

OFFICIAL STATEMENT DATED MAY 16, 2011

NEW ISSUES

SERIAL BONDS AND BOND ANTICIPATION NOTES

In the opinion of Hodgson Russ LLP, of Buffalo, New York, Bond Counsel, subject to continuing compliance by the City of Tonawanda, Erie County, New York (the "City") with its covenants relating to certain requirements contained in the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Bonds and the Notes is A) excluded from gross income of the owners thereof for federal income tax purposes under existing law, and (B) exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including the City of New York). Moreover, interest on the Bonds and the Notes is not an "item of tax preference" for purposes of the individual and corporate alternative minimum taxes. (See the caption "TAX EXEMPTION" herein for a discussion of certain federal taxes applicable to corporate owners of the Bonds and the Notes.)

The Bonds and the Notes will be designated as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code.

CITY OF TONAWANDA ERIE COUNTY, NEW YORK (the "City")

\$1,938,499

PUBLIC IMPROVEMENT SERIAL BONDS, 2011

(the "Bonds")

(Bank Designated/Qualified)

(Book-Entry-Only)

Dated: June 16, 2011

**Principal Due: June 15, 2012/ 2020, inclusive
Interest Due: June 15, 2012, December 15, 2012 and
semi-annually thereafter on June 15 and December 15**

BOND MATURITY SCHEDULE

<u>Year</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Year</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>
2012	\$368,499			2016	\$205,000		
2013	305,000			2017	140,000		
2014	285,000			2018	140,000		
2015	205,000			2019	140,000		
				2020	150,000		

Prior Redemption: The Bonds will NOT be subject to redemption, in whole or in part, prior to their maturity.

Form and Denomination: The Bonds will be issued as registered bonds, and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, ("DTC") New York, New York, which will act as securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry-only form, in denominations of \$5,000 or integral multiples thereof (except for one Bond of an odd denomination, maturing in 2012), such that one bond certificate will be issued for each maturity of Bonds. Bondholders will not receive certificates representing their ownership interest in the Bonds purchased. See "Book-Entry-Only System" herein.

Payment: Principal and Interest will be paid by the City to DTC. Payment of the principal of and interest on the Bonds to the Beneficial Owners of the Bonds will be made by DTC Participants and Indirect Participants in accordance with standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name". Payment will be the responsibility of the DTC Participant or Indirect Participant and not of DTC or the City, subject to any statutory and regulatory requirements as may be in effect from time to time. See "Book-Entry-Only System", herein.

The Bonds bear interest from June 16, 2011, with interest thereon payable on June 15, 2012, December 15, 2012 and semi-annually thereafter of June 15 and December 15 in each year until maturity. The Bonds mature on June 15 in each year commencing June 15, 2012.

Proposals shall be for not less than \$1,938,499 and accrued interest, if any, on the total principal amount of the Bonds. Proposals shall be accompanied by a good faith deposit in the form of a wire transfer or a certified or cashier's check, payable to the order of the City of Tonawanda, in the amount of \$38,770.

The record date for the Bonds is the last business day of the calendar month preceding an interest payment date.

\$2,335,000

BOND ANTICIPATION NOTES, 2011

(the "Notes")

(Bank Designated/Qualified)

Dated: June 16, 2011

Maturity Date: June 14, 2012

Prior Redemption: The Notes will NOT be subject to redemption, in whole or in part, prior to their maturity.

At the option of the purchaser(s), the Notes will be issued as registered Notes and at the option of the purchaser, may be registered to The Depository Trust Company, or may be registered in the name of the purchaser(s).

If the Notes will be issued through DTC, the Notes will be registered in the name of Cede & Co., as nominee of DTC in New York, New York, which will act as Securities Depository for the Notes. Individual purchases will be made in book-entry-only form, in the principal amount of \$5,000 or integral multiples thereof. Purchasers of the Notes will not receive certificates representing their ownership interest in the Notes. Payments of principal of and interest on the Notes will be made by the City to DTC, which will in turn remit such principal and interest to its Participants, for subsequent distribution to the Beneficial Owners of the Notes.

If the Notes are registered in the name of the purchaser(s), principal of and interest on the Notes will be payable in Federal Funds at such bank or trust company located and authorized to do business in the State of New York as may be selected by the successful bidder. In such case, the Notes will be issued in registered form in denominations of \$5,000, or integral multiples thereof, as may be determined by such successful bidder.

