or less to be cash equivalents.

The cash in financial institutions of the City at December 31, 2016, is as follows:

	<u>General Fund</u>	<u>Nonmajor Fund</u>	<u>Capital Projects Fund</u>	<u>Business- Type Activities</u>	<u>Total</u>
Non-interest bearing accounts	\$ 300	-	-	-	300
Interest bearing accounts	<u>12,065,868</u>	<u>333,716</u>	<u>4,925,623</u>	<u>3,126,970</u>	<u>20,452,177</u>
	<u>\$ 12,066,168</u>	<u>333,716</u>	<u>4,925,623</u>	<u>3,126,970</u>	<u>20,452,477</u>

The carrying amount of cash on the financial statements represent the cash balances less reconciling items, such as outstanding checks.

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(g) Cash and Investments, Continued

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. While the City does not have a specific policy for custodial credit risk, New York State statutes govern the City's investment policies, as discussed previously in these notes. Governmental Accounting Standards Board Statement No. 40 - "Deposit and Investment Risk Disclosure," directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance, or collateralized by securities held by the City or its agent in the City's name. The City's cash balances not covered by depository insurance were fully collateralized with securities held by the City's third party custodian and not subject to custodial credit risk.

(h) Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	50 years
Water and sewer system	30-40 years
Machinery and equipment	8-15 years
Improvements	20 years
Other infrastructure	15 years

(i) Compensated Absences

Vacation, sick days and personal days are accumulated at varying rates pertaining to the type of City employee. The City accrues a liability for compensated absences which meet the following criteria:

- The City's obligations relating to employees rights to compensation for future absences are attributable to employee's services already rendered;
- The obligation relates to rights that vest or accumulate;
- Payment of the compensation is probable;
- The amount can be reasonably estimated.

In accordance with the above criteria, the City has accrued a liability for vacation and sick pay which has been earned and not taken by City employees. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations. It is anticipated that none of these liabilities will be liquidated with expendable available financial resources.

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(j) Interfund Activity

Interfund activity is reported as, either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

(k) Budgets

The City employs formal budgetary accounting as a management tool, on a basis consistent with generally accepted accounting principles. During the year, a budget was adopted and modified by the city council for the general fund. Budgetary controls are established or adopted for the capital projects fund on a project basis and continue until the project is completed. Unused appropriations of the annually budgeted funds lapse at the end of the year.

(l) Insurance

The City of Beacon assumes the liability for most risk including, but not limited to, property damage and personal injury liability. Such risks are covered by the purchase of commercial insurance. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The City has recorded an estimated liability, \$60,000, in the statement of net position for uninsured deductible amounts; see long-term liabilities (note 5). Workers compensation coverage is provided through a retrospective policy, wherein premiums are recorded based on the ultimate cost of the experience to date of workers in similar occupations.

(m) Property Taxes

The City approves the budget for the current year on the first Monday in December. Property taxes are levied on January 1. Penalties and interest are assessed after February 28. Unpaid taxes are converted to tax sale certificates for a period of two years and then sold at auction.

(n) Deferred Outflows and Inflows of Resources

The City will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(n) Deferred Outflows and Inflows of Resources, Continued

The City reported the following deferred outflows of resources:

	<u>Balance Sheet - Governmental Funds</u>	<u>Statement of Net Position Governmental Activities</u>	<u>Business-type Activities</u>
Pensions	\$ <u> -</u>	<u>6,042,189</u>	<u>814,756</u>

In addition to liabilities, the City will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The City reported the following deferred inflows of resources:

	<u>Balance Sheet - Governmental Funds</u>	<u>Statement of Net Position Governmental Activities</u>	<u>Business-type Activities</u>
State aid	\$ 1,408,070	1,408,070	-
Property taxes	312,541	-	-
Premium on bond anticipation notes	203,719	203,719	53,233
Rehabilitation loans	25,063	25,063	-
Pensions	<u> -</u>	<u>911,983</u>	<u>90,290</u>
	\$ <u>1,949,393</u>	<u>2,548,835</u>	<u>143,523</u>

(o) Long-Term Liabilities

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the long-term liabilities.

(p) Classifications of Fund Equity

In accordance with GASB 54, the City has classified fund equity based on the constraints imposed on resources. The following provides the description and amounts of these classifications:

	<u>Balance (deficit) at December 31, 2016</u>
General fund:	
Non-spendable	\$ 414,103
Restricted:	
Debt service	1,623
Miscellaneous	11,217
Community development	<u>123,223</u>
Total restricted	<u>136,063</u>

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(p) Classifications of Fund Equity, Continued

Assigned - appropriated	\$ 253,362
Unassigned	<u>9,085,354</u>
Total general fund	<u>9,888,882</u>
Capital projects fund - unassigned	\$ (13,123,500)
Nonmajor fund - restricted (community development)	<u>343,205</u>
Total fund equity	\$ <u>(2,891,413)</u>

(q) Allowance for Uncollectible Accounts

The City has recorded an estimated allowance for un-collectible property taxes based on average collections for the prior three years. No allowance has been recorded for un-collectible utility accounts in the proprietary funds. Accounts past due longer than six months, are placed on the property tax rolls in the succeeding year. Those accounts continuing to be past due are then included in the calculation of uncollectible property taxes.

(r) Use of Estimates

The preparation of basic 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 amounts reported in the basic financial statements and the accompanying notes. Actual results could differ from those estimates.

(s) Subsequent Events

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued.

(2) Receivables

Other receivables at December 31, 2016, consists of the following:

	<u>General Fund</u>
Franchise and utility fees	\$ 71,736
Other fees and reimbursements	168,843
NYMIR investment	<u>5,639</u>
Totals	\$ <u>246,218</u>

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(2) Receivables, Continued

State and federal receivables as of December 31, 2016, consists of the following:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Fund</u>	<u>Total</u>
State aid receivable	\$ 12,062	737,573	-	749,635
Federal aid receivable	<u>-</u>	<u>-</u>	<u>155,188</u>	<u>155,188</u>
Totals	\$ <u>12,062</u>	<u>737,573</u>	<u>155,188</u>	<u>904,823</u>

(3) Interfund Receivables, Payables and Transfers

The following is a summary of amounts due from and due to other funds as of December 31, 2016:

	<u>Amount receivable</u>	<u>Amount payable</u>
General fund	\$ 187,632	391,385
Capital projects fund	164,189	79,883
Nonmajor fund	-	155,188
Proprietary funds:		
Water	267,370	-
Sewer	<u>7,265</u>	<u>-</u>
Totals	\$ <u>626,456</u>	<u>626,456</u>
	<u>Transfers in</u>	<u>Transfers out</u>
Capital projects fund	\$ 155,188	-
Nonmajor fund	<u>-</u>	<u>155,188</u>
Totals	\$ <u>155,188</u>	<u>155,188</u>

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(4) Capital Assets

The following is a summary of changes in the capital assets:

	Balance January 1, <u>2016</u>	Prior Period <u>Adjustments</u>	<u>Additions</u>	<u>Disposals</u>	Balance December 31, <u>2016</u>
Governmental activities:					
Land	\$ 10,538,141	-	-	-	10,538,141
Buildings	5,435,715	-	-	-	5,435,715
Improvements	823,088	-	173,754	-	996,842
Machinery and equipment	9,301,828	411,678	288,311	(26,809)	9,975,008
Infrastructure	29,646,744	-	-	-	29,646,744
Construction in progress	<u>7,493,175</u>	<u>-</u>	<u>9,933,479</u>	<u>-</u>	<u>17,426,654</u>
Totals at historical cost	<u>63,238,691</u>	<u>411,678</u>	<u>10,395,544</u>	<u>(26,809)</u>	<u>74,019,104</u>
Less accumulated depreciation:					
Buildings	2,437,260	-	148,929	-	2,586,189
Improvements	751,890	-	12,453	-	764,343
Machinery and equipment	7,105,420	59,508	473,962	(26,809)	7,612,081
Infrastructure	<u>8,369,472</u>	<u>-</u>	<u>1,141,492</u>	<u>-</u>	<u>9,510,964</u>
Total accumulated depreciation	<u>18,664,042</u>	<u>59,508</u>	<u>1,776,836</u>	<u>(26,809)</u>	<u>20,473,577</u>
Governmental activities capital assets, net	\$ <u>44,574,649</u>	<u>352,170</u>	<u>8,618,708</u>	<u>-</u>	<u>53,545,527</u>
Business-type activities:					
Land	1,061,955	-	-	-	1,061,955
Buildings	10,850,042	-	-	-	10,850,042
Improvements	12,505	-	-	-	12,505
Machinery and equipment	437,940	-	119,623	-	557,563
Infrastructure	20,348,588	-	-	-	20,348,588
Construction in progress	<u>648,766</u>	<u>-</u>	<u>212,726</u>	<u>-</u>	<u>861,492</u>
Totals at historical cost	<u>33,359,796</u>	<u>-</u>	<u>332,349</u>	<u>-</u>	<u>33,692,145</u>
Less accumulated depreciation:					
Buildings	7,867,888	-	128,598	-	7,996,486
Improvements	12,505	-	-	-	12,505
Machinery and equipment	152,883	-	48,946	-	201,829
Infrastructure	<u>5,195,110</u>	<u>-</u>	<u>615,310</u>	<u>-</u>	<u>5,810,420</u>
Total accumulated depreciation	<u>13,228,386</u>	<u>-</u>	<u>792,854</u>	<u>-</u>	<u>14,021,240</u>
Business-type capital assets, net	\$ <u>20,131,410</u>	<u>-</u>	<u>(460,505)</u>	<u>-</u>	<u>19,670,905</u>

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(4) Capital Assets, Continued

Depreciation was charged to governmental and business-type activities as follows:

General government support	\$ 129,251
Public safety	275,421
Transportation	1,343,935
Culture and recreation	24,629
Home and community services	<u>3,600</u>
Total governmental activities	1,776,836
Business-type activities	<u>792,854</u>
Total depreciation expense	\$ <u>2,569,690</u>

(5) Liabilities

(a) Bond Anticipation Notes Payable

Liabilities for bond anticipation notes of governmental funds are generally accounted for in the capital projects fund, since maturities cannot exceed one year. However, state law allows the notes to be renewed, up to five years for capital purposes and up to the period of probable usefulness for assessable improvements, provided that stipulated annual reductions of principal are made.

The bond anticipation notes payable as of December 31, 2016 for the capital projects fund is as follows:

<u>Purpose</u>	<u>Original issue date</u>	<u>Maturity date</u>	<u>Interest rate</u>	<u>Original amount of issue</u>	<u>Amount outstanding at December 31, 2016</u>
Governmental activities -					
Capital projects fund:					
Highway garage	05/26/16	05/26/17	2.00%	\$ 6,385,000	5,445,000
Equipment - general	05/26/16	05/26/17	2.00%	1,592,900	1,504,925
Building upgrades	05/26/16	05/26/17	2.00%	2,318,682	2,194,000
DPW facility	05/26/16	05/26/17	2.00%	3,077,546	3,077,546
LED street lights	05/26/16	05/26/17	2.00%	1,960,000	1,960,000
Road reconstruction -					
Rombout Avenue	05/26/16	05/26/17	2.00%	<u>2,372,749</u>	<u>2,372,749</u>
Total				\$ <u>17,706,877</u>	<u>16,554,220</u>

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(5) Liabilities, Continued

(a) Bond Anticipation Notes Payable, Continued

Bond anticipation notes payable as of December 31, 2016 for business-type activities is as follows:

<u>Purpose</u>	<u>Original issue date</u>	<u>Maturity date</u>	<u>Interest rate</u>	<u>Original amount of issue</u>	<u>Amount outstanding at December 31, 2016</u>
Business-type activities:					
Water system improvements	05/26/16	05/26/17	2.00%	\$ 2,723,000	278,000
Equipment - water	05/26/16	05/26/17	2.00%	142,500	142,500
Sewer line improvements	05/26/16	05/26/17	2.00%	4,997,625	1,101,000
Sewer plant improvements	05/26/16	05/26/17	2.00%	895,500	589,875
Equipment - sewer	05/26/16	05/26/17	2.00%	48,000	48,000
Upgrade SCADA system - water	05/26/16	05/26/17	2.00%	100,000	100,000
Road reconstruction - Rombout Avenue (sewer)	05/26/16	05/26/17	2.00%	1,166,315	1,166,315
I & I improvements	05/26/16	05/26/17	2.00%	<u>900,000</u>	<u>900,000</u>
Total				<u>\$10,972,940</u>	<u>4,325,690</u>

The bond anticipation note matured on May 25, 2017 and was reissued for \$20,263,700 with interest at 2%, maturing on May 25, 2018.

(b) Long-Term Debt

The City borrows money in order to acquire or construct buildings and public improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. Long-term debt also consists of landfill costs, judgments and claims, compensated absences and other postemployment benefits. The provision to be made in future budgets for capital indebtedness represents the amount, exclusive of interest, authorized to be collected in future years from taxpayers and others for liquidation of the long-term liabilities.

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(5) Liabilities, Continued

(b) Long-Term Debt, Continued

(1) Changes

The changes in the City's indebtedness during the year ended December 31, 2016, are summarized as follows:

Governmental activities:

	Balance January 1, <u>2016</u>	<u>Increase</u>	<u>Reclass</u>	<u>Decrease</u>	Balance December 31, <u>2016</u>	Amounts due within <u>one year</u>
Serial bonds	\$ 11,259,042	3,408,000	(12,050)	(1,283,597)	13,371,395	1,436,062
Landfill costs	96,000	-	-	(8,000)	88,000	8,000
Judgments and claims	60,000	-	-	-	60,000	-
Compensated absences	2,113,258	-	-	(109,469)	2,003,789	138,646
Other postemployment benefits	14,315,603	1,746,774	-	-	16,062,377	-
Net pension liabilities	<u>622,209</u>	<u>4,299,597</u>	<u>-</u>	<u>-</u>	<u>4,921,806</u>	<u>-</u>
Total	\$ <u>28,466,112</u>	<u>9,454,371</u>	<u>(12,050)</u>	<u>(1,401,066)</u>	<u>36,507,367</u>	<u>1,582,708</u>

Business-type activities:

	Balance January 1, <u>2016</u>	<u>Increase</u>	<u>Reclass</u>	<u>Decrease</u>	Balance December 31, <u>2016</u>	Amounts due within <u>one year</u>
Serial bonds	\$ 4,200,959	11,667,000	12,050	(981,404)	14,898,605	873,938
Compensated absences	222,091	9,856	-	-	231,947	16,049
Other postemployment benefits	2,712,400	320,243	-	-	3,032,643	-
Net pension liabilities	<u>146,592</u>	<u>585,207</u>	<u>-</u>	<u>-</u>	<u>731,799</u>	<u>-</u>
Total	\$ <u>7,282,042</u>	<u>12,582,306</u>	<u>12,050</u>	<u>(981,404)</u>	<u>18,894,994</u>	<u>899,987</u>

Compensated absences are shown net, since it is impracticable to determine the changes separately.

(2) Description

Serial bonds payable as of December 31, 2016, are as follows:

Governmental activities:

<u>Purpose</u>	<u>Original issue date</u>	<u>Maturity date</u>	<u>Interest rate</u>	<u>Original amount of issue</u>	<u>Amount outstanding at December 31, 2016</u>
Public improvement	11/12/08	11/15/23	3.25-5.00%	\$ 6,135,000	3,355,000
Public improvement	03/15/11	08/15/20	2.00-4.00%	2,676,832	1,297,144
Public improvement	10/01/14	10/01/24	4.00-5.00%	5,942,700	5,311,251
Public improvement	05/15/16	05/15/39	2.00-3.00%	<u>3,408,000</u>	<u>3,408,000</u>
Totals				\$ <u>18,162,532</u>	<u>13,371,395</u>

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(5) Liabilities, Continued

(b) Long-Term Debt, Continued

(2) Description, Continued

Business-type activities:

<u>Purpose</u>	<u>Original issue date</u>	<u>Maturity date</u>	<u>Interest rate</u>	<u>Original amount of issue</u>	<u>Amount outstanding at December 31, 2016</u>
Wastewater treatment	03/14/02	04/15/21	1.21-4.98%	\$ 2,356,000	685,000
Public improvement - water	03/15/11	08/15/20	2.00-4.00%	145,380	61,427
Public improvement - sewer	03/15/11	08/15/20	2.00-4.00%	597,680	291,428
Public improvement - water	10/01/14	10/01/24	4.00-5.00%	1,255,500	1,162,765
Public improvement - sewer	10/01/14	10/01/24	4.00-5.00%	1,171,800	1,030,985
Public improvement - water	05/15/16	05/15/39	2.00-3.00%	4,343,000	4,343,000
Public improvement - sewer	05/15/16	05/15/39	2.00-3.00%	<u>7,324,000</u>	<u>7,324,000</u>
Totals				\$ <u>17,193,360</u>	<u>14,898,605</u>

(3) Annual Amortization

The annual requirements to amortize bonded debt as of December 31, 2016, are as follows:

<u>Year ending December 31,</u>	<u>Governmental Activities</u>			<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,436,062	428,039	1,864,101	873,938	384,932	1,258,870
2018	1,504,759	367,153	1,871,912	900,241	354,723	1,254,964
2019	1,547,516	314,435	1,861,951	912,484	329,348	1,241,832
2020	1,597,061	264,637	1,861,698	932,939	303,460	1,236,399
2021	1,303,579	212,611	1,516,190	861,421	276,810	1,138,231
2022-2026	3,864,144	498,193	4,362,337	3,165,856	1,121,976	4,287,832
2027-2031	735,855	243,247	979,102	2,519,145	832,737	3,351,882
2032-3036	828,547	146,083	974,630	2,836,453	500,105	3,336,558
2037-2039	<u>553,872</u>	<u>25,229</u>	<u>579,101</u>	<u>1,896,128</u>	<u>86,371</u>	<u>1,982,499</u>
Totals	<u>\$13,371,395</u>	<u>2,499,627</u>	<u>15,871,022</u>	<u>14,898,605</u>	<u>4,190,462</u>	<u>19,089,067</u>

(6) Operating Leases

The City is committed under various leases for office and communication equipment. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended December 31, 2016 amounted to \$12,659. These leases run for a maximum term of up to five years with renewal or purchase options available to the City.

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(6) Operating Leases, Continued

At December 31, 2016, the approximate future annual operating lease commitments, subject to appropriation of funds, were as follows:

<u>Year ending December 31,</u>	<u>Operating leases</u>
2017	\$ 11,628
2018	2,821
2019	<u>420</u>
Totals	\$ <u>14,869</u>

(7) Capital Leases

In December of 2012, the City entered into a five year financing lease for three police vehicles with a total value of \$81,339. The lease will be paid in five installments of \$17,614 which includes interest of 2.71% annually. The first payment was made in fiscal year 2013.

The remaining minimum required lease payments are as follows:

<u>Year ending December 31,</u>	
2017	\$ 17,614
Less interest portion	<u>465</u>
Total minimum lease payments	\$ <u>17,149</u>

(8) Due to Other Governments

The City collects unpaid property taxes and payments in lieu of taxes (PILOT) on behalf of the Beacon City School District and Dutchess County. At December 31, 2016, unpaid school taxes and interest of \$1,882,612 are due to the Beacon City School District. However, delinquent taxes and interest of \$1,152,339 have not yet been collected by the City and are included in Taxes Receivable.

(9) Pension Plans

(a) New York State and Local Retirement Systems

Plan Description

The City of Beacon participates in the New York State and Local Employees' Retirement System (ERS), the New York State and Local Police and Fire Retirement System (PFRS) and the Public Employees' Group Life Insurance Plan (Systems). These are cost-sharing multiple-employer retirement systems. The 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

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(9) Pension Plans, Continued

(a) New York State and Local Retirement Systems, Continued

Plan Description, Continued

Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their funds. The 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, NY 12244.

Funding Policy

The Systems are generally noncontributory. Tiers I-IV are noncontributory after ten years of participation and tier V is required to contribute 3% of their salary, and tier VI is required to contribute a minimum of 3.5% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates of participating employers expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by those employers to the pension accumulation fund.

The City is required to contribute to the System at an actuarially determined rate. The required contributions for the current and prior two calendar years were:

	<u>ERS</u>	<u>PFRS</u>
2016	\$ 491,510	971,273
2015	544,748	804,014
2014	580,457	1,107,511

The City's contributions made to the System were equal to 100% of the contributions required for those years.

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

At December 31, 2016, the City reported a liability of \$5,653,605 for its proportionate share of the net pension liability. This amount is recorded as a long-term liability due to the NYS Retirement System. The net pension liability was measured as of March 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2015. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At March 31, 2016, the City's proportionate share of the ERS liability was 0.0126580%, and 0.1223309% of the PFRS liability.

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(9) Pension Plans, Continued

(a) New York State and Local Retirement Systems, Continued

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

For the year ended December 31, 2016, the City recognized pension liabilities of \$2,031,646 for ERS, and \$3,621,959 for PFRS in the statement of activities. At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>ERS</u>		<u>PFRS</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	\$ 10,266	240,818	32,486	547,597
Changes of assumptions	541,779	-	1,561,414	-
Net difference between projected and actual investment earnings on pension plan investments	1,205,284	-	2,029,815	-
Changes in proportion and differences between the City's contributions and proportionate share of contributions	13,119	9,848	-	204,010
City's contributions subsequent to the March 31, 2016 measurement date	<u>491,509</u>	<u>-</u>	<u>971,273</u>	<u>-</u>
Total	\$ <u>2,261,957</u>	<u>250,666</u>	<u>4,594,988</u>	<u>751,607</u>

Total to financial statements:

	<u>ERS</u>	<u>PFRS</u>
Governmental activities	\$ 6,042,189	858,750
Water fund	337,712	43,829
Sewer fund	<u>477,044</u>	<u>99,694</u>
	\$ <u>6,856,945</u>	<u>1,002,273</u>

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(9) Pension Plans, Continued

(a) New York State and Local Retirement Systems, Continued

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

<u>Year ended December 31,</u>	<u>ERS</u>	<u>PFRS</u>
2017	384,994	681,869
2018	384,994	681,869
2019	384,994	681,869
2020	364,800	653,606
2021	-	172,895

Actuarial Assumptions

The total pension liability for the March 31, 2016 measurement date was determined by using an actuarial valuation as of April 1, 2015, with update procedures used to roll forward the total pension liability to March 31, 2016. The actuarial valuation for ERS and PFRS used the following actuarial assumptions:

Inflation	2.5%
Salary scale	3.8% in ERS, 4.5% in PFRS, indexed by service
Investment rate of return, including inflation	7.0% compounded annually, net of investment expenses
Cost of living adjustments	1.3% annually
Decrements	Developed from the Plan's 2015 experience study of the period April 1, 2010 through March 31, 2015
Mortality improvement	Society of Actuaries Scale MP-2014

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 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 on the next page:

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(9) Pension Plans, Continued

(a) New York State and Local Retirement Systems, Continued
Actuarial Assumptions, Continued

	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
Asset type:		
Domestic equity	38%	7.30%
International equity	13%	8.55%
Private equity	10%	11.00%
Real estate	8%	8.25%
Absolute return strategies	3%	6.75%
Opportunistic portfolio	3%	8.60%
Real assets	3%	8.65%
Bonds and mortgages	18%	4.00%
Cash	2%	2.25%
Inflation - indexed bonds	<u>2%</u>	4.00%
	<u>100%</u>	

Discount Rate

The discount rate used to calculate the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon these assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity to the Proportionate Share of the Net Pension Liability to the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.0 percent) or 1 percentage point higher (8.0 percent) than the current rate:

	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
City's proportionate share of the net ERS pension (asset) liability	\$ <u>4,581,215</u>	<u>2,031,646</u>	(122,630)
City's proportionate share of the net PFRS pension (asset) liability	\$ <u>8,090,026</u>	<u>3,621,959</u>	(123,250)
Total at December 31, 2016		\$ <u>5,653,605</u>	

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(9) Pension Plans, Continued

(a) New York State and Local Retirement Systems, Continued

Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the employers as of March 31, 2016 were as follows:

	<u>Dollars in Thousands</u>	
	Employees' Retirement System	Police and Fire Retirement System
Employers' total pension liability	\$ 172,303,544	30,347,727
Plan net position	<u>(156,253,265)</u>	<u>(27,386,940)</u>
Employers' net pension liability	\$ <u>16,050,279</u>	<u>2,960,787</u>
Ratio of plan net position to the employers' total pension liability	90.7%	90.2%

(b) Volunteer Firefighter Length of Service Awards Program (LOSAP)

Program Description

The City established a defined benefit Service Award Program (referred to as a "LOSAP" - Length of Service Award Program - under Section 457(e)(11) of the Internal Revenue Code) effective January 1, 2001 for the active volunteer firefighter members of the City of Beacon Fire Department.

The program was established pursuant to Article 11-A of the New York State General Municipal Law. The program provides municipally-funded deferred compensation to volunteer firefighters to facilitate the recruitment and retention of active volunteer firefighters. The city council of the City of Beacon is the trustee and plan administrator for the Service Award Program.

The information contained in this note is based on information for the City's Service Award Program for the program year ending on December 31, 2016, which is the most recent information available.

Participation, Vesting and Service Credit

In a defined benefit LOSAP, participating volunteers begin to be paid a service award upon attainment of the program's entitlement age. An eligible program participant is defined by the program sponsor to be an active volunteer firefighter who is at least 16 years of age and has earned one (1) year of Service Award Program service credit. The amount of service award paid to a volunteer is based upon the number of years of service credit the volunteer earned under the program for performing active volunteer firefighter activities.

Participants acquire a right to be paid a service award after earning credit for five (5) years of service, upon attaining the program's entitlement age while an active volunteer, or becoming total and permanently disabled while an active volunteer. The program's entitlement age is age 62. An active volunteer firefighter earns a year of Service Award

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(9) Pension Plans, Continued

(b) Volunteer Firefighter Length of Service Awards Program (LOSAP), Continued

Program service credit for each calendar year after the establishment of the program in which he or she accumulated fifty (50) points. Points are granted for the performance of certain firefighter activities in accordance with a system established by the sponsor on the basis of a statutory list of activities and point values. A participant may also receive Service Award Program service credit for five (5) years of active volunteer firefighting service rendered prior to the establishment of the program as an active volunteer firefighter member of the City of Beacon Fire Department.

Benefits

A participant's service award benefit is paid as a ten year certain and continuous monthly payment life annuity. The amount payable each month equals \$20 multiplied by the total number of years of Service Award Program service credit earned by the participant under the point system. The maximum number of years of service credit a participant may earn under the program is 20 years.

Currently, there are no other forms of payment of a participant's account balance under the program. Except in the case of pre-entitlement age death or total and permanent disablement, a participant's service award will not be paid until he or she attains the entitlement age. Volunteers who continue to be active after attaining the entitlement age and beginning to be paid a service award continue to have the opportunity to earn program credit and to thereby increase their service award payments.

Fiduciary Investment and Control

After the end of each calendar year, the fire department prepares and certifies a list of names of all persons who were active volunteer members of the fire department during the year indicating which volunteers earned fifty points. The certified list is delivered to the city council for the council's review and approval. The fire department must maintain the point system records to verify each volunteer's points on forms provided and/or approved by the council. The city council has retained Penflex, Inc. (Penflex) to assist in the administration of the program.

Based on the certified calendar year volunteer firefighter listings, Penflex determines and certifies in writing to the city council the amount of the service award to be paid to a participant or to a participant's designated beneficiary. The person(s) authorized by the city council then authorizes, in writing, the custodian of the City of Beacon LOSAP Trust funds to pay the service award. No service award benefit payment is made without the written certification from Penflex and the written directive from an authorized representative of the city council.

Penflex bills the City of Beacon for the services it provides. Penflex's invoices are authorized for payment by the city council in the same manner as any other invoice presented to the City for payment. The City pays Penflex invoices from its general fund.

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(9) Pension Plans, Continued

(b) Volunteer Firefighter Length of Service Awards Program (LOSAP), Continued

Fiduciary Investment and Control, Continued

Program assets are required to be held in trust by Article 11-A, for the exclusive purpose of providing benefits to participants and their beneficiaries or for the purpose of defraying the reasonable expenses of operation and administration of the program. The city council created a Service Award Program trust fund through the adoption of a Trust Document, a copy of which is available from the fire department secretary. The city council is the program trustee.

Authority to invest the program assets is vested in the program trustee. Program assets are invested in accordance with a statutory prudent person rule.

The city council has retained RBC Dain Rauscher to provide investment management services.

The city council is required to retain an actuary to determine the amount of the City's contributions to the plan. The actuary retained by the City for this purpose is Craig Relyea, ASA of Penflex, Inc.; Mr. Relyea is a member of the American Society of Actuaries. Portions of the following information are derived from a report prepared by the actuary dated April 27, 2017:

Program Financial Condition

Assets and Liabilities

Actuarial present value of accrued service awards as of 12/31/16	\$ 913,907
Less: assets available for benefits:	
Cash and money market	10,616
Contribution receivable	61,542
Mutual funds equity	196,146
Mutual funds fixed income	245,993
Mixed assets	96,827
Prepaid benefits	<u>3,780</u>
Total net assets available for benefits	<u>614,904</u>
Total unfunded benefits	\$ <u>299,003</u>
Less: unfunded liability for separately amortized costs	Not available
Unfunded normal benefits	Not available

Fair Value of Investments

All investments are level 1 investments.

Separately Amortized Costs

Prior service costs have been amortized and paid. The unfunded liability for additional service awards earned after attainment of the entitlement age is being amortized over 3 years at 5.5%.

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(9) Pension Plans, Continued

(b) Volunteer Firefighter Length of Service Awards Program (LOSAP), Continued

Receipts and Disbursements

Plan net assets, beginning of year	\$ 564,249
Changes during the year:	
+ Plan contributions (accrual basis)	61,542
+Investment income earned	18,830
+/- Changes in fair market value of investments	18,715
- Benefits paid	(43,600)
- Administrative and other fees/charges	<u>(4,832)</u>
Plan net assets, end of year	\$ <u>614,904</u>

Contributions on the Cash Basis

Amount of City's contribution recommended by actuary	\$ <u>55,658</u>
Amount of City's actual contribution	\$ <u>55,658</u>

Administration Fees

Fees paid to administrative/actuarial services provider	\$ <u>694</u>
Fees paid for investment management	\$ <u>4,138</u>

Funding Methodology and Actuarial Assumptions

Normal Costs

The actuarial valuation and methodology used by the actuary to determine the sponsor's contribution is the attained age normal cost method. The assumptions used by the actuary to determine the sponsor's contribution and the actuarial present value of benefits are:

Assumed rate of return on program investments 5.5%

Tables used for:

Post-entitlement age mortality:	RP-2014 Male Mortality Table without projection
*Pre-entitlement age mortality:	None
*Pre-entitlement age disability:	None
*Pre-entitlement age withdrawal:	None
*Pre-entitlement age service credit accruals:	100%

* For program cost calculation purposes, beginning with the January 1, 2017 valuation, all pre-entitlement age active volunteer firefighter participants who have earned at least one year of service credit in the past three years are assumed to: survive to the entitlement age; remain active and earn 50 points each year; and begin to be paid service awards upon attainment of the entitlement age. Participants who have not earned at least one year of service credit in the prior three years will be referred to as "inactive" (for report purposes only) and will no longer have projected future service credits. This assumption change is for the calculation of required contributions only and does not affect the actual status of a program participant or the participant's accrued benefits.

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(10) Other Postemployment Benefits

The cost of other postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid, which is the accrual accounting perspective. Having adopted the requirements of GASB Statement No. 45 - "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," beginning with the year ended December 31, 2008 on a prospective basis, the City recognizes the cost of postemployment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the City's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years. The City is required to have an actuarial valuation completed on a biennial basis. The most recent valuation used participant data as of January 1, 2015 and rollforward techniques were used to project benefit obligations to the December 31, 2016 measurement date.

Plan Description

The City provides continuation of medical insurance coverage to employees that retire under the New York Retirement Systems at the same time they end their service to the City. This plan is a single employer plan, established by authority of the city council and administered by the City. Currently, there are approximately 186 retirees receiving postemployment benefits. Based on the current employment policy, the retiree and his or her beneficiaries receive coverage for the life of the retiree based on the retiree's years of service at retirement. A copy of the report on these benefits can be requested at city hall. A summary of benefits is as follows:

<u>Contracts</u>	<u>% Paid by City</u>	
	<u>Retiree</u>	<u>Spouse</u>
CSEA:		
Retirees hired prior to 1989	100%	100%
Retirees hired post 1989	100%	0%
IAFF -		
Retirees hired prior to 1995	100%	100%
Retirees hired post 1995	100%	0%
PBA-		
Retirees hired prior to 1993	100%	100%
Retirees hired post 1993	80%	80%

All non-union retirees will follow the contribution schedules described in the various contracts, as determined by the department with which the retiree is associated.

Plan eligibility requires CSEA and non-union members to be 55 and have 5 years of service. IAFF and PBA members need 5 years of service. All members must also be eligible to retire under the New York State Retirement Systems.

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(10) Other Postemployment Benefits, Continued

Funding Policy

The City provides funding on the pay-as-you-go method by payment of current insurance premiums. Currently, New York's General Municipal Laws do not permit funding of OPEB obligations, therefore there are no plan assets.

Annual Other Postemployment Benefit Cost

The City's OPEB cost (expense) amounted to \$4,364,226 for the year ended December 31, 2016. The City's OPEB cost was equal to the estimated Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, net of interest on the net OPEB obligation and adjustments to the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs plus a past service cost each year and amortize any unfunded actuarial liabilities over a period of 30 years.

Net Other Postemployment Benefit Obligation

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the trend of health care costs. Amounts determined regarding the funding status of the plan and the required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value for plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial accrued liability (AAL)	
All eligible employees	\$ <u>64,069,735</u>
Total actuarial accrued liability	\$ <u>64,069,735</u>
Annual required contribution (ARC)	\$ <u>4,667,836</u>
Net OPEB Obligation - beginning of the year	\$ <u>17,028,003</u>
Annual required contribution (ARC)	4,667,836
Interest on net OPEB obligation	681,120
Adjustment to annual required contribution	<u>(984,730)</u>
Annual OPEB cost	4,364,226
Actual employer contributions*	<u>(2,297,209)</u>
Increase in net OPEB obligation	<u>2,067,017</u>
Net OPEB obligation - end of the year	\$ <u>19,095,020</u>
Percent of annual OPEB cost contributed	52.64%

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(10) Other Postemployment Benefits, Continued

Net Other Postemployment Benefit Obligation, Continued

Governmental activities	\$ 16,062,377
Water fund	1,389,795
Sewer fund	<u>1,642,848</u>
	<u>\$ 19,095,020</u>

* This contribution is the pay-as-you-go amount, as an actual plan has not been established, see Funding Policy.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the December 31, 2016 actuarial valuation, the liabilities were computed using the projected unit credit cost method and level dollar amortization. The actuarial assumptions utilized a 4% baseline discount rate. The valuation assumes the following rates of increase in health care costs:

	<u>Pre-65 Medical</u>	<u>Post-65 Medical</u>	<u>Prescription Drug</u>	<u>Medicare Part B</u>
Healthcare cost trend rate assumed for next fiscal year	7.50%	6.50%	10.50%	5.80%
Rate to which the cost trend rate is assumed to decline	3.89%	3.89%	3.89%	3.89%
Fiscal year that the rate reaches the ultimate trend rate	2075	2075	2075	2075

(11) Landfill Remediation Liability

Under terms of a consent order signed by the City with the New York Department of Environmental Conservation, the City was obligated to close its landfill with a modified completion date of May 31, 1996, and has since been closed.

State and federal laws and regulations require the City to perform certain maintenance and monitoring functions at the site for thirty years after closure. This period began in 1997. For the year 2016, the City expended \$8,000 in landfill maintenance and monitoring costs. The estimated unfunded balance of postclosure costs of \$88,000 is recorded as landfill remediation liability, over the remaining 13 years; see long-term debt (note 5). The actual costs may be higher due to inflation, changes in technology, or changes in regulations.

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(12) Deficit

The capital projects fund has a deficit fund balance of \$13,123,500, primarily as a result of financing capital projects the use of bond anticipation notes. The revenue associated with the use of this financing method is not recognized until the notes are paid. Projects financed by using interfund borrowings recognizes revenues when interfund transfers are made.

(13) Tax Abatements

The City is authorized under Section 577 of the Private Housing Finance Law of the State of New York (PHFL) to exempt housing projects of a housing development fund company from local and municipal taxes, including school taxes, other than assessments for local improvements, to the extent of all or part of the value of the property included in the completed project.

For the fiscal year ended December 31, 2016, the City abated city property taxes totaling \$17,688 under this authority, which including the following:

- A 57% real property tax abatement for the construction, maintenance and operation of a housing project for senior citizens of low income.

Certain real property taxes on real property within the City have been abated by the Dutchess County Industrial Development Agency (the Agency), a public-benefit corporation created by state law in 1976 to promote economic development and job creation in Dutchess County.

The Agency enters into and administers Payment in Lieu of Taxes (PILOT) agreements for various unrelated business entities located in Dutchess County. Under the terms of the PILOT agreements, title to property owned by the unrelated business entity is transferred to the Agency for a certain period of time. During the period in which the Agency holds title, the business entity pays a PILOT to the Agency based on a calculation defined by the specific agreement. The PILOTs allow the companies to make payments that are less than the property taxes that would be paid on the related property's assessed value. Once the PILOT is received, the Agency remits the PILOT to the respective taxing authorities. Certain requirements, as defined by each agreement, are to be met by the company to be able to maintain its PILOT agreement. At the completion of the PILOT, title to the property is transferred back to the third-party business owner, and the property goes back on the tax rolls. The Agency is not responsible for collecting and remitting the funds, and ultimately the City bears the risk of loss if PILOT payments are not paid by the respective companies.

For the fiscal year ended December 31, 2016, the Agency abated City property taxes totaling \$25,831, which included the following:

- A 70% real property tax abatement on increased assessments resulting from the acquisition, construction and equipping of a manufacturing plant.

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(14) Commitments and Contingencies

(a) Litigation

The City is a defendant in various lawsuits and tax certiorari cases, some of which are covered by insurance. In the opinion of counsel, the resolution of most of these cases and lawsuits will not have a material adverse effect on the financial condition of the City. However, the outcome of some of these cases and lawsuits is presently not determinable.

The City has completed construction related to water system improvements in 1997; however, litigation, some of which was settled during 1999, continues pertaining to certain claims for extra costs. The City is unable to determine an estimate of a settlement, if any, which might be due.

(b) State and Federal Assisted Programs

The City of Beacon Community Development has received, or is owed, amounts from grantor agencies, principally the Department of Housing and Urban Development. Any allowed claims including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures, which may be disallowed by the grantor, cannot be determined at this time.

(c) Capital Projects

The City has developed a capital plan for 2017 which contains a total of \$5,089,852 in anticipated capital expenditures. The plan includes improvements to various City-owned buildings, parks, water and sewer infrastructure, streets, as well as vehicle and other equipment purchases. The plan provides for funding primarily through fund balance of \$3,676,836, \$900,000 of debt, and \$513,016 of grants to be provided.

(15) New Reporting Standards

GASB Statement No. 74 - "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans". This Statement, issued in June 2015, replaces existing standards of accounting and financial reporting for postemployment benefit plans other than pension plans and also replaces existing requirements for defined contribution OPEB plans. The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2016, which is the fiscal year beginning January 1, 2017 for the City. This Statement is not expected to have a material effect on the financial statements of the City.

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 City. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the City.

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(15) New Reporting Standards, Continued

GASB Statement No. 80 - "Blending Requirements for Certain Component Units - an Amendment of GASB Statement No. 14." This Statement, issued in January 2016, amends blending requirements established in paragraph 53 of GASB Statement No. 14 - "The Financial Reporting Entity, as Amended" for the financial statement presentation of component units of all state and local governments. An additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39 - "Determining Whether Certain Organizations are Component Units." The provisions of this Statement are effective for financial statements for years beginning after June 15, 2016, which is the fiscal year beginning January 1, 2017 for the City. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the City.

GASB Statement No. 81 - "Irrevocable Split-Interest Agreements." This Statement, issued in March 2016, establishes accounting and reporting standards for irrevocable split-interest agreements with characteristics that are equivalent to irrevocable split-interest agreements in which a donor irrevocably transfers resources to an intermediary who administers these resources for the unconditional benefit of a government and at least one other beneficiary. The provisions of this Statement are effective for financial statements for years beginning after December 15, 2016, which is the fiscal year beginning January 1, 2017 for the City. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the City.

GASB Statement No. 82 - "Pension Issues - an Amendment of GASB Statements No. 67, No. 68, and No. 73." This Statement, issued in March 2016, addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, which is the fiscal year beginning January 1, 2017 for the City, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017, which is the fiscal year beginning January 1, 2018 for the City. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the City.

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(15) New Reporting Standards, Continued

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 to its 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 City. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the City.

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 City. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the City.

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 City. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the City.

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 sources. 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 City. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the City.

CITY OF BEACON, NEW YORK
Notes to Financial Statements, Continued

(16) Prior Period Adjustments

Prior period adjustments were made to the fund balances (deficit) of governmental funds as follows:

	<u>General Fund</u>	<u>Capital Projects Fund</u>
Fund balance (deficit) at beginning of year, before restatement	\$ <u>9,734,921</u>	(16,970,702)
Prior period adjustments:		
Interfund transactions	(813,133)	9,716,963
Receivables	-	(258,329)
Due to other governments	<u>-</u>	<u>73,038</u>
Total prior period adjustments	<u>(813,133)</u>	<u>9,531,672</u>
Fund balance (deficit) at beginning of year, as restated	\$ <u>8,921,788</u>	(7,439,030)

Prior period adjustments were made to the net position of the governmental activities as follows:

Net position at beginning of year, before restatement	\$ <u>9,243,367</u>
Prior period adjustments:	
Adjustments to governmental funds	8,718,539
Capitalization of assets previously expensed	352,170
Recognition of state and federal aid previously received and expended	4,714,894
Interfund activities	<u>(3,542,742)</u>
Total prior period adjustments	<u>10,242,861</u>
Net position at beginning of year, as restated	\$ <u>19,486,228</u>

Prior period adjustments were made to the net position of the business-type activities as follows:

	<u>Water Fund</u>	<u>Sewer Fund</u>
Net position at beginning of year, before restatement	\$ 5,106,242	4,086,961
Prior period adjustments - interfund transactions	<u>(586,887)</u>	<u>(4,199,741)</u>
Net position (deficit) at beginning of year, as restated	\$ <u>4,519,355</u>	<u>(112,780)</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BEACON, NEW YORK
Required Supplementary Information
Schedule of Revenue, Expenditures and Changes in Fund Balance -
Budget and Actual - General Fund
Year ended December 31, 2016

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenue:				
Real property taxes	\$10,188,230	10,188,230	9,941,508	(246,722)
Real property tax items	270,000	270,000	665,034	395,034
Non property tax items	4,544,686	4,544,686	4,658,700	114,014
Departmental income	921,964	1,093,029	922,737	(170,292)
Intergovernmental charges	58,243	58,243	53,893	(4,350)
Use of money and property	13,500	13,500	12,722	(778)
Licenses and permits	252,000	328,000	442,855	114,855
Fines and forfeitures	172,000	230,176	229,093	(1,083)
Sale of property and compensation for loss	74,000	82,268	58,358	(23,910)
Miscellaneous local sources	26,396	54,977	41,607	(13,370)
Interfund revenues	468,400	468,400	468,400	-
State aid	1,951,401	2,028,397	2,175,178	146,781
Federal aid	<u>25,000</u>	<u>25,809</u>	<u>32,526</u>	<u>6,717</u>
Total revenues	18,965,820	19,385,715	19,702,611	316,896
Appropriation of prior's year's fund balance	<u>247,500</u>	<u>260,520</u>	<u>-</u>	<u>(260,520)</u>
Total revenues and appropriation of prior year's fund balance	<u>19,213,320</u>	<u>19,646,235</u>	<u>19,702,611</u>	<u>56,376</u>
Expenditures:				
General government support	2,897,586	2,642,065	2,346,791	295,274
Public safety	6,844,671	6,423,698	6,053,999	369,699
Transportation	2,135,024	1,942,893	1,838,470	104,423
Culture and recreation	497,101	634,687	446,224	188,463
Home and community service	1,213,056	1,321,935	1,290,735	31,200
Employee benefits	3,312,228	4,424,643	4,519,684	(95,041)
Debt service	<u>2,313,654</u>	<u>2,239,614</u>	<u>2,239,614</u>	<u>-</u>
Total expenditures	<u>19,213,320</u>	<u>19,629,535</u>	<u>18,735,517</u>	<u>894,018</u>
Excess of revenues and appropriation of prior year's fund balance over expenditures	-	16,700	967,094	950,394
Other financing sources - operating transfers out	<u>-</u>	<u>(16,700)</u>	<u>-</u>	<u>16,700</u>
Excess of revenues and appropriation of prior year's fund balance and other sources over expenditures	<u>\$ -</u>	<u>-</u>	<u>967,094</u>	<u>967,094</u>

CITY OF BEACON, NEW YORK
Required Supplementary Information
Schedule of Funding Progress - Other Postemployment Benefits (OPEB)
Year ended December 31, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll ((b-a)/c)
12/31/2014	-	56,286,541	56,286,541	0.00%	7,337,592	767.1%
12/31/2015	-	61,602,445	61,602,445	0.00%	8,056,097	764.7%
12/31/2016	-	64,069,735	64,069,735	0.00%	8,384,905	764.1%

CITY OF BEACON, NEW YORK
Required Supplementary Information
Schedule of City's Proportionate Share of the Net Pension Liability

<u>ERS System</u>	<u>2016</u>	<u>2015</u>
The City's proportion of the net pension liability	0.0126580%	0.0120469%
The City's proportionate share of the net pension liability	\$2,031,646	\$ 406,970
The City's covered employee payroll	\$3,421,431	\$3,253,830
The City's proportionate share of the net pension asset as a percentage of covered employee payroll	59.38%	12.51%
Plan fiduciary net position as a percentage of the total pension asset	90.7%	97.9%

<u>PFRS System</u>	<u>2016</u>	<u>2015</u>
The City's proportion of the net pension liability	0.1223309%	0.1314506%
The City's proportionate share of the net pension liability	\$3,621,959	\$ 361,830
The City's covered employee payroll	\$4,357,633	\$4,088,698
The City's proportionate share of the net pension liability as a percentage of covered employee payroll	83.12%	8.85%
Plan fiduciary net position as a percentage of the total pension liability	90.2%	97.9%

* The amounts presented for each fiscal year were determined as of the System's measurement date.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complied, the City will present information for those years for which information is available.

CITY OF BEACON, NEW YORK
Required Supplementary Information
Schedule of City's Pension Contributions

<u>ERS System</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 491,510	544,748
Contribution in relation to the contractually required contribution	<u>491,510</u>	<u>544,748</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>
City's covered payroll	\$ 3,421,431	3,253,830
Contribution as a percentage of covered employee payroll	14.37%	16.74%

<u>PFRS System</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 971,273	804,014
Contribution in relation to the contractually required contribution	<u>971,273</u>	<u>804,014</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>
City's covered payroll	\$ 4,357,633	4,088,698
Contribution as a percentage of covered employee payroll	22.29%	19.66%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complied, the City will present information for those years for which information is 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**

Honorable Mayor and
Members of the City Council
City of Beacon, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Beacon, New York (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 1, 2017.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or 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. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as 2016-001, that we consider to be a material weakness.

Compliance and Other Matters

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

City of Beacon, New York's Response to Finding

City of Beacon, New York's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City'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 City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

EFPR Group, CPAs, PLLC

Williamsville, New York
September 1, 2017

CITY OF BEACON, NEW YORK
Schedule of Findings and Responses
Year ended December 31, 2016

(2016-001) Correction of Prior Year Errors

Criteria - A fund is required to be reported as an enterprise fund (a type of proprietary fund) if the principle revenue sources to recover the costs for providing services, including capital assets and long-term debt, are fees and charges, rather than property taxes or similar tax revenues. Both the water fund and sewer fund of the City of Beacon, New York (the City) meet this criterion and therefore are considered proprietary funds for the financial statement purposes. The statement of net position and statement of activities for proprietary funds should be prepared using the economic resources measurement focus and the accrual basis of accounting.

Condition - The internal accounting records of both the water fund and sewer fund are maintained using the current financial resources measurement focus and the modified accrual basis of accounting and the City does not prepare the basis of accounting conversion of the water and sewer fund financial statements to the enterprise fund full accrual statements.

Effect of Condition - The water fund and sewer fund adjustments made from the modified accrual basis of accounting to the accrual basis of accounting resulted in unreconcilable variances with the beginning net position of these funds. Management was unable to reconcile fund balances and net position to amounts that were reported in the 2015 financial statements resulting in corrections of the prior year net assets. The conversion worksheets were not maintained by the City and numerous attempts were made to the City's previous auditors to explain their conversion entries and adjustments made to the 2015 audited financial statements. In 2016, the conversion from the fund basis statements to the enterprise basis statements was prepared by EFPR Group, with assistance by the City's Comptroller, including the prior year adjustments.

Recommendation - We recommend that the City prepare the conversion accounting entries for both the water and sewer funds, or consider reviewing the City's accounting system's capability of having these funds accounted on the full accrual basis.

Management's Response - While the Water and Sewer funds are considered Enterprise funds for financial reporting purposes, the City historically has accounted for them as a governmental fund as they were pre GASB#34. The City prepares the budget and the Annual State Report as a governmental fund and does not include the full accrual of compensated absences, capital assets, depreciation expense etc. for those purposes. In speaking with the State Comptroller, the City can do it either way and most entities report as governmental fund and do a conversion for the audited financial statements only. Due to prior years conversion discrepancies, the City will prepare conversion schedules for the audited financial statements.