

CITY OF TONAWANDA, NEW YORK

*Basic Financial Statements, Required Supplementary
Information and Federal Financial Assistance Schedules
for the Year Ended December 31, 2010 and
Independent Auditors' Reports*

CITY OF TONAWANDA, NEW YORK
Table of Contents
Year Ended December 31, 2010

| | Page |
|---|-------------|
| Independent Auditors' Report..... | 1 |
| Management's Discussion and Analysis | 3 |
| Basic Financial Statements: | |
| <i>Government-wide Financial Statements:</i> | |
| Statement of Net Assets (Deficit) | 11 |
| Statement of Activities..... | 12 |
| <i>Fund Financial Statements:</i> | |
| Balance Sheet—Governmental Funds | 13 |
| Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets (Deficit)..... | 14 |
| Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)—Governmental Funds..... | 15 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits) of Governmental Funds to the Statement of Activities | 16 |
| Statement of Revenues, Expenditures and Changes in Fund Balance— Budget and Actual—General Fund | 17 |
| Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit)— Budget and Actual—Sewer Fund..... | 18 |
| Statement of Revenues, Expenditures and Changes in Fund Balance— Budget and Actual—Water Fund | 19 |
| Statement of Fiduciary Net Assets—Agency Fund | 20 |
| Notes to the Financial Statements | 21 |
| Federal Awards: | |
| Schedule of Expenditures of Federal Awards | 40 |
| Notes to the Schedule of Expenditures of Federal Awards | 41 |
| Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 42 |
| Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 | 44 |
| Schedule of Findings and Questioned Costs | 46 |
| Schedule of Prior Federal Award Findings | 50 |

(Continued)

CITY OF TONAWANDA, NEW YORK
Table of Contents
Year Ended December 31, 2010

| | Page |
|---|-------------|
| New York State Department of Transportation Part 43 OF NYCRR Schedules and Reports: | |
| Schedule of Expenditures of New York State Department of Transportation Assistance | 51 |
| Note to Schedule of Expenditures of New York State Department of Transportation Assistance..... | 52 |
| Independent Auditors' Report on Compliance and Internal Control Over New York State Transportation Assistance Expended Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards | 53 |
| Schedule of Findings and Questioned Costs of New York State Department of Transportation Assistance | 55 |

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Honorable City Council
City of Tonawanda, New York:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Tonawanda, New York (the "City") as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements do not include financial data for the City's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for that component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component unit. The City has not issued such reporting entity financial statements. The amount by which this departure from accounting principles generally accepted in the United States of America would affect the assets, liabilities, net assets, revenues and expenses of a discretely presented component unit is not reasonably determinable.

In our opinion, because of the omission of the discretely presented component unit, as discussed previously, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the discretely presented component unit of the City as of December 31, 2010, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the City as of December 31, 2010, and the respective changes in financial position and the respective budgetary comparisons for the General, Sewer and Water Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2011, on our consideration of the City's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis as listed in the foregoing table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. This information is the responsibility of the City's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City's primary government. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of New York State Department of Transportation assistance as listed in the table of contents is presented for the purpose of additional analysis as required by the New York State Department of Transportation and Draft Part 43 of the New York State Codification of Rules and Regulations, and is not a required part of the basic financial statements. These schedules are the responsibility of the City's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Drescher & Malecki LLP

April 18, 2011

MANAGEMENT DISCUSSION AND ANALYSIS

CITY OF TONAWANDA, NEW YORK
Management's Discussion and Analysis
Year Ended December 31, 2010

As management of the City of Tonawanda, New York (the "City"), we offer readers of the financial statements of the City's primary government this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2010. The financial statements referred to above include only the primary government of the City, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, the Tonawanda Housing Authority, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. We encourage readers to consider the information presented here in conjunction with other information contained in the City's financial statements, which follow this narrative.

Financial Highlights

- The liabilities of the City exceeded its assets at the December 31, 2010, resulting in a net deficit of \$3,913,344. This change is largely due to the impact of a \$9.4 million estimated liability on the City, resulting from pollution remediation obligations mandated by the New York State Department of Environmental Conservation.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,980,556, a decrease of \$763,730 in comparison with the prior year.
- The General Fund reported an unreserved, undesignated fund balance of \$2,653,115 at December 31, 2010. This represents approximately 14.7% of the annual expenditures in the General Fund.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the basic financial statements of the City's primary government. The basic financial statements of the City's primary government comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business.

The *statement of net assets* presents information on all of the assets and liabilities of the City's primary government, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City's primary government is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g. earned but unused vacation leave).

The government-wide statements include the City's governmental activities. The governmental activities include most of the City's basic services including general government, public safety, transportation, economic development, sanitation, sewer, water, and culture and recreation. Real property taxes, non-property taxes, charges for services and state aid fund most of these activities.

The government-wide financial statements can be found on the two pages immediately following this management's discussion and analysis section.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities of objectives. The City, like other state and local governments uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds focus on near-term inflows and outflows of spendable resources, as well as, on balances of spendable resources at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Sewer, Water and Capital Projects Funds, each of which is considered to be major funds. Data from the other three governmental funds are combined into a single aggregate presentation.

The City adopts an annual budget for its General, Sewer and Water Funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with this budget.

The financial statements for governmental funds can be found in the fund financial statements, following the government-wide financial statements.

Fiduciary funds. The City is trustee, or fiduciary, for its agency funds. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

The Fiduciary Fund financial statement is in the fund financial statements section of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found following the fund financial statements section of this report.

Government-wide financial analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, liabilities exceeded assets by \$3,913,344 at the close of the 2010 fiscal year.

TABLE 1 – CONDENSED STATEMENT OF NET ASSETS

| | <u>2010</u> | <u>2009</u> |
|---|-----------------------|---------------------|
| Current assets | \$ 8,987,030 | \$ 8,272,204 |
| Capital assets | <u>15,942,613</u> | <u>15,740,789</u> |
| Total assets | <u>24,929,643</u> | <u>24,012,993</u> |
| Current liabilities | 5,438,600 | 3,954,329 |
| Non-current liabilities | <u>23,404,387</u> | <u>13,982,684</u> |
| Total liabilities | <u>28,842,987</u> | <u>17,937,013</u> |
| Net assets (deficits): | | |
| Invested in capital assets, net of related debt | 9,088,847 | 8,523,281 |
| Unrestricted | <u>(13,002,191)</u> | <u>(2,447,301)</u> |
| Total net assets (deficit) | <u>\$ (3,913,344)</u> | <u>\$ 6,075,980</u> |

The City's investment in capital assets (such as land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding is the largest portion of total net assets. The City uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

The remaining balance of unrestricted net assets, which in the case of the City is a deficit balance of \$13,002,191, is caused primarily by certain long-term obligations which are not required to be funded until due (i.e. compensated absences, indebtedness, pollution remediation obligations, other postemployment benefits etc.). This demonstrates that future funding will be necessary to liquidate long-term obligations.

The City's total net assets decreased \$9,989,324 for the year ended December 31, 2010, as compared to a increase of \$1,320,504 for the year ended December 31, 2009. As noted previously, this is due to a \$9.4 million estimated liability on the City, resulting from pollution remediation obligations mandated by the New York State Department of Environmental Conservation. The City is currently in the process of applying for grant funding to offset pollution remediation liabilities. As of December 31, 2010, estimated revenues to offset this liability cannot be reasonably determined.

A comparison of current assets to current liabilities for the government-wide activities as of December 31, 2010 is provided in Table 2 below. The City had a favorable current ratio of 1.65 which indicates that the City has sufficient assets to cover its current liabilities that will come due within a year.

TABLE 2 – CURRENT ASSETS AND LIABILITIES

| | <u>2010</u> | <u>2009</u> |
|--|--------------|--------------|
| Current assets | \$ 8,987,030 | \$ 8,272,204 |
| Current liabilities | 5,438,600 | 3,954,329 |
| Ratio of current assets to liabilities | 1.65 | 2.09 |

Governmental Activities. Table 3, as presented below, shows the changes in net assets for the years ended December 31, 2010 and 2009:

TABLE 3 – CONDENSED STATEMENT OF ACTIVITIES

| | <u>2010</u> | <u>2009</u> |
|------------------------------------|-----------------------|---------------------|
| Program revenues: | | |
| Charges for services | \$ 2,612,046 | \$ 2,477,012 |
| Operating grants and contributions | 273,507 | 269,974 |
| Capital grants and contributions | 3,716,493 | 2,416,110 |
| General revenues | <u>17,688,021</u> | <u>17,055,112</u> |
| Total revenues | 24,290,067 | 22,218,208 |
| Program expenses | <u>34,279,391</u> | <u>20,897,704</u> |
| Change in net assets | (9,989,324) | 1,320,504 |
| Net assets - beginning | <u>6,075,980</u> | <u>4,755,476</u> |
| Net assets - ending | <u>\$ (3,913,344)</u> | <u>\$ 6,075,980</u> |

A summary of sources of revenues for the years ended December 31, 2010 and 2009 is presented below in Table 4:

TABLE 4 – REVENUES BY TYPE

| | 2010 | 2009 | Increase/(decrease) | |
|--|----------------------|----------------------|---------------------|---------|
| | | | Dollars | Percent |
| Charges for services | \$ 2,612,046 | \$ 2,477,012 | \$ 135,034 | 5.5% |
| Operating grants and contributions | 273,507 | 269,974 | 3,533 | 1.3% |
| Capital grants and contributions | 3,716,493 | 2,416,110 | 1,300,383 | 53.8% |
| Property taxes and tax items | 9,725,737 | 9,443,655 | 282,082 | 3.0% |
| Non-property tax items | 4,509,550 | 4,428,476 | 81,074 | 1.8% |
| Mortgage tax | 179,056 | 129,577 | 49,479 | 38.2% |
| Use of money and property | 19,385 | 28,638 | (9,253) | -32.3% |
| Sale of property and compensation for loss | 76,874 | 56,229 | 20,645 | 36.7% |
| Miscellaneous | 522,211 | 193,027 | 329,184 | 170.5% |
| Unrestricted state aid | 2,655,208 | 2,775,510 | (120,302) | -4.3% |
| Total program revenues | <u>\$ 24,290,067</u> | <u>\$ 22,218,208</u> | <u>\$ 2,071,859</u> | 9.3% |

Overall revenues increased 9.3% from the 2009 fiscal year. Key elements of this increase are as follows:

- *Capital grants and contributions* – increased \$1,300,383 or 53.8% from the prior year. This increase is the result of the City receiving \$2,697,923 in funding from New York State for the demolition of the Spaulding Plant. Comparably, \$2,118,223 was received in the prior year. The City also received \$630,063 in federal assistance from the Department of Housing and Urban Development for Spaulding Plant demolition.
- *Miscellaneous* – increased \$329,184 or 170.5% from the prior year. This increase is largely the result of \$148,300 in Erie County Greenway Commission monies received and an additional \$200,000 received from the County for water plant demolition.

A summary of program expenses for the years ended December 31, 2010 and 2009 is presented below in Table 5:

TABLE 5 – PROGRAM EXPENSES BY TYPE

| | 2010 | 2009 | Increase/(decrease) | |
|-------------------------------------|----------------------|----------------------|----------------------|---------|
| | | | Dollars | Percent |
| General government support | \$ 2,527,066 | \$ 2,665,546 | \$ (138,480) | -5.2% |
| Public safety | 12,865,192 | 9,987,163 | 2,878,029 | 28.8% |
| Transportation | 3,464,024 | 3,079,464 | 384,560 | 12.5% |
| Economic assistance and opportunity | 40,819 | 144,614 | (103,795) | -71.8% |
| Culture and recreation | 1,500,795 | 1,472,275 | 28,520 | 1.9% |
| Home and community services | 13,599,187 | 3,208,025 | 10,391,162 | 323.9% |
| Interest on debt | 282,308 | 340,617 | (58,309) | -17.1% |
| Total program expenses | <u>\$ 34,279,391</u> | <u>\$ 20,897,704</u> | <u>\$ 13,381,687</u> | 64.0% |

Overall program expenses increased \$13,381,687 or 64.0% from the 2009 fiscal year. Key elements of this increase are as follows:

- *Home and Community Services* – Increased \$10,391,162 or 323.9% from the prior year. The largest portion of this increase is a \$9,441,000 liability recorded in 2010 for pollution remediation obligations.
- *Public safety* – Increased \$2,878,029 or 28.8% from the prior year. The most significant portion of this increase was due to the continued demolition of the Spaulding Plant, which was funded through a grant from New York State and federal aid passed through to the City from Erie County Industrial Development Agency.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds – The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At December 31, 2010, the City's governmental funds reported combined ending fund balance of \$2,980,556 a decrease of \$763,730 from the prior year. Approximately 27.7% or \$826,940 of the total combined fund balance constitutes *unreserved, undesignated fund balance*, which is available for spending at the City's discretion. \$275,000 of fund balance is unreserved, designated for subsequent year's expenditures. The remainder of the fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to (1) workers' compensation, (2) general liability insurance, (3) tax stabilization, (4) the prepayment of various expenditures, (5) liquidate contracts and purchase orders, and (6) to restore historical property.

The *General Fund* is the chief operating fund of the City. At December 31, 2010, the unreserved, undesignated fund balance of the General Fund was \$2,653,115, while the total fund balance was \$4,417,353. As a measure of the General Fund's liquidity, it may be useful to compare both the unreserved and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents approximately 14.7% of total General Fund expenditures, while total fund balance represents 24.5% of that same amount.

The General Fund fund balance increased by \$196,465 during the 2010 fiscal year. This amount is favorable compared to the adopted 2010 budget, which anticipated using \$275,000 of General Fund fund balance.

Budgetary Highlights

During the year there was a \$141,647 increase in appropriations between the original and final amended budget in the General Fund. The increase in appropriations was mainly due to police and fire department equipment and personal services expenditures.

In both the Sewer and Water Funds there were no changes to the total adopted appropriations.

Capital Asset and Debt Administration

Capital Assets. The City’s investment in capital assets for its governmental activities as of December 31, 2010, amounted to \$15,942,613 (net of accumulated depreciation). This investment in capital assets includes land, buildings and building improvements, infrastructure, vehicles and equipment.

The City’s infrastructure assets are recorded at historical cost, or estimated historical cost, in the government-wide financial statements. The City has recorded all infrastructure assets regardless of when acquired.

All depreciable capital assets were depreciated from acquisition date to the end of the current year as outlined in the City’s capital asset policy.

Capital assets net of depreciation for the governmental activities are presented below:

TABLE 6 – CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)

| | <u>2010</u> | <u>2009</u> |
|----------------------------|----------------------|----------------------|
| Land | \$ 328,850 | \$ 328,850 |
| Buildings and improvements | 2,300,427 | 2,307,503 |
| Equipment | 2,867,651 | 2,622,957 |
| Infrastructure | <u>10,445,685</u> | <u>10,481,479</u> |
| Total | <u>\$ 15,942,613</u> | <u>\$ 15,740,789</u> |

Long-term Obligations. At December 31, 2010, the City’s long-term obligations consisted of bonds payable, compensated absences payable, capital leases, workers’ compensation claims, landfill post-closure costs payable, pollution remediation obligations and other postemployment benefits, which changed as follows:

TABLE 7 – LONG-TERM OBLIGATIONS

| | <u>Balance 2010</u> | <u>Balance 2009</u> | <u>Change</u> |
|-------------------------------------|-------------------------|-------------------------|---------------------|
| Compensated absences | \$ 2,552,740 | \$ 2,386,923 | \$ 165,817 |
| Landfill post-closure costs payable | 440,000 | 460,000 | (20,000) |
| Pollution remediation obligations | 9,441,000 | - | 9,441,000 |
| Other postemployment benefits | 1,493,223 | 1,075,865 | 417,358 |
| Bonds payable | 8,565,000 | 8,900,000 | (335,000) |
| Capital leases | 61,631 | 65,468 | (3,837) |
| Workers' compensation claims | <u>850,793</u> | <u>1,094,428</u> | <u>(243,635)</u> |
| | <u>\$ 23,404,387</u> | <u>\$ 13,982,684</u> | <u>\$ 9,421,703</u> |

Additional information on the City’s long-term debt can be found in the notes to the financial statements.

Economic Factors and Next Year's Budget

Located in the Western New York region, the City has struggled with the trying times that have become a characteristic of the area. The unemployment rate for the Buffalo-Niagara statistical area was 8.2% in December 2010, which is a decrease from a rate of 8.5% a year ago. This rate is consistent with the New York State average of 8.2% and is favorable in comparison with the national average of 9.4%.

Although recent inflationary trends in the region, particularly in the real estate sector compared favorably to national indices, over the past two decades the region has experienced a steady decline in population and business. Despite the economic hardships, the City's overall financial position remained relatively stable during the fiscal year ended December 31, 2010.

The City designated \$275,000 of the General Fund's fund balance at December 31, 2010 for support of 2011 budgetary appropriations.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Office of the City Treasurer, City of Tonawanda, 200 Niagara Street, Tonawanda, New York 14150.

BASIC FINANCIAL STATEMENTS

CITY OF TONAWANDA, NEW YORK
Statement of Net Assets (Deficit)
December 31, 2010

| | Primary Government Governmental Activities |
|---|---|
| ASSETS | |
| Cash and cash equivalents | \$ 4,861,116 |
| Taxes receivable | 1,202,274 |
| Other receivables | 441,957 |
| Due from other governments | 2,481,683 |
| Capital assets not being depreciated | 328,850 |
| Capital assets net of accumulated depreciation | 15,613,763 |
| Total assets | 24,929,643 |
| LIABILITIES | |
| Accounts payable | 593,370 |
| Accrued liabilities | 1,143,190 |
| Due to other governments | 754,040 |
| Bond anticipation notes | 2,948,000 |
| Non-current liabilities: | |
| Due within one year | 3,550,553 |
| Due within more than one year | 19,853,834 |
| Total liabilities | 28,842,987 |
| NET ASSETS (DEFICIT) | |
| Investment in capital assets, net of related debt | 9,088,847 |
| Unrestricted | (13,002,191) |
| Total net assets | \$ (3,913,344) |

The notes to the financial statements are an integral part of this statement.

CITY OF TONAWANDA, NEW YORK

Statement of Activities

Year Ended December 31, 2010

| <u>Function/Program</u> | <u>Expense</u> | <u>Program Revenues</u> | | | <u>Net (Expense)</u> |
|--|----------------------|-------------------------|----------------------|----------------------|----------------------------|
| | | <u>Charges for</u> | <u>Operating</u> | <u>Capital</u> | <u>Revenue and Changes</u> |
| | | <u>Services</u> | <u>Grants and</u> | <u>Grants and</u> | <u>in Net Assets</u> |
| | | | <u>Contributions</u> | <u>Contributions</u> | <u>Primary</u> |
| | | | | | <u>Governmental</u> |
| | | | | | <u>Activities</u> |
| Primary Government: | | | | | |
| Governmental activities: | | | | | |
| General government support | \$ 2,527,066 | \$ 40,879 | \$ 52,542 | \$ - | \$ (2,433,645) |
| Public safety | 12,865,192 | 476,258 | 99,856 | 3,327,985 | (8,961,093) |
| Transportation | 3,464,024 | 191,859 | 41,728 | 292,522 | (2,937,915) |
| Economic assistance and opportunity | 40,819 | 94,080 | - | - | 53,261 |
| Culture and recreation | 1,500,795 | 52,276 | 75,252 | 58,503 | (1,314,764) |
| Home and community services | 13,599,187 | 1,756,694 | 4,129 | 37,483 | (11,800,881) |
| Interest on debt | 282,308 | - | - | - | (282,308) |
| Total primary government | <u>\$ 34,279,391</u> | <u>\$ 2,612,046</u> | <u>\$ 273,507</u> | <u>\$ 3,716,493</u> | <u>(27,677,345)</u> |
| General revenues: | | | | | |
| Real property taxes and tax items | | | | | 9,725,737 |
| Non-property tax items | | | | | 4,509,550 |
| Mortgage tax | | | | | 179,056 |
| Use of money and property | | | | | 19,385 |
| Sale of property and compensation for losses | | | | | 76,874 |
| Miscellaneous | | | | | 522,211 |
| Unrestricted state aid | | | | | <u>2,655,208</u> |
| Total general revenues | | | | | <u>17,688,021</u> |
| Change in net assets | | | | | (9,989,324) |
| Net assets - beginning | | | | | <u>6,075,980</u> |
| Net assets - ending | | | | | <u>\$ (3,913,344)</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF TONAWANDA, NEW YORK

Balance Sheet - Governmental Funds

December 31, 2010

| | <u>General</u> | <u>Sewer Fund</u> | <u>Water Fund</u> | <u>Capital Projects</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|-------------------|-------------------|-------------------------|---------------------------------|---------------------------------|
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 2,953,835 | \$ - | \$ 546,952 | \$ 1,081,386 | \$ 278,943 | \$ 4,861,116 |
| Taxes receivable | 1,202,274 | - | - | - | - | 1,202,274 |
| Accounts receivables | 19,228 | 337,686 | 51,939 | - | 33,104 | 441,957 |
| Due from other funds | 1,544,017 | - | 246,357 | 170,341 | - | 1,960,715 |
| Due from other governments | 1,541,857 | - | - | 939,826 | - | 2,481,683 |
| Total assets | <u>\$ 7,261,211</u> | <u>337,686</u> | <u>845,248</u> | <u>\$ 2,191,553</u> | <u>\$ 312,047</u> | <u>\$ 10,947,745</u> |
| LIABILITIES AND FUND BALANCES (DEFICITS) | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | \$ 425,058 | \$ 77,214 | \$ - | \$ 91,098 | \$ - | \$ 593,370 |
| Accrued liabilities | 1,062,760 | 4,864 | - | - | 1,892 | 1,069,516 |
| Due to other funds | 170,341 | 263,225 | 746,562 | 780,587 | - | 1,960,715 |
| Due to other governments | 572,262 | 164,183 | - | - | 17,595 | 754,040 |
| Bond anticipation notes | - | - | - | 2,948,000 | - | 2,948,000 |
| Deferred revenue | 613,437 | - | - | - | 28,111 | 641,548 |
| Total liabilities | <u>2,843,858</u> | <u>509,486</u> | <u>746,562</u> | <u>3,819,685</u> | <u>47,598</u> | <u>7,967,189</u> |
| Fund balances (deficits): | | | | | | |
| Reserved for encumbrances | 8,016 | - | - | 145,561 | - | 153,577 |
| Reserved for tax stabilization | 200,000 | - | - | - | - | 200,000 |
| Reserved for workers' compensation | 1,109,132 | - | - | - | - | 1,109,132 |
| Reserved for self insurance | 172,090 | - | - | - | - | 172,090 |
| Reserved for historical restoration | - | - | - | - | 1,000 | 1,000 |
| Unreserved: | | | | | | |
| Designated for subsequent years expenditures | 275,000 | - | - | - | - | 275,000 |
| Undesignated | 2,653,115 | (171,800) | 98,686 | (1,773,693) | 263,449 | 1,069,757 |
| Total fund balances (deficits) | <u>4,417,353</u> | <u>(171,800)</u> | <u>98,686</u> | <u>(1,628,132)</u> | <u>264,449</u> | <u>2,980,556</u> |
| Total liabilities and fund balances (deficits) | <u>\$ 7,261,211</u> | <u>\$ 337,686</u> | <u>\$ 845,248</u> | <u>\$ 2,191,553</u> | <u>\$ 312,047</u> | <u>\$ 10,947,745</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF TONAWANDA, NEW YORK
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets (Deficit)
December 31, 2010

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

| | | |
|--|------------------|---------------------------|
| Total fund balances - governmental funds | \$ | 2,980,556 |
| | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$38,595,525 and the accumulated depreciation is \$22,652,912. | | 15,942,613 |
| | | |
| Recognition of certain items (real property taxes and loans receivable) which are deferred on the modified accrual basis, but should be recognized on the accrual basis. | | 641,548 |
| | | |
| To recognize interest accrual on long term debt (serial bonds), which are not recognized in the funds until paid. | | (73,674) |
| | | |
| Long-term liabilities that are not due and payable in the current period and therefore are not reported within the funds: | | |
| Bonds payable | \$ (8,565,000) | |
| Landfill postclosure care costs | (440,000) | |
| Pollution remediation obligation | (9,441,000) | |
| Capital leases | (61,631) | |
| Other post employment benefits | (1,493,223) | |
| Compensated absences | (2,552,740) | |
| Workers compensation | <u>(850,793)</u> | <u>(23,404,387)</u> |
| | | |
| Total net assets - governmental activities | \$ | <u><u>(3,913,344)</u></u> |

The notes to the financial statements are an integral part of this statement.

CITY OF TONAWANDA, NEW YORK
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits) - Governmental Funds
Year Ended December 31, 2010

| REVENUES | General | Sewer Fund | Water Fund | Capital Projects | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|-----------------------|-----------------------|-----------------------------|---|---|
| Real property taxes | \$ 9,202,917 | \$ - | \$ - | \$ - | \$ - | \$ 9,202,917 |
| Other tax items | 545,641 | - | - | - | - | 545,641 |
| Non property tax items | 4,509,550 | - | - | - | - | 4,509,550 |
| Departmental income | 159,034 | 1,539,883 | 213,561 | 3,250 | 40,996 | 1,956,724 |
| Intergovernmental charges | 185,982 | - | - | - | - | 185,982 |
| Use of money and property | 13,857 | 1,384 | - | 2,586 | 1,558 | 19,385 |
| Licenses and permits | 143,355 | - | - | - | - | 143,355 |
| Fines and forfeitures | 325,984 | - | - | - | - | 325,984 |
| Sale of property and compensation for loss | 76,874 | - | - | - | - | 76,874 |
| Miscellaneous | 20,865 | - | - | 501,346 | - | 522,211 |
| State aid | 3,064,175 | - | - | 3,086,431 | - | 6,150,606 |
| Federal aid | 43,596 | - | - | 630,063 | - | 673,659 |
| Total revenues | <u>18,291,830</u> | <u>1,541,267</u> | <u>213,561</u> | <u>4,223,676</u> | <u>42,554</u> | <u>24,312,888</u> |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| General government support | 1,925,730 | - | - | 14,470 | - | 1,940,200 |
| Public safety | 5,204,133 | - | - | 4,492,683 | 2,173 | 9,698,989 |
| Transportation | 1,947,842 | - | - | 716,221 | - | 2,664,063 |
| Economic assistance and opportunity | 30,841 | - | - | - | - | 30,841 |
| Culture and recreation | 949,601 | - | - | 200,932 | 33,464 | 1,183,997 |
| Home and community services | 1,083,151 | 1,180,065 | - | 937,542 | 5,001 | 3,205,759 |
| Employee benefits | 5,665,372 | 52,983 | - | - | - | 5,718,355 |
| Debt service | 1,228,695 | 239,047 | 146,672 | - | - | 1,614,414 |
| Total expenditures | <u>18,035,365</u> | <u>1,472,095</u> | <u>146,672</u> | <u>6,361,848</u> | <u>40,638</u> | <u>26,056,618</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>256,465</u> | <u>69,172</u> | <u>66,889</u> | <u>(2,138,172)</u> | <u>1,916</u> | <u>(1,743,730)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | - | - | - | 60,000 | - | 60,000 |
| Transfers out | (60,000) | - | - | - | - | (60,000) |
| Proceeds from long-term debt issuance | - | - | - | 980,000 | - | 980,000 |
| Total other financing sources and uses | <u>(60,000)</u> | <u>-</u> | <u>-</u> | <u>1,040,000</u> | <u>-</u> | <u>980,000</u> |
| Net change in fund balances (deficits) | 196,465 | 69,172 | 66,889 | (1,098,172) | 1,916 | (763,730) |
| Fund balances (deficits) - beginning | 4,220,888 | (240,972) | 31,797 | (529,960) | 262,533 | 3,744,286 |
| Fund balances (deficits) - ending | <u>\$ 4,417,353</u> | <u>\$ (171,800)</u> | <u>\$ 98,686</u> | <u>\$ (1,628,132)</u> | <u>\$ 264,449</u> | <u>\$ 2,980,556</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF TONAWANDA, NEW YORK
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances (Deficits) of Governmental Funds to the Statement of Activities
Year Ended December 31, 2010

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

Net change in fund balances (deficits) - total governmental funds \$ (763,730)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. The amount of current year capital and additions and depreciation are as follows:

| | | |
|------------------------------|--------------------|---------|
| Capital asset additions | \$ 1,490,329 | |
| Capital asset disposals, net | (24,184) | |
| Depreciation expense | <u>(1,264,321)</u> | 201,824 |

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

| | | |
|--------------------------------------|--------------|---------|
| Issuance of serial bonds | \$ (980,000) | |
| Repayment of serial bonds | 1,315,001 | |
| Decrease in accrued interest expense | 17,106 | |
| Repayment of capital leases | <u>3,836</u> | 355,943 |

In the statement of activities, certain operating expenses (compensated absences, workers' compensation, other postemployment benefits, landfill postclosure care costs and pollution remediation obligations) are measured by the amounts earned during the year. In the governmental funds, however, these amounts are recognized when paid. (9,760,540)

Revenues in the statement of activities that do not provide current financial resources (real property taxes) are not reported as revenues in the funds. (22,821)

Change in net assets of governmental activities \$ (9,989,324)

The notes to the financial statements are an integral part of this statement.

CITY OF TONAWANDA, NEW YORK
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
Year Ended December 31, 2010

| | <u>Budgeted Amounts</u> | | <u>Actual</u> <u>Amounts</u> | <u>Variance</u> <u>with Final</u> <u>Budget</u> |
|--|-------------------------|---------------------|---------------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Real property taxes | \$ 9,464,769 | \$ 9,464,769 | \$ 9,202,917 | \$ (261,852) |
| Other tax items | 571,000 | 571,000 | 545,641 | (25,359) |
| Non property tax items | 4,535,000 | 4,535,000 | 4,509,550 | (25,450) |
| Departmental income | 186,554 | 186,554 | 159,034 | (27,520) |
| Intergovernmental charges | 187,700 | 187,700 | 185,982 | (1,718) |
| Use of money and property | 71,600 | 71,600 | 13,857 | (57,743) |
| Licenses and permits | 129,200 | 129,200 | 143,355 | 14,155 |
| Fines and forfeitures | 290,000 | 290,000 | 325,984 | 35,984 |
| Sale of property and compensation for loss | 69,000 | 69,000 | 76,874 | 7,874 |
| Miscellaneous local sources | 26,000 | 26,000 | 20,865 | (5,135) |
| State aid | 3,035,260 | 3,075,760 | 3,064,175 | (11,585) |
| Federal aid | - | 20,526 | 43,596 | 23,070 |
| Total revenues | <u>18,566,083</u> | <u>18,627,109</u> | <u>18,291,830</u> | <u>(335,279)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government support | 2,071,486 | 2,062,950 | 1,925,730 | 137,220 |
| Public safety | 5,122,376 | 5,247,139 | 5,204,133 | 43,006 |
| Transportation | 2,117,619 | 2,185,826 | 1,947,842 | 237,984 |
| Economic assistance and opportunity | 31,089 | 31,089 | 30,841 | 248 |
| Culture and recreation | 1,027,484 | 993,198 | 949,601 | 43,597 |
| Home and community services | 1,113,562 | 1,107,062 | 1,083,151 | 23,911 |
| Employee benefits | 5,830,985 | 5,768,984 | 5,665,372 | 103,612 |
| Debt service | 1,201,482 | 1,201,482 | 1,228,695 | (27,213) |
| Total expenditures | <u>18,516,083</u> | <u>18,597,730</u> | <u>18,035,365</u> | <u>562,365</u> |
| Excess of revenues over expenditures | <u>50,000</u> | <u>29,379</u> | <u>256,465</u> | <u>227,086</u> |
| OTHER FINANCING SOURCES | | | | |
| Transfers out | <u>-</u> | <u>(60,000)</u> | <u>(60,000)</u> | <u>-</u> |
| Net change in fund balance | 50,000 | (30,621) | 196,465 | 227,086 |
| Fund balance - beginning | <u>4,220,888</u> | <u>4,220,888</u> | <u>4,220,888</u> | <u>-</u> |
| Fund balance - ending | <u>\$ 4,270,888</u> | <u>\$ 4,190,267</u> | <u>\$ 4,417,353</u> | <u>\$ 227,086</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF TONAWANDA, NEW YORK
Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit)
Budget and Actual - Sewer Fund
Year Ended December 31, 2010

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--------------------------------------|-------------------------|---------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Departmental income | \$ 1,561,880 | \$ 1,561,880 | \$ 1,539,883 | \$ (21,997) |
| Use of money and property | 4,000 | 4,000 | 1,384 | (2,616) |
| Miscellaneous local sources | 1,000 | 1,000 | - | (1,000) |
| Total revenues | <u>1,566,880</u> | <u>1,566,880</u> | <u>1,541,267</u> | <u>(25,613)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Home and community services | 1,255,546 | 1,255,846 | 1,180,065 | 75,781 |
| Employee benefits | 68,620 | 68,320 | 52,983 | 15,337 |
| Debt service | <u>242,471</u> | <u>242,471</u> | <u>239,047</u> | <u>3,424</u> |
| Total expenditures | <u>1,566,637</u> | <u>1,566,637</u> | <u>1,472,095</u> | <u>94,542</u> |
| Net change in fund balance (deficit) | 243 | 243 | 69,172 | 68,929 |
| Fund balance (deficit)- beginning | <u>(240,972)</u> | <u>(240,972)</u> | <u>(240,972)</u> | <u>-</u> |
| Fund balance (deficit)- ending | <u>\$ (240,729)</u> | <u>\$ (240,729)</u> | <u>\$ (171,800)</u> | <u>\$ 68,929</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF TONAWANDA, NEW YORK
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Water Fund
Year Ended December 31, 2010

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|----------------------------|-------------------------|------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Departmental income | \$ 225,000 | \$ 225,000 | \$ 213,561 | \$ (11,439) |
| Total revenues | <u>225,000</u> | <u>225,000</u> | <u>213,561</u> | <u>(11,439)</u> |
| EXPENDITURES | | | | |
| Debt service | <u>190,000</u> | <u>190,000</u> | <u>146,672</u> | <u>43,328</u> |
| Total expenditures | <u>190,000</u> | <u>190,000</u> | <u>146,672</u> | <u>43,328</u> |
| Net change in fund balance | 35,000 | 35,000 | 66,889 | 31,889 |
| Fund balance - beginning | <u>31,797</u> | <u>31,797</u> | <u>31,797</u> | <u>-</u> |
| Fund balance - ending | <u>\$ 66,797</u> | <u>\$ 66,797</u> | <u>\$ 98,686</u> | <u>\$ 31,889</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF TONAWANDA, NEW YORK

Statement of Fiduciary Net Assets

Agency Fund

December 31, 2010

| | Agency Fund |
|---------------------------|------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 428,785 |
| Total assets | <u>\$ 428,785</u> |
| LIABILITIES | |
| Agency liabilities | \$ 428,785 |
| Total liabilities | <u>\$ 428,785</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF TONAWANDA, NEW YORK
Notes to the Financial Statements
Year Ended December 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Tonawanda, New York (the “City”) have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) as applied to government units, except that the City’s financial statements do not include the financial activities of the Tonawanda Housing Authority, a component unit of the City. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are described below.

A. Reporting Entity

The City, which was originally incorporated as a Village in 1854 and was established as a City in 1903, is governed by the charter of the City of Tonawanda, other general laws of the State of New York and various local laws and ordinances. The Common Council, which is the legislative body responsible for the overall operation of the City, consists of a council president and four aldermen. The Mayor serves as Chief Executive Officer and the City Treasurer as Chief Fiscal Officer.

The financial reporting entity includes organizations, functions and activities over which elected officials exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Blended component units, although legally separate entities, are, in substance, part of the City’s operations. Discretely presented component units should be reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

Blended component unit—The Tonawanda Public Library was established by the City and granted a charter by the Board of Regents as provided in Article 5 of the Education Law. The Library’s Trustees are appointed by the Mayor. The City is financially responsible for maintenance of the library building. All other library operations are financed by the County of Erie pursuant to contract. Title to real property used by the library is held by the City. Based upon these factors, the financial activities of the Tonawanda Public Library Fund are reported as a governmental fund (within Other Governmental Funds).

Discretely presented component units—The Tonawanda Housing Authority was created in 1942 pursuant to an act of the New York State Legislature, the creation of which was reaffirmed in 1957 through Public Housing Law, Article 13, Title 9. The members of the Housing Authority Board are appointed by the Mayor. The City is responsible for operating deficits not covered by the subsidy from the State. The Authority’s debt is supported by debt service subsidies received under contract from the state government. The City is liable for the repayment of the loan and interest. Contractual provisions regarding the various housing projects have to be approved by the State Department of Housing and Community Renewal. Based upon these factors, the financial activities of the Tonawanda Housing Authority should be reported as a discrete presentation

within the City's government-wide financial statements. However, the City has elected not to report such financial activities within these financial statements.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. Interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Indirect expenses* have been included as part of the program expenses reported for the various functional activities. *Program revenues* include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items are not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when the underlying exchange transaction has occurred and the resources are available. The City considers revenues to be available if the City has collected the revenues in the current period or expects to collect them soon enough after the end of the period to use them to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to long-term indebtedness are recorded only when payment is due.

Real property taxes, sales taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. There were no significant revenues considered as not subject to accrual.

The City considers the following governmental funds as major funds:

- ◆ *General Fund*—This is the principal operating fund of the City and includes all operations not required to be recorded in other funds.
- ◆ *Sewer Fund*—This is used to record all revenues and expenditures related to the transportation and treatment of City sewage.
- ◆ *Water Fund*—This is used to record all revenues and expenditures related to operation and maintenance of the City’s water system.
- ◆ *Capital Projects Fund*—This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Additionally, the City reports the following fund types:

Fiduciary Funds

- ◆ *Agency Fund*—The Agency Fund is used to account for assets held by the City as an agent for individuals, other governments, or other funds. The Agency Fund is custodial in nature and does not involve measurement of results of operations. The Agency Fund accounts, such as payroll withholdings, are reported as liabilities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are payments and charges between the City’s water and sewer and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed.

D. Budgets

Annual budgets for all governmental funds, except the Special Grant Fund, Special Purpose Fund and the Capital Projects Fund, are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Encumbrances outstanding at year-end are accounted for on the lapsing method, which reappropriate encumbrances in the subsequent years’ budget. Accordingly, the City reserves fund balance for all encumbrances it intends to honor in the subsequent period.

The Special Grants Fund, Special Purpose Fund and the Capital Projects Fund appropriations are not included in the City’s annual budget. Instead appropriations are approved through a City Council resolution at the grant/project’s inception and lapse upon completion/termination of the grant/project.

E. Assets, Liabilities and Net Assets or Equity

Cash and cash equivalents—Cash and cash equivalents include cash on hand, demand deposits, time deposits and short-term, highly liquid investments which are readily convertible to known amounts of cash and have a maturity date within 90 days of the City’s original acquisition.

Receivables—Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “due to/from other funds”. As previously mentioned, the effect of interfund activity is generally eliminated from the government-wide financial statements.

Capital assets - Capital assets, which include property, buildings, equipment and infrastructure assets (e.g. roads, bridges, drainage systems and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than the established threshold of \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The City has elected to retroactively report all major infrastructure assets regardless of when acquired or constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are incurred.

Property, plant, and equipment of the City are depreciated using the straight line method over the following estimated useful lives:

| Assets | Years |
|----------------------------|--------------|
| Land | ** |
| Buildings and improvements | 10 - 50 |
| Machinery and equipment | 5 - 20 |
| Infrastructure | 15 - 50 |

Compensated absences—The City labor agreements and City Council rules and regulations provide for sick leave, vacations, and miscellaneous other paid absences. Upon retirement, certain eligible employees qualify for paid hospitalization insurance premiums and/or payment for fractional values of unused sick leave. These payments are budgeted annually without accrual.

Estimated sick leave and compensatory time accumulated by governmental fund type employees are reported as liabilities in the government-wide financial statements.

Payment of sick leave and compensatory time is dependent upon many factors, therefore, timing of future payments is not readily determinable. However, management believes that sufficient

resources will be made available for the payments of sick leave and compensatory time when such payment becomes due.

Other postemployment benefits—In addition to providing pension benefits, the City provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the City’s employees may become eligible for these benefits if they reach normal retirement age while working for the City, as discussed in Note 11.

Risk management—The City assumes liability for workers’ compensation. Asserted and incurred but not reported claims and judgments 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 reasonable estimated. Such recording is consistent with the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*.

Encumbrances—Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed in all City funds except the Fiduciary Fund. Outstanding encumbrances at year end, exclusive of grant-related commitments, are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Fund balances— In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations for fund balance represent tentative management plans that are subject to change.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues, expenditures, assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

G. Future Impacts of Accounting Pronouncements

The City has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*; No. 59, *Financial Instruments Omnibus*; and No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for the year ending December 31, 2011; and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*; and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for the year ending December 31, 2012; and No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*; effective for the year ending December 31, 2013. The City is therefore unable to disclose the impact that adopting GASB Statements No. 54, 57, 59, 60, 61 and 62 will have on its financial position and results of operations when such statements are adopted.

During the year ended December 31, 2010, GASB Statements No. 51 *Accounting and Financial Reporting for Intangible Assets*; No. 53, *Accounting and Financial Reporting for Derivative*

Investments; and No. 58 Accounting and Reporting for Chapter 9 Bankruptcies were implemented and had no material impact to the City.

2. LEGAL COMPLIANCE – BUDGETS

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

- ◆ Prior to December 31, all City boards and departments are required to submit budget estimates, including appropriations and estimated revenues, for the following fiscal year to commence on January 1.
- ◆ Following various meetings by the Budget Committee, a public hearing is held to obtain taxpayer comments and discuss revisions.
- ◆ The Common Council then adopts formal budgets for the General, Water and Sewer Funds by September 15th. All adopted budgets are for the fiscal year beginning the previous January 1.
- ◆ Capital Project funds are subject to project budgets determined primarily by the bonding authorizations used to fund a particular project rather than annual budgetary appropriations, these budgets do not lapse at year end, rather, they lapse upon termination of the project.
- ◆ The annual operating budgets for the Public Library Fund are proposed and adopted by the Board of Trustees of the Erie County Public Libraries.
- ◆ Budgets for the Special Grant Fund are established upon City Common Council acceptance of grants for Community Development activities.
- ◆ During the fiscal year, the Common Council and/or City Treasurer can legally amend the operating budgets and is empowered to implement supplemental appropriations. Budget amendments are required for departmental budgetary control.

During the year ended December 31, 2010, expenditures exceeded appropriations in the following categories:

| | <u>Amount Over Budget</u> |
|---------------|-------------------------------|
| General Fund: | |
| Debt Service | \$ 27,213 |

The unfavorable variance in General Fund, Debt Service, was due to a greater portion of the City's 2009 Refunding Bonding principal and interest being allocated to General Fund than anticipated in the original budget.

3. CASH AND CASH EQUIVALENTS

The City's investment policies are governed by state statutes. City monies must be deposited in FDIC-insured commercial banks or trust companies located within the state. In addition, the City has its own written investment policy. The Treasurer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. treasury and U.S. agencies, repurchase agreements and obligations of New York State or its localities. Investments with original maturities not exceeding 90 days are considered to be cash equivalents.

Collateral is required for demand deposits and certificates of deposit at 100 percent of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the state and its municipalities and school districts.

Total cash and cash equivalents reported by the City at December 31, 2010 are as follows:

| | |
|--------------------|---------------------|
| Governmental funds | \$ 4,861,116 |
| Fiduciary fund | <u>428,785</u> |
| Total | <u>\$ 5,289,901</u> |

Cash and cash equivalents consisted of:

| | |
|--|---------------------|
| Deposits | \$ 5,288,451 |
| Petty cash (uncollateralized, uninsured) | <u>1,450</u> |
| Total | <u>\$ 5,289,901</u> |

Deposits—All deposits are carried at cost which approximates market.

| | Bank Balance | Carrying Amount |
|---|--------------------|--------------------|
| Insured (FDIC) | \$2,045,596 | \$2,045,596 |
| Uninsured but collateralized - collateral held by bank's trust department in City's name | <u>3,374,464</u> | <u>3,242,855</u> |
| Total deposits | <u>\$5,420,060</u> | <u>\$5,288,451</u> |

Custodial Credit Risk—Deposits—Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As noted above, by State statute all deposits in excess of FDIC insurance coverage must be collateralized. As of December 31, 2010, the City's deposits were FDIC insured or collateralized.

Interest rate risk—In accordance with its investment policy, the government manages exposures by limiting investments to low risk type investments governed by New York State Statutes.

4. PROPERTY TAXES

Real property taxes are collected by the City Treasurer. Taxes are levied annually on April 1 for the fiscal year beginning the previous January 1. City taxes are payable without penalty until May 1. Thereafter, a 1% penalty is charged for each month that the taxes are overdue.

All City property taxes are the enforcement responsibility of the City. County and school taxes are also collected by the City. A settlement of collected County taxes is made on May 1 with the County Commissioner of Finance and enforcement of subsequent collections is the responsibility of the County. The City purchases unpaid school taxes after they have been outstanding for three years and then assumes responsibility for their collection. The City enforces all tax liens.

The City recognizes revenues in the fund financial statements only to the extent that they have been collected, or are expected to be collected, within 60 days of the year end.

5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables and interfund transfers as of and for the year ended December 31, 2010 are presented below:

| Fund | Interfund | | | |
|--------------------------|---------------------|---------------------|------------------|------------------|
| | Receivables | Payables | Transfers In | Transfers Out |
| Governmental Funds: | | | | |
| General Fund | \$ 1,544,017 | \$ 170,341 | \$ - | \$ 60,000 |
| Sewer Fund | - | 263,225 | - | - |
| Water Fund | 246,357 | 746,562 | - | - |
| Capital Projects Fund | 170,341 | 780,587 | 60,000 | - |
| Total Governmental Funds | <u>\$ 1,960,715</u> | <u>\$ 1,960,715</u> | <u>\$ 60,000</u> | <u>\$ 60,000</u> |

The outstanding balances between funds result from payments made on behalf of other funds or temporary advances. All of these balances are expected to be collected/paid within the subsequent year. Transfers made during the year represent the local share of various capital projects.

6. RECEIVABLES

Major revenues accrued by the City funds at December 31, 2010:

Accounts receivable – represent city tax receivable, school tax collection fee, canal fest reimbursement, sewer rents, water surcharges and other miscellaneous items. These amounts have been reported as deferred revenues on the balance sheet of the governmental funds and are recognized as revenue when the amounts are both measurable and available.

Due from other governments – represents amounts due from other units of government, such as Federal, New York State, County of Erie or other local governments. Amounts due to the City at December 31, 2010 are:

| | | |
|---------------------------|----|---------------------|
| General Fund: | | |
| Erie County - Sales Tax | \$ | 1,512,566 |
| NYS 8th Judicial District | | 19,650 |
| NYS Youth Bureau | | 9,641 |
| | | <u>\$ 1,541,857</u> |

| | | |
|------------------------------------|----|-------------------|
| Capital Projects Fund: | | |
| ECIDA | \$ | 300,383 |
| NYS Demco | | 381,777 |
| Erie County - Spaulding Demolition | | 62,031 |
| Library Sidewalk Grant | | 43,135 |
| Erie County - CDBG Water | | 152,500 |
| | | <u>\$ 939,826</u> |

Rehabilitation loans receivable – Rehabilitation loans receivable at December 31, 2010 consist of the following:

Other Governmental Funds:

| | | |
|--|----|---------------|
| Individual home improvement revolving loans ranging in amount from \$2,033 to \$6,142 with an interest rate of 4% and repayment terms, secured by second mortgages on the individual properties. | \$ | 19,187 |
| Business incentive loans with 4% interest rates and terms, secured by corporate assets and personal guarantees. | | <u>13,917</u> |
| Total | \$ | <u>33,104</u> |

7. CAPITAL ASSETS

Capital asset activity for the City's governmental activities for the year ended December 31, 2010 was as follows:

| | Balance 1/1/2010 | Additions | Deletions | Balance 12/31/2010 |
|--|----------------------|-------------------|--------------------|-----------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 328,850 | \$ - | \$ - | \$ 328,850 |
| Total capital assets, not being depreciated | <u>328,850</u> | <u>-</u> | <u>-</u> | <u>328,850</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and building improvements | 6,350,387 | 149,131 | - | 6,499,518 |
| Machinery and equipment | 5,440,887 | 691,543 | (211,605) | 5,920,825 |
| Infrastructure | <u>25,196,677</u> | <u>649,655</u> | <u>-</u> | <u>25,846,332</u> |
| Total capital assets, being depreciated | <u>36,987,951</u> | <u>1,490,329</u> | <u>(211,605)</u> | <u>38,266,675</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 4,042,884 | 156,207 | - | 4,199,091 |
| Machinery and equipment | 2,817,930 | 422,665 | (187,421) | 3,053,174 |
| Infrastructure | <u>14,715,198</u> | <u>685,449</u> | <u>-</u> | <u>15,400,647</u> |
| Total accumulated depreciation | <u>21,576,012</u> | <u>1,264,321</u> | <u>(187,421)</u> | <u>22,652,912</u> |
| Total capital assets, being depreciated, net | <u>15,411,939</u> | <u>226,008</u> | <u>(24,184)</u> | <u>15,613,763</u> |
| Governmental activities capital assets, net | <u>\$ 15,740,789</u> | <u>\$ 226,008</u> | <u>\$ (24,184)</u> | <u>\$ 15,942,613</u> |

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

| | |
|----------------------------|---------------------|
| Governmental Activities: | |
| General government support | \$ 33,028 |
| Public safety | 215,450 |
| Transportation | 750,477 |
| Culture and recreation | 74,260 |
| Home and community service | <u>191,106</u> |
| | <u>\$ 1,264,321</u> |

8. SHORT-TERM DEBT

The City utilizes bond anticipation notes (“BAN’s”), tax anticipation notes (“TAN’s”) and revenue anticipation notes (“RAN’s”) to meet temporary cash flow needs and to provide temporary capital financing.

BAN’s have a maximum maturity of one year; however, they may be renewed for periods up to five years from the original issue date or, in the case of BAN’s issued to finance assessable improvements, for periods equal to the maximum life of the improvement. Principal reductions must be made within two years of the original issuance. The liability for this type of debt is recorded in the Capital Projects Fund, since that fund received the note proceeds. The City’s maintained BAN’s outstanding of \$2,948,000 during the year ended December 31, 2010.

TAN’s also have a maximum maturity of one year, and are supported in anticipation of subsequent tax collections, which must be used to pay off the outstanding TAN’s debt. The liability for this type of debt is recorded in the General Fund. There were no TAN’s outstanding at December 31, 2010.

RAN’s also have a maximum maturity of one year, and are supported by a guaranteed source of revenue, which must be used to pay off the outstanding RAN’s debt. There was no RAN’s activity during the year ended December 31, 2010.

The following is a summary of the City’s short-term debt activity for the year ended December 31, 2010:

| Description | Interest Rate | Maturity Date | Balance 1/1/2010 | Issued | Paid | Balance 12/31/2010 |
|------------------------|---------------|---------------|---------------------|---------------------|---------------------|---------------------|
| Bond Anticipation Note | 3.05% | 6/15/2010 | \$ 1,434,750 | \$ - | \$ 1,434,750 | \$ - |
| Bond Anticipation Note | 1.54% | 11/18/2010 | 990,000 | - | 990,000 | - |
| Bond Anticipation Note | 1.25% | 6/16/2011 | - | 2,158,000 | - | 2,158,000 |
| Bond Anticipation Note | 0.82% | 11/17/2011 | - | 790,000 | - | 790,000 |
| | | | <u>\$ 2,424,750</u> | <u>\$ 2,948,000</u> | <u>\$ 2,424,750</u> | <u>\$ 2,948,000</u> |

9. LONG-TERM OBLIGATIONS

Compensated absences—As explained in Note 1, the City records the value of governmental fund type compensated absences in the government-wide financial statements. The annual budgets of the operating funds provide funding for these benefits as they become payable.

Landfill post-closure care costs—State and federal laws and regulations require the City to perform certain maintenance and monitoring functions in addition to remediation work on the City’s landfill site. Both post-closure costs and remediation work are to be paid in the future. The total estimated post-closure care and remediation work cost liability is reported in the City’s government-wide financial statements. The \$440,000 reported as the accrued landfill post-closure care liability at December 31, 2010 represents the cumulative amount reported to date based on 100% capacity used. The amount reported is based on what it would cost to perform all post-closure and remediation work in 2010.

on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The estimated long-term OPEB liability is \$1,493,223 as of December 31, 2010.

Bond transactions—The City may issue bonds in order to acquire land, equipment, construct buildings and improvements and construct or improve infrastructure assets. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. The bonds are full faith and credit debt of the City.

Capital leases—The City has entered into lease agreements as lessee for financing the acquisition of certain machinery and equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date.

Risk management - The City is exposed to various risks of losses related to injuries to employees. Effective March 1, 1996 the City established a self-insurance program for workers' compensation claims. The City self-insures for losses up to \$200,000 per incident. The City has obtained outside insurance for claims in excess of that amount. The City currently reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

Total claims and judgments expenditures of \$725,196 were recorded in the General Fund for the year ended December 31, 2010.

Pollution remediation obligation - The New York State Department of Environmental Conservation issued an Order on Consent during the fiscal year ended December 31, 2009 requiring that the City remedy sanitary sewer overflows determined harmful to the local water system. The total estimated liability, at December 31, 2010, to address the violation is \$9,441,000. This estimated liability is recorded in the City's government-wide financial statements.

The following is a summary of changes in long-term debt for the year ended December 31, 2010:

| | Balance <u>12/31/2010</u> | <u>Additions</u> | <u>Payments</u> | Balance <u>12/31/2010</u> | Due Within <u>One Year</u> |
|--|------------------------------|----------------------|---------------------|------------------------------|-------------------------------|
| Compensated absences | \$ 2,386,923 | \$ 165,817 | \$ - | \$ 2,552,740 | \$ 127,637 |
| Accrued landfill post-closure costs | 460,000 | - | 20,000 | 440,000 | 20,000 |
| Other postemployment benefits | 1,075,865 | 1,856,852 | 1,439,494 | 1,493,223 | - |
| Bonds payable | 8,900,000 | 980,000 | 1,315,000 | 8,565,000 | 1,465,000 |
| Capital leases | 65,468 | 89,270 | 93,107 | 61,631 | 58,376 |
| Workers' compensation | 1,094,428 | 481,561 | 725,196 | 850,793 | 42,540 |
| Pollution remediation obligations | - | 9,441,000 | - | 9,441,000 | 1,837,000 |
| | <u>\$ 13,982,684</u> | <u>\$ 13,014,500</u> | <u>\$ 3,592,797</u> | <u>\$ 23,404,387</u> | <u>\$ 3,550,553</u> |

9. LONG-TERM OBLIGATIONS (continued)

Bonds payable - The following is a summary of City bond transactions for the year ended December 31, 2010:

| Description | Issue Date | Original Issue | Interest Rate (%) | Balance 1/1/2010 | Issued 2010 | Paid 2010 | Balance 12/31/2010 |
|-------------------------------|------------|----------------------|-------------------|---------------------|-------------------|-----------------------|---------------------|
| <u>GENERAL</u> | | | | | | | |
| Rec & Water Line | 6/01 | \$ 1,620,000 | 4.375-4.75 | \$ 725,000 | \$ - | \$ (130,000) | \$ 595,000 |
| Energy Perform | 6/01 | 269,500 | 4.375-4.75 | 100,000 | - | (20,000) | 80,000 |
| Wales Ave Landfill Closure | 6/03 | 2,394,500 | 4.375-4.75 | 1,615,000 | - | (135,000) | 1,480,000 |
| Public Improvement | 6/04 | 1,690,000 | 4.25-5.0 | 1,125,000 | - | (75,000) | 1,050,000 |
| Fire Ladder Truck | 9/08 | 685,000 | 2.86 | 575,000 | - | (125,000) | 450,000 |
| Fire Headquarters Roof | 6/09 | 115,000 | 3.05 | 115,000 | - | (15,000) | 100,000 |
| Street Improve. (Refunding) | 6/09 | 1,280,000 | 2.00-3.25 | 1,280,000 | - | (501,000) | 779,000 |
| Roads & Equip Cap Proj | 6/10 | 980,000 | 3.50-4.00 | - | 980,000 | - | 980,000 |
| Total General | | <u>9,034,000</u> | | <u>5,535,000</u> | <u>980,000</u> | <u>(1,001,000)</u> | <u>5,514,000</u> |
| <u>WATER</u> | | | | | | | |
| Recon. Water Plan (Refunding) | 6/09 | 1,567,710 | 2.00-3.25 | 1,567,710 | - | (133,140) | 1,434,570 |
| Total Water | | <u>1,567,710</u> | | <u>1,567,710</u> | <u>-</u> | <u>(133,140)</u> | <u>1,434,570</u> |
| <u>SEWER</u> | | | | | | | |
| Pump Station - EFC | 2/96 | 825,000 | 2.95-5.20 | 285,000 | - | (45,000) | 240,000 |
| Sewer Improvement | 1/02 | 1,233,250 | 1.5-5.0 | 860,000 | - | (55,000) | 805,000 |
| Sewer Pump and Improve. | 6/09 | 600,000 | 3.05 | 600,000 | - | (70,000) | 530,000 |
| Sewer Improve. (Refunding) | 6/09 | 52,290 | 2.00-3.25 | 52,290 | - | (10,860) | 41,430 |
| Total Sewer | | <u>2,710,540</u> | | <u>1,797,290</u> | <u>-</u> | <u>(180,860)</u> | <u>1,616,430</u> |
| TOTAL ALL FUNDS | | <u>\$ 13,312,250</u> | | <u>\$ 8,900,000</u> | <u>\$ 980,000</u> | <u>\$ (1,315,000)</u> | <u>\$ 8,565,000</u> |

Annual principal and interest requirements to amortize bond debt outstanding as of December 31, 2010 are as follows:

| Year Ending December 31, | Bond Principal | Bond Interest | Total |
|--------------------------|---------------------|---------------------|----------------------|
| 2011 | \$ 1,465,000 | \$ 304,757 | \$ 1,769,757 |
| 2012 | 1,265,000 | 246,907 | 1,511,907 |
| 2013 | 1,275,000 | 207,625 | 1,482,625 |
| 2014 | 880,000 | 171,170 | 1,051,170 |
| 2015 | 780,000 | 140,152 | 920,152 |
| 2016-2020 | 2,445,000 | 351,145 | 2,796,145 |
| 2021-2025 | 455,000 | 37,777 | 492,777 |
| Total | <u>\$ 8,565,000</u> | <u>\$ 1,459,533</u> | <u>\$ 10,024,533</u> |

There is a statutory debt limit applicable to cities within New York State. The City is in compliance with this debt limit.

Capital leases—The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2010 are as follows:

| <u>Fiscal Year Ending December 31,</u> | <u>Governmental Activities</u> |
|---|------------------------------------|
| 2011 | \$ 58,376 |
| 2012 | <u>8,375</u> |
| Total minimum lease payments | 66,751 |
| Less: amount representing interest | <u>(5,120)</u> |
| Present value of minimum lease payments | <u><u>\$ 61,631</u></u> |

Risk management— At December 31, 2010 the amount of liabilities relating to workers' compensation was \$850,793. This liability is the City's best estimate based on available information. Changes in the reported liability resulted from the following:

| | <u>Beginning of Year Liability</u> | <u>Current Year Claims and Changes in Estimates</u> | <u>Claim Payments</u> | <u>Balance at Fiscal Year - End</u> |
|------|--|---|---------------------------|---|
| 2010 | \$ 1,094,428 | \$ 481,561 | \$ 725,196 | \$ 850,793 |
| 2009 | 1,401,896 | 268,103 | 575,571 | 1,094,428 |

10. PENSION PLANS

Plan Description—The City participates in the New York 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 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 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 noncontributory except for employees who joined the New York State and Local Employees’ Retirement System after July 27, 1976 who contribute 3% of their salary. The New York State Legislature passed legislation in 2000 that suspends the 3% contribution for employees who have ten years or more of credited service. Those joining the System after January 1, 2010 are required to contribute 3% of salary throughout membership. Under the authority of the NYSRSSL, the Comptroller annually certifies the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employees to the pension accumulation fund.

The City of Tonawanda is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were:

| | ERS | PFRS |
|------|------------|------------|
| 2010 | \$ 380,931 | \$ 671,948 |
| 2009 | 258,857 | 687,904 |
| 2008 | 268,053 | 585,732 |

Chapter 49 of the Laws of 2003 of the State of New York was enacted which made the following changes to the Systems:

- ◆ Requires minimum contributions by employers of 4.5 percent of payroll every year, including years in which the investment performance would make a lower contribution possible.
- ◆ Changes the cycle of annual billing such that the contribution for a given fiscal year will be based on the value of the pension fund on the prior April 1st (e.g., billings due February 2009 would be based on the pension value as of March 31, 2008).

Legislation requires participating employers to make payments on a current basis. The City’s contributions made to the Systems were equal to 100 percent of the contributions required for each year, and has not bonded or amortized any of the excess amounts.

11. OTHER POSTEMPLOYMENT BENEFITS

Plan Description—The City pays for a portion of eligible retirees’ health insurance, depending on the type of health plan provided. Eligibility for post-employment benefits depends upon the union group as follows:

Funding Policy—Authorization for the City to pay retiree health insurance premiums was enacted through a union contract, which was ratified by the City’s Common Council. To be eligible employees must have 20 years of continuous full-time service with the City and been hired prior to 2003. Upon retirement, the City pays 100% of the cost of the medical benefits for life. In addition Retirees are eligible to receive prescription drug copayment reimbursements back to \$3 for all prescriptions. Surviving spouses are eligible to receive benefits at the same rate as retirees. Retirees hired in 2003 and later are not eligible to receive City paid medical benefits.

The City’s annual other post-employment benefit (“OPEB”) cost is calculated based on the annual required contribution (“ARC”) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The table below shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation.

| | |
|--|------------------------------------|
| | <u>Governmental Activities</u> |
| Annual required contribution | \$ 1,856,852 |
| Interest on net OPEB obligation | - |
| Adjustment to annual required contribution | <u>-</u> |
| Annual OPEB cost (expense) | 1,856,852 |
| Expected contributions | <u>(1,439,494)</u> |
| Increase in net OPEB obligation | 417,358 |
| Net OPEB obligation—beginning of year | <u>1,075,865</u> |
| Net OPEB obligation—end of year | <u>\$ 1,493,223</u> |

Funding Status and Fund Progress—The plan was unfunded as of December 31, 2010, and the actuarial accrued liability for benefits for governmental activities was \$37,331,140.

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 health care costs trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer 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 presents multiyear trend information about whether the actuarial value of plan assets, if any, is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The City's Schedule of Funding Progress is presented below:

| <u>Year</u> | <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability ("AAL")</u> | <u>Unfunded AAL ("UAAL")</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>Ratio of UAAL to Budget Covered Payroll</u> |
|-------------|---|--|--|--------------------------------------|-------------------------|----------------------------|--|
| 2008 | 1/1/2008 | \$ - | \$ 37,331,140 | \$ 37,331,140 | - | \$ 4,713,186 | 792.06% |

The Schedule of the City's contributions is shown below:

| <u>Year Ended December 31,</u> | <u>Annual Required Contribution</u> | <u>Contributions Made</u> | <u>Percentage Contributed</u> |
|--|---|-------------------------------|-----------------------------------|
| 2010 | \$ 1,856,852 | \$ 1,439,494 | 77.5% |
| 2009 | 1,856,852 | 1,794,944 | 96.7% |
| 2008 | 1,821,255 | 807,298 | 44.3% |

Actuarial Methods and Assumptions—Calculations are based on the types of benefits provided under the terms of the substantive plan (the plan as understood by the employer and the plan members) at the time of the valuation and on the pattern of cost sharing between the employee and plan members. Calculations reflect a long-term perspective, so methods and assumptions used include techniques that are designed to reduce short-term volatility.

In the January 1, 2008 actuarial valuation, the Entry Age Normal Method was used. Under this method, each participant's projected benefit is allocated on a level basis over the earnings or service of the participant between entry age and assumed exit ages. The actuarial assumptions included a valuation date and measurement date of December 16, 2008. The expected interest rate, salary scale, and inflation rate was 5.0%, 4.0%, and 3.0%, respectively. The RP-2000 projected to 2010, weighted 50% White Collar, 50% Blue Collar tables were used for mortality rates. The unfunded actuarial accrued liability is being amortized over 30 years, therefore the remaining amortized period at December 31, 2010 was 27 years.

12. LABOR RELATIONS

City employees are represented by four bargaining units with the remainder covered by Common Council rules and regulations. The City of Tonawanda Employee Association and Uniformed Professional Firefighters Association have contracts through December 31, 2010 while the City of Tonawanda Civil Service Employee Association and the City of Tonawanda Police Benevolent Association have contracts with the City through December 31, 2011.

13. NET ASSETS, RESERVES AND DESIGNATIONS

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- ***Investment in capital assets, net of related debt***—This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category. The following presents a reconciliation of capital assets (net of accumulated depreciation), net of related indebtedness which was used to acquire or construct such capital assets. The City has excluded bonds for the water system which related to assets transferred to the Erie County Water Authority. Also, the bond relating to the landfill have been excluded from the reconciliation as it relates to post-closure and remediation work which is not included in the City's capital assets.

| | | |
|---|------------------|---------------------|
| Capital assets, net of accumulated depreciation | | \$ 15,942,613 |
| Less: | | |
| Total outstanding bonds | \$ (8,565,000) | |
| Total bond anticipation notes | (2,948,000) | |
| Total outstanding capital lease | (61,631) | |
| Add debt issued, which was not used for capital assets included in capital asset inventory and unspent debt proceeds used for capital projects: | | |
| Bonds issued for landfill remediation | 1,480,000 | |
| Bonds issued for water system | 1,434,570 | |
| Bond anticipation note for Spaulding demolition | 790,000 | |
| Unspent debt proceeds used for capital projects | <u>1,016,295</u> | <u>(6,853,766)</u> |
| Net assets invested in capital assets, net of related debt | | <u>\$ 9,088,847</u> |

- ◆ ***Restricted net assets*** – This category presents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The City had no restricted net assets at December 31, 2010.
- ◆ ***Unrestricted net assets*** – This category represents net assets of the City not restricted for any project or other purpose.

In the fund financial statements, reservations that represent portions of fund balance that have been legally segregated for a specific use or is not appropriable for expenditure by the City at December 31, 2010, and include:

- ◆ ***Reserved for encumbrances***—represents commitments to purchase goods or services that have been entered into by the City.
- ◆ ***Reserved for tax stabilization***—represents resources to be used to finance unanticipated revenue losses or unanticipated expenditures chargeable to the eligible portion of the annual budget.
- ◆ ***Reserved for workers' compensation***—representing resources that have been accumulated for payments under the City's general liability self-insurance program.
- ◆ ***Reserved for self insurance***—representing resources that have been accumulated for payments under the City's general liability self-insurance program.
- ◆ ***Reserved for historical restoration***—representing resources received which use is restricted to the restoration of historical buildings in the City.

Designations are not legally required segregations but are segregated for a specific purpose by the City at December 31, 2010 and include:

- ◆ ***Designated for subsequent year's expenditures***—Represents the amount of fund balance which will be utilized to support subsequent year expenditures.

14. DEFICIT FUND BALANCES

Sewer Fund—The Sewer Fund had a deficit fund balance of \$171,800 at December 31, 2010. The City intends to remedy the deficit through future rate increases and rate surcharges.

Capital Projects Fund—The Capital Projects Fund had a deficit fund balance of \$1,628,132 at December 31, 2010. This deficit is temporary in nature and expected to reverse when the City converts its short-term financing into long-term bonds.

15. CONTINGENCIES

Assessments—The City is a defendant in various litigation under Article 7 of the Real Property Tax Law of the State of New York to review tax assessments. While the City vigorously defends assessments, the likelihood of success is on a case-by-case basis, and is dependent upon many factors including market values and appraised amounts. No potential amount or potential range of loss is determinable. However, management believes that the level of such potential loss, if any, would be immaterial and no provisions have been made within the financial statements.

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

Pollution Remediation Obligations—On December 31, 2009, the City was issued Order on Consent #R9-20090408-23 by the New York State Department of Environmental Conservation for its violation of Article 17 of the Environmental Conservation Law and its implementing regulations found in Title 8 and 6 of the Official Compilation of the Codes, Rules and Regulations of the State of New York which govern the control and prevention of water pollution. As part of this notice the City conducted and submitted a system-wide Sanitary Sewer System Evaluation Survey (SSES) to reduce wet weather flows and eliminate sanitary sewer overflows in the City of Tonawanda. As of December 31, 2010 the New York State Department of Environmental Conservation has required that the City committed an estimated \$9,441,000 in capital outlays over the next five-years to remedy, the above mentioned, sanitary sewer overflows. The City has applied for certain grants from the County of Erie to offset a portion of this liability, however, at December 31, 2010 these amounts were not reasonably determinable.

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

FEDERAL AWARDS

CITY OF TONAWANDA, NEW YORK
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2010

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Disbursements/ Expenditures</u> |
|---|------------------------------------|--|
| U.S. Department of Housing and Urban Development | | |
| Passed through County of Erie, New York: | | |
| Economic Development Initiative Grant | 14.251 | 630,063 |
| Direct Program: | | |
| Lower Income Housing Assistance Program | 14.856 | <u>684,089</u> |
| Total U.S. Department of Housing & Urban Development | | <u>684,089</u> |
| U.S. DEPARTMENT OF JUSTICE | | |
| Direct Program: | | |
| Bulletproof Vest Program | 16.607 | 1,380 |
| Passed through City of Buffalo, New York: | | |
| Edward Byrne Memorial Justice Assistance Grant (JAG) Program | 16.804 | <u>16,420</u> |
| Total U.S. Department of Justice | | <u>17,800</u> |
| Total Expenditures of Federal Awards | | <u>\$ 701,889</u> |

The notes to this schedule of expenditures of federal awards are an integral part of this schedule.

CITY OF TONAWANDA, NEW YORK
Notes to the Schedule of Expenditures of Federal Awards
Year Ended December 31, 2010

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Tonawanda, New York (the "City") and is presented on the GAAP basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Note 2 – Reconciliation of Federal Assistance to Financial Statements

The schedule of expenditures of federal awards reconciles to the federal aid revenues per the City's financial statements as follows:

| | |
|---|---------------------|
| Federal aid per the City's financial statements for the year ended December 31, 2010 | \$ 673,659 |
| Add - Lower Income Housing Assistance Program for which the City acts as pass-through entity | 684,089 |
| Deduct - Medicare retiree drug subsidy which is a reimbursement of expenditures | <u>(25,796)</u> |
| Total expenditures of federal awards | <u>\$ 1,331,952</u> |

Note 3 - Subrecipients

Of the federal expenditures presented in this schedule the City provided federal awards to subrecipients as follows:

| Program Title | Federal CFDA Number | Amount Provided to Subrecipients |
|---|--------------------------------|---|
| Lower Income Housing Assistance Program | 14.856 | \$ 684,089 |

Certified Public Accountants

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 City Council
City of Tonawanda, New York

We have audited the basic financial statements of City of Tonawanda, New York's (the "City") primary government, as of and for the year ended December 31, 2010, and have issued our report thereon dated April 18, 2011 (which report expresses a qualified opinion relating to the omission of the financial activities of a legally separate component unit). 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not be designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2010-01 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2010-02 through 2010-04, to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

We noted certain matters that we reported to the management of the City in a separate letter dated April 18, 2011.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and accordingly express no opinion on them.

This report is intended solely for the information and use of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dresser & Malecki LLP

April 18, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable City Council
City of Tonawanda, New York

Compliance

We have audited the City of Tonawanda, New York's (the "City") compliance, with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City's major federal programs for the year ended December 31, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2010-05 and 2010-06.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over

compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion in the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2010-05. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charge with governance.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Mayor, City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Drescher & Malecki LLP

April 18, 2011

CITY OF TONAWANDA, NEW YORK
Schedule of Findings and Questioned Costs
Year Ended December 31, 2010

Part I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Qualified*

- * The independent auditors' report on the financial statements expressed a qualified opinion related to the omission of financial activities of a legally separate component unit.

Internal control over financial reporting:

- | | | |
|--|-------------------|-----------------------------|
| 1. Material weakness (es) identified? | <u>✓</u> Yes | <u> </u> No |
| 2. Significant deficiency (ies) identified? | <u>✓</u> Yes | <u> </u> None reported |
| 3. Noncompliance material to financial statements noted? | <u> </u> Yes | <u>✓</u> No |

Federal Awards:

Internal control over major programs:

- | | | |
|---|-------------------|-----------------------------|
| 4. Material weakness (es) identified? | <u> </u> Yes | <u>✓</u> No |
| 5. Significant deficiency (ies) identified? | <u>✓</u> Yes | <u> </u> None reported |

Type of auditors' report issued on compliance for major programs:

Unqualified

- | | | |
|---|--------------|------------------|
| 6. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510(a))? | <u>✓</u> Yes | <u> </u> No |
|---|--------------|------------------|

7. The City's major programs were:

| Name of Federal Program | CFDA Number |
|---|-------------|
| Economic Development Initiative Grant | 14.251 |
| Lower Income Housing Assistance Program | 14.856 |

- | | |
|---|-------------------------------|
| 8. Dollar threshold used to distinguish between Type A and Type B programs? | \$ <u>300,000</u> |
| 9. Auditee qualified as low-risk auditee? | <u> </u> Yes <u>✓</u> No |

Part II. FINANCIAL STATEMENT FINDINGS SECTION

We consider the significant deficiencies presented below to be material weaknesses in internal control.

Finding 2010-01 –Financial Activities of Tonawanda Housing Authority

Criteria—GASB Statement No. 14 establishes the standards for defining and reporting on the financial reporting entity. GASB Statement No. 14 applies to the reporting entity and to the separately issued financial statements of governmental component units. In addition, this Statement should be applied to governmental and nongovernmental component units when they are included in a governmental financial reporting entity.

Condition—The City does not include the financial activities of Tonawanda Housing Authority, a component unit of the City of Tonawanda, New York in the City’s basic financial statements.

Cause—The Tonawanda Housing Authority keeps its accounting records and prepares its financial statements on a basis of accounting as required by the U. S. Department of Housing and Urban Development (“HUD”). This basis differs significantly from generally accepted accounting principles. Therefore, the City has elected to not include the financial activities of the Tonawanda Housing Authority in the City’s basic financial statements.

Effect—The independent auditors’ report is qualified for such exclusion.

Recommendation—We recommend that the City consider including the Tonawanda Housing Authority in its financial statements.

Management’s Corrective Action Plan—The City has determined that it is not efficient to recognize the component unit and that not reporting the discretely presented component does not materially affect the financial statements.

We consider the deficiencies presented below to be significant deficiencies in internal control.

Finding 2010-02 – Journal Entry Review and Documentation

Criteria—As part of internal control procedures, each manual journal entry should be reviewed and documented by an individual independent of the preparer.

Condition— Certain journal entries are not reviewed by an individual independent of the preparer and/or adequately documented.

Cause—The City does not have a formal policy or procedure surrounding the journal entry process.

Effect—There is the risk that errors will occur or assets will be misappropriated.

Recommendation—We recommend that manual journal entries are reviewed by an individual independent of the preparer and adequately documented. Good documentation serves as an accounting record and facilitates future follow-up as well as additional insight for other users. Evidence supporting the purpose of each entry and the independent review should be attached to the entry (or referenced with the journal entry).

Management’s Corrective Action Plan—Management will review policies and procedures relating to journal entry review and documentation.

Finding 2010-03 – Segregation of Duties

Criteria—Key cash functions should have a clear segregation of duties between the collection of cash, deposit of cash, posting to the general and accounts receivable ledgers, and the paying of bills.

Condition—We found that the same employee has the ability to collect the cash receipts, prepare the deposit, issue checks, perform bank reconciliations and post journal entries to the system.

Cause—Currently, the assistant treasurer has the ability to collect cash, prepare deposits, post journal entries, reconcile bank statements and issue checks.

Effect—The absence of segregation of duties presents the opportunity for the misappropriation of assets and the potential misstatement of the financial statements.

Recommendation—We recommend that the City develop a more structured policy regarding employee job functions to promote segregation of duties.

Management's Corrective Action Plan—Management has evaluated the feasibility of segregating duties within the Treasurer's Office. As a result, management does not feel that changes to the current operations are cohesive with management style or practical under economic circumstances. Segregation of duties will not be expected in future years. Other mitigating controls will be evaluated by management.

Finding 2010-04 – Non-Reconciling Items

Criteria—Formal policies and procedures, regarding the performance of bank reconciliations, should be in place to ensure that variances and bank errors are resolved in a timely manner. Reconciling items should be limited to outstanding checks, deposits in transit and other temporary items.

Condition—We noted a material reconciling item in the City's Trust and Agency account that did not fit the criteria for an appropriate reconciling item; the item represented monies that were deposited into the City's account in error. Although the bank reconciliation had been performed, reviewed and initialed by an individual independent from the preparer, this item was not identified as an error and resolved.

Cause—There are no formal policies or procedures in place to ensure bank reconciliations are prepared and reviewed in a manner that is designed to identify and resolve errors.

Effect—Undetected errors could result in the misstatement of cash assets. Further, when bank reconciliations and reviews are not designed to detect and correct errors, it exposes the City to an increase risk of fraudulent activity.

Recommendation—In order to improve cash management, and controls over cash activity, it is recommended that the City adopts a formal policy and procedure in respect to bank reconciliations. This policy and procedure should ensure that all reconciling items are investigated and addressed in a timely manner.

Management's Corrective Action Plan—Management intends to review the nature of entries and bank reconciliations in the future to ensure these items do not reoccur.

Part III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

Finding 2010-05 – Subrecipient Monitoring

Criteria—In accordance with OMB Circular A-133, the City, as a pass-through entity of the Tonawanda Towers is responsible for award identification, during-the-award monitoring and subrecipient audits.

Condition—We noted, that as of the date of our report date, that the City, as a pass-through entity of Section 8 Moderate Rehabilitation monies, has not performed an audit of its subrecipients for the fiscal year ended December 31, 2010.

Cause—An audit has not been performed.

Effect—The City is non-compliant with requirements of its contract agreement with HUD and the subrecipient compliance requirements dictated by OMB circular A-133.

Recommendation—We recommend that the City performs an audit of its subrecipient as soon as possible and that the City remains up to date with all future audits and monitoring requirements.

Management's Corrective Action Plan—Managements acknowledges the importance of performing an audit and intends on performing an audit in the immediate future.

Finding 2010-06 – Lease Agreements

Criteria—For each rental unit at the Tonawanda Towers, a lease agreements must be signed between the tenant and the landlord, Lawler-Wood, LLC. A signed agreement serves as an understanding of the contractual arrangement by each party and each party's obligations under that arrangement.

Condition—We noted three instances out of a sample of twenty-five where the HUD lease agreement was not signed by the Landlord and one instance where the tenant had not signed the lease agreement.

Cause—There is no review process or subrecipient monitoring to ensure that lease agreements have been signed.

Effect—Non-compliance with HUD documentation requirements.

Recommendation—We recommend that the City, as the pass-through entity, review on at least an annual basis, eligibility and compliance requirements of the Tonawanda Towers.

Management's Corrective Action Plan—The City understands that it is in need of performing an audit of the subrecipient, Tonawanda Towers, for the year ended December 31, 2010, to be compliant with its obligations as a pass-through entity.

CITY OF TONAWANDA, NEW YORK
Schedule of Prior Federal Award Findings
Year Ended December 31, 2010 (Follow-up on December 31, 2009 Findings)

No matters were reportable in the prior year.

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CITY OF TONAWANDA, NEW YORK
Schedule of Expenditures of New York State Department of Transportation Assistance
Year Ended December 31, 2010

| <u>Program Title / Description</u> | NYS Reference Number | <u>Expenditures</u> |
|---|---|----------------------------|
| Consolidated Highway Improvement Program (CHIPS) | 140000 | \$ <u>292,522</u> |
| Total New York State Department of Transportation Expenditures | | \$ <u>292,522</u> |

See note to the schedule of expenditures of New York State Department of Transportation assistance.

CITY OF TONAWANDA, NEW YORK
Note to Schedule of Expenditures of New York State Department of Transportation Assistance
Year Ended December 31, 2010

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of New York State Department of Transportation (the "NYSDOT") assistance includes the financial assistance provided by NYSDOT.

The accompanying schedule is presented on the modified accrual basis of accounting.

Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
INTERNAL CONTROL OVER NEW YORK STATE
TRANSPORTATION ASSISTANCE EXPENDED BASED ON AN
AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable City Council
City of Tonawanda, New York:

Compliance

We have audited the compliance of City of Tonawanda, New York, (the "City") with the types of compliance requirements described in Draft Part 43 of the New York State Codification of Rules and Regulations (NYCRR) that are applicable to each state transportation assistance program tested for the year ended December 31, 2010. The programs tested are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each program tested is the responsibility of City's management. Our responsibility is to express an opinion on City's compliance 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; and Draft Part 43 of NYCRR. Those standards and Draft Part 43 of NYCRR require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a state transportation assistance programs tested has occurred. An audit includes examining, on a test basis, evidence about City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its state transportation assistance programs for the year ended December 31, 2010.

Internal Control Over Compliance

The management of City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state transportation assistance programs tested. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on state transportation assistance programs tested in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Draft 43 of NYCRR.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state transportation assistance program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state transportation assistance program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of State Transportation Assistance Expended

We have audited the financial statements of the City as of and for the year ended December 31, 2010, and have issued our report thereon dated April 18, 2011 (which report expresses a qualified opinion relating to the omission of the financial activities of a legally separate component unit). Our audit was performed for the purpose of forming an opinion on the City's financial statements taken as a whole. The accompanying schedule of state transportation assistance expended is presented for purposes of additional analysis as required by Draft 43 of NYCRR, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management, the New York State Department of Transportation, the Office of the State Comptroller of the State of New York and is not intended to be and should not be used by anyone other than these specified parties.

Drescher & Malecki LLP

April 18, 2011

CITY OF TONAWANDA, NEW YORK
Schedule of Findings and Questioned Costs of
New York State Department of Transportation Assistance
For the Year Ended December 31, 2010

Part I. SUMMARY OF AUDITORS' RESULTS

New York State Department of Transportation Assistance:

Internal control over major programs:

- | | | |
|---|-----------|---|
| 1. Material weakness(es) identified? | _____ Yes | _____ <input checked="" type="checkbox"/> No |
| 2. Significant deficiency (ies) identified? | _____ Yes | _____ <input checked="" type="checkbox"/> None Reported |

Type of auditors' report issued on compliance for programs tested:

Unqualified

- | | | |
|---|-----------|--|
| 3. Any audit findings disclosed that are required to be reported in accordance with Draft Part 43 of NYCRR? | _____ Yes | _____ <input checked="" type="checkbox"/> No |
| 4. The City's programs tested were: | | |

Name of Program

Consolidated Highway Improvement Program (CHIPS)

Part II. COMPLIANCE FINDINGS AND QUESTIONED COSTS

No matters are reportable.