Interest on the Bonds and the Notes will be calculated on a 30-day month and 360-day year basis, payable at maturity.

The Bonds and the Notes are offered when, as and if issued and received by the purchaser(s) and subject to the receipt of the unqualified legal opinions as to the validity of the Bonds and the Notes of Hodgson Russ LLP, Bond Counsel, of Buffalo New York. It is anticipated that the Bonds will be available for delivery through the facilities of DTC in New York, New York and the Notes will be available for delivery either through the facilities of DTC in New York, New York or at such other place as may be agreed with the initial purchaser(s) on or about June 16, 2011.

THE CITY DEEMS THIS OFFICIAL STATEMENT TO BE FINAL FOR PURPOSES OF SECURITIES AND EXCHANGE COMMISSION RULE 15c2-12 (THE "RULE"), EXCEPT FOR CERTAIN INFORMATION THAT HAS BEEN OMITTED HEREFROM IN ACCORDANCE WITH THE RULE AND THAT WILL BE SUPPLIED WHEN THIS OFFICIAL STATEMENT IS UPDATED FOLLOWING THE SALE OF THE BONDS AND THE NOTES. THIS OFFICIAL STATEMENT WILL BE SO UPDATED UPON REQUEST OF THE SUCCESSFUL BIDDERS, AS MORE FULLY DESCRIBED IN THE NOTICE OF BOND SALE WITH RESPECT TO THE BONDS AND THE NOTICE OF SALE WITH RESPECT TO THE NOTES. THE CITY WILL CONVENANT, IN SEPERATE UNDERTAKINGS WITH THE HOLDERS OF THE BONDS AND THE NOTES TO PROVIDE CONTINUING DISCLOSURE, AS REQUIRED BY THE RULE (SEE DISCLOSURE UNDERTAKINGS, HEREIN).

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ERIE COUNTY, NEW YORK**

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* * *

Ronald J. Pilozzi, Mayor

Common Council
Carleton R. Zeisz, President

1st Ward
Charles M. Gilbert

2nd Ward
Blake R. Boyle

3rd Ward
Richard A. Slisz

4th Ward
William R. Poole

* * *

Joseph M. Hogenkamp, City Treasurer
Ronald C. Trabucco, City Attorney
Janice Bodie, City Clerk

* * *

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* * *

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No dealer, broker, salesman or other person has been authorized by the City to give any information or to make any representations not contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds or Notes by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained by the City from sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness. The information, estimates and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

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OFFICIAL STATEMENT

CITY OF TONAWANDA ERIE COUNTY, NEW YORK (the "City")

\$1,938,499 PUBLIC IMPROVEMENT SERIAL BONDS, 2011 (the "Bonds")

\$2,335,000 BOND ANTICIPATION NOTES, 2011 (the "Notes")

This Official Statement, cover pages and appendices presents certain information relating to the City of Tonawanda, in the County of Erie, in the State of New York (the "City," "County," and "State," respectively) in connection with the sale of the City's \$1,938,499 Public Improvement Serial Bonds, 2011 (the "Bonds") and \$2,335,000 Bond Anticipation Notes, 2011 (the "Notes").

All quotations from and summaries and explanations of provisions of the Constitution and laws of the State and acts and proceedings of the City contained herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof, and all references to the Bonds and the Notes and the proceedings of the City relating thereto are qualified in their entirety by reference to the definitive form of the Bonds and the Notes and such proceedings.

THE BONDS AND NOTES

The Bonds and the Notes are general obligations of the City and will contain a pledge of the faith and credit of the City for the payment of the principal of and interest on the Bonds and the Notes as required by the Constitution and laws of the State of New York (State Constitution, Article VIII, Section 2; Local Finance Law, Section 100.00). Unless paid from other sources, all the taxable real property within the City is subject to the levy of *ad valorem* taxes to pay the Bonds and the Notes and interest thereon, without limitation as to rate or amount.

Description of the Bonds

The Bonds comprise an issue in the aggregate principal amount of \$1,938,499, will be dated June 16, 2011, and will mature in annual installments beginning on June 15, 2012, as set forth in the cover page hereof. Interest on the Bonds will be payable on June 15, 2012, December 15, 2012 and semi-annually thereafter on June 15 and December 15 until maturity.

The Bonds will NOT be subject to redemption, in whole or in part, prior to maturity.

The Bonds will be issued in registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the Bonds. Purchase of the Bonds will be made in book-entry-only form in denominations of \$5,000 each or any integral multiple thereof (except for one Bond of an odd denomination, maturing in 2012). Bondholders will not receive certificates representing their ownership interest in the Bonds purchased. Principal and interest on the Bonds will be payable when due as described in "Book-Entry-Only System" herein.

The record date of the Bonds will be the last business day of the calendar month preceding each interest payment date.

Description of the Notes

The Notes will be dated June 16, 2011 and will mature, without right of redemption prior to maturity, on June 14, 2012, with interest payable at maturity at the annual rate specified by the purchaser(s).

The Notes will be issued either (i) in fully registered form in the name of the purchaser(s), in which case principal of and interest on the Notes will be payable in Federal Funds at such bank or trust company located and authorized to do business in the State of New York as may be selected by the successful bidder or (ii) in registered form in the name of Cede & Co. as nominee for DTC, in which case DTC will act as securities depository for the Notes. See "Book-Entry Only System" herein. Individual purchases will be made in book-entry form only, in the principal amount of \$5,000 or

integral multiples thereof). In the latter case, one fully-registered Note Certificate will be issued for all Notes bearing the same rate of interest and CUSIP number, each in the aggregate principal amount of such Notes. Purchasers will not receive certificates representing their interest in the Notes. Principal and interest will be paid in lawful money of the United States of America (Federal Funds) by the City directly to DTC for its nominee, Cede & Co.

The financial condition of the City, as well as the market for the Notes, could be affected by a variety of factors, some of which are beyond the control of the City, as stated on the cover page hereof. See “Bondholder and Noteholder Risks”, herein.

Optional Redemption

The Bonds and the Notes will NOT be subject to redemption, in whole or in part, prior to maturity.

Authorizations and Purposes

The Bonds are being issued pursuant to the Constitution and Laws of the State of New York, including among others, the Local Finance Law, and various bond resolutions duly adopted by the Common Council of the City (the “Council”). The Bonds will provide funds in the amount of \$1,938,499 to finance various City-wide improvements and to provide funds as described below:

<u>Purpose</u>	<u>Date of Authorization</u>	<u>Total Authorization</u>	<u>Notes Outstanding</u> ¹	<u>Amount to be Paid</u>	<u>New Monies This Issue</u>	<u>Amount This Issue</u>
Acquisition of Trucks and Equipment	9/15/2009	\$370,000	\$0	\$0	\$25,000	\$25,000
Planning of Future Capital Improvements	4/21/2009	64,000	60,000	15,000	4,000	49,000
Sewer Study	4/17/2007	325,000	255,000	55,000	10,000	210,000
Demolition of Certain City Owned Buildings	2/2/2010	475,000	400,000	142,751	0	257,249
Reconstruction of and Construction of Improvements to Various City Roads	4/20/2010	1,000,000	1,000,000	0	14,250	1,014,250
Acquisition of Passenger Vehicles	4/20/2010	53,000	53,000	0	0	53,000
Reconstruction of City-Owned Municipal Swimming Pool	4/20/2010	95,000	95,000	0	0	95,000
Acquisition of an Emergency Generator for use at the Fire Department Headquarters	4/20/2010	90,000	60,000	60,000	0	0
Reconstruction of and Construction of Improvements to City Hall	4/20/2010	10,000	10,000	0	0	10,000
Reconstruction of the Heating System for Senior Citizen Center	4/20/2010	5,000	5,000	0	0	5,000
Acquisition of Vehicles, Machinery and Apparatus for Construction and Maintenance	4/20/2010	220,000	220,000	0	0	220,000
			<u>\$2,158,000</u>	<u>\$272,751</u>	<u>\$53,250</u>	<u>\$1,938,499</u>

Note: ¹ There are currently outstanding \$2,158,000 bond anticipation notes against such bond resolutions which will be redeemed and retired with proceeds of the Bonds and \$272,751 of available funds of the City.

The Notes are being issued pursuant to the Constitution and Laws of the State of New York, including among others, the Local Finance Law, and bond resolutions duly adopted by the Council authorizing the issuance of serial bonds as described below:

<u>Purpose</u>	<u>Date of Authorization</u>	<u>Total Authorization</u>	<u>This Issue</u>
Reconstruction of and Construction of Improvements to the Sewer System	4/5/2011	\$1,900,000	\$1,900,000
Acquisition of a Snowplow	4/5/2011	185,000	185,000
Improvements to Various City Sidewalks	4/5/2011	200,000	200,000
Acquisition of Vehicles for use by the City Recreation Department	4/5/2011	50,000	50,000
			<u>\$2,335,000</u>

For further information regarding bond authorizations of the City for capital purposes and other matters relating thereto see “Indebtedness of the City”.

Book-Entry-Only System

The following is relevant to the Bonds (and to the Notes if the Notes are to be issued in book-entry form). The following discussion assumes that the Notes will be so issued. The Depository Trust Company (“DTC”), New York, NY will act as securities depository for the Bonds and the Notes. The Bonds and the Notes will be issued as fully-registered Bonds and the Notes registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond or note certificate will be issued for each maturity of the Bonds and the Notes, bearing the same rate of interest and CUSIP number, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds or the Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds or the Notes on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the

Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds or the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds or the Notes, except in the event that use of the book-entry system for the Bonds or the Notes is discontinued.

To facilitate subsequent transfers, all Bonds and the Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds and the Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds and the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds and the Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds and the Notes may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds and the Notes, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of the Bonds and the Notes may wish to ascertain that the nominee holding the Bonds and the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners or, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption proceeds, distributions, and dividend payments on the Bonds and the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or Agent on payable date in accordance with their respective holdings shown on DTC's records.

Payments on the Bonds and the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with bonds and notes held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of the City, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the securities at any time by giving reasonable notice to City. Under such circumstances, in the event that a successor depository is not obtained, bond and note certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond and note certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

Source: The Depository Trust Company, New York

THE CITY CANNOT AND DOES NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS OR THE NOTES (1) PAYMENTS OF PRINCIPAL OF OR INTEREST OR REDEMPTION PREMIUM ON THE BONDS OR THE NOTES (2) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE BONDS OR THE NOTES, OR (3) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE BONDS OR THE NOTES, OR THAT THEY WILL DO SO ON

A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THE OFFICIAL STATEMENT.

THE CITY WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST OR REDEMPTION PREMIUM ON THE BONDS OR THE NOTES; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE REGISTERED HOLDER OF THE BONDS OR THE NOTES.

THE INFORMATION CONTAINED HEREIN CONCERNING DTC AND ITS BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM DTC AND THE CITY MAKES NO REPRESENTATION AS TO THE COMPLETENESS OR THE ACCURACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

Certificated Bonds and Notes

DTC may discontinue providing its services with respect to the Bonds and the Notes at any time by giving notice to the City and discharging its responsibilities with respect thereto under applicable law, or the City may terminate its participation in the system of book-entry-only transfers through DTC at any time. In the event that such book-entry-only system is discontinued, the following provisions will apply: the Bonds and the Notes will be issued in fully registered form in denominations of \$5,000 each or any integral multiple thereof for any single maturity, except for one necessary odd denomination for the Bonds. Principal of the Bonds and the Notes when due will be payable upon presentation at the principal corporate trust office of a bank or trust company located and authorized to do business and act as a fiscal agent in the State of New York to be named by the City. Interest on the Bonds will be payable June 15, 2012, December 15, 2012 and semi-annually thereafter on June 15 and December 15 in each year to maturity. Such interest will be payable by check drawn on the fiscal agent and mailed to the registered owner on each interest payment date at the address as shown on the registration books of the fiscal agent as of the last business day of the calendar month preceding each such interest payment date. Bonds and the Notes may be transferred or exchanged at no cost to the registered owner at any time prior to maturity at the office of the fiscal agent for Bonds and the Notes of the same or any other authorized denomination or denominations in the same aggregate principal amount upon the terms set forth in the Certificate of Determination executed by the City Treasurer authorizing the sale of the Bonds and the Notes and fixing the details thereof and in accordance with the Local Finance Law. The fiscal agent shall not be obligated to make any such transfer or exchange of particular Bonds and the Notes between the applicable record date for such Bonds and the Notes and such interest payment date.

Security and Source of Payment

Each Bond or Note, when duly issued and paid for, will constitute a contract between the City and the holder thereof.

The Bonds and the Notes are general obligations of the City and will contain a pledge of the faith and credit of the City for the payment of the principal thereof and the interest thereon. For the payment of such principal and interest, the City has the power and statutory authorization to levy *ad valorem* taxes on all taxable real property in the City, without limitation as to rate or amount.

Under the Constitution of the State, the City is required to pledge its faith and credit for the payment of the principal of and interest on the Bonds and the Notes and the State is specifically precluded from restricting the power of the City to levy taxes on real estate therefor.

Remedies of Bondholders and Noteholders on Default

Upon default in payment in full of the principal of or interest on the Bonds and the Notes, a holder of such defaulted Bond or Note has a contractual right to sue the City for the amount then due thereon. Such holder may obtain a judgment against the City with interest as provided by law from the date of default in such payment or the date of demand therefore, if later. Execution or attachment of City property cannot be obtained to satisfy the judgment. The General Municipal Law of the State provides that if the City fails to pay a final judgment for such principal and/or interest, it shall

be the duty of the Common Council of the City to assess, levy and cause to be collected at the same time and in like manner as other moneys for expenses are then next thereafter to be assessed, levied and collected, a sum of money sufficient to pay such judgment with interest thereon. Any moneys so collected shall, from time to time, be paid to the judgment creditors.

In addition, the State Constitution provides that if the City fails to provide in its annual budget an amount sufficient to meet payment of principal of or interest on the Bonds and the Notes, the City shall set aside from the first revenues thereafter received an amount necessary to pay such amounts which were required to be included in the City's annual budget. In addition, the City Treasurer may be required to set apart and apply such revenues to the payment of principal and interest on the Bonds and the Notes at the suit of any holder of the Bonds and the Notes. However, such right is subject to the discretionary power of the enforcing court and may be abridged by federal laws affecting creditors' rights or laws involving financial emergencies. (See "Special Provisions Affecting Remedies Upon Default.")

Special Provisions Affecting Remedies Upon Default

Section 3-a of the General Municipal Law provides, subject to exceptions not pertinent, that the rate of interest to be paid by the City upon any judgment or accrued claim against it shall not exceed nine per centum per annum. This provision might be construed to have application to the holders of the Bonds or the Notes in the event of a default in the payment of the principal of or interest on the Bonds or the Notes.

In accordance with the general rule with respect to municipalities, judgments against the City may not be enforced by levy and execution against property owned by the City.

The Federal Bankruptcy Code (the "Bankruptcy Code") allows public bodies such as the City recourse to the protection of a Federal Court for the purpose of adjusting outstanding indebtedness. Section 85.80 of the Local Finance Law contains specific authorization for any municipality in the State to file a petition under any provision of Federal bankruptcy law for the composition or adjustment of municipal indebtedness.

Under the Bankruptcy Code, a petition may be filed in Federal bankruptcy court by a municipality which is insolvent or unable to meet its debts as they mature. Generally, the filing of such a petition operates as a stay of any proceeding to enforce a claim against the municipality. The Bankruptcy Code also requires the municipality to file a plan for the adjustment of its debts, which may modify or alter the rights of creditors and would authorize the Federal bankruptcy court to permit the municipality to issue certificates of indebtedness, which could have priority over existing creditors and which could be secured. Any plan of adjustment confirmed by the court must be approved by the requisite majority of creditors. If confirmed by the bankruptcy court, the plan would be binding upon all creditors affected by it. The City has the legal capacity to file a petition under the Bankruptcy Code.

It might be asserted that under the Bankruptcy Code interest and principal payments made by the City in respect of its indebtedness within ninety days of the filing of a bankruptcy petition with respect to the City were voidable preferences. If these assertions were made and sustained by the bankruptcy court, the recipients of those preferential payments could be required to refund them, and their claims would then be treated as if the preferential payments had not been made.

At the Extraordinary Session of the State Legislature held in November, 1975, legislation was enacted which purported to suspend the right to commence or continue an action in any court to collect or enforce certain short-term obligations of the City of New York. The effect of such act was to create a three-year moratorium on actions to enforce the payment of such obligations. On November 19, 1976, the Court of Appeals, the State's highest court, declared such act to be invalid on the ground that it violates the provisions of the State Constitution requiring a pledge by such municipality of its faith and credit for the payment of such obligations.

As a result of the Court of Appeals decision, the constitutionality of that portion of Title 6-A of the Local Finance Law enacted at the 1975 Extraordinary Session of the State Legislature, authorizing any county, town or village with respect to which the State has declared a financial emergency to petition the State Supreme Court to stay the enforcement against such municipality of any claim for payment relating to any contract, debt or obligation of the municipality during the emergency period, is subject to doubt. In any event, no such emergency has ever been declared with respect to the City.

No principal or interest payments on City indebtedness are past due. The City has never defaulted in the payment of the principal of and interest on any indebtedness.

THE CITY

General Information

The City is located in the northwest portion of Erie County at the junction of the Niagara River and the New York State Barge Canal, midway between the Cities of Buffalo and Niagara Falls. The City has a land area of approximately 3.5 square miles.

The City is an industrial and commercial center of the Niagara frontier due in large part to the availability of raw materials from the Great Lakes region and abundant electric power from the Niagara Power Project.

Electric utility and natural gas services are provided by National Grid and National Fuel Gas Corporations. Police protection is afforded by City Police, the Erie County Sheriff's Department and the New York State Police. Fire protection is provided by the City's full-time fire department. Water service is provided by the Erie County Water Authority and sewer service is provided by the City which is pumped to the Town of Tonawanda for treatment under a intermunicipal cooperation agreement negotiated in the early 1970s.

Residents of the City have access to many recreational and cultural attractions, including Niagara Falls and the many museums, art galleries and professional sport teams in Buffalo. Rail transportation is provided by ConRail. Air transportation is available at Buffalo Niagara International Airport.

The State University of New York in Buffalo, Niagara University, Canisius, Daemen, D'Youville and Buffalo State Colleges are located in close proximity to the City and provide extensive graduate and undergraduate degree programs.

Source: City Officials

Governmental Organization

Subject to the provisions of the State Constitution, the City operates pursuant to City Charter that went into effect January 1, 1998, and various State statutes including the General City Law, the General Municipal Law and the Local Finance Law, generally to the extent that such laws are applicable to a city operating under a charter form of government.

The Common Council is the legislative body of the City, consisting of five Council members. The Council President is elected to a four-year term. The other four Council members represent the four wards of the City, and are elected for two-year terms.

The Mayor is the chief executive officer of the City government. All department heads report directly to the Mayor. The Mayor appoints most major officials of the City, subject to the Civil Service Law.

The City Treasurer, who is the chief fiscal officer of the City, is elected to a four-year term. The Treasurer is responsible for maintaining all required accounting records of the City and for reporting annually to the State Department of Audit and Control.

Source: City Officials

Employees

The City provides services through approximately 127 full-time and 94 part-time and seasonal employees, some of whom are represented by organized labor, as follows:

<u>Unions</u>	<u>No. of Members</u>	<u>Contract Expiration Date</u>
CTEA (Blue Collar)	46	December 31, 2011
CSEA	16	December 31, 2011
Police	27	December 31, 2011
Fire	24	December 31, 2011

Source: City Officials

DEMOGRAPHIC AND STATISTICAL INFORMATION

The following tables present certain comparative demographic and statistical information regarding the City, the County, the State and the United States.

Population

<u>Year</u>	<u>City of Tonawanda</u>	<u>Erie County</u>	<u>New York State</u>	<u>United States</u>
1990	17,284	962,366	17,990,455	249,632,692
2000	16,136	950,265	18,976,457	281,421,906
2010	15,130	919,040	19,541,453	307,006,550

Source: US Census Bureau

Median Household Income

<u>Year</u>	<u>City of Tonawanda</u>	<u>Erie County</u>	<u>New York State</u>	<u>United States</u>
1990	\$29,483	\$28,005	\$32,965	\$30,056
2000	37,523	38,567	43,393	41,994

Source: US Census Bureau

Per Capita Income

<u>Year</u>	<u>City of Tonawanda</u>	<u>Erie County</u>	<u>New York State</u>	<u>United States</u>
1990	\$12,651	\$13,560	\$16,501	\$14,420
2000	18,789	20,357	23,389	21,587

Source: US Census Bureau

Unemployment Rate Statistics

Unemployment statistics are not available for the City as such. The smallest area for which such statistics are available (which includes the City) is the County of Erie. The information set forth below with respect to such County is included for information purposes only. It should not be inferred from the inclusion of such data in this Official Statement that the City is necessarily representative of the County or vice versa.

<u>Annual Averages:</u>	<u>Erie County</u>	<u>New York State</u>	<u>United States</u>
2006	5.0%	4.6%	4.6%
2007	4.8	4.5	4.6
2008	5.7	5.3	5.8
2009	8.3	8.4	9.3
2010	8.2	8.6	9.6
<u>2011 Monthly Rates:</u>			
January	8.9%	9.4%	10.6%
February	8.5	9.3	10.4
March	7.9	8.0	9.2

Source: Department of Labor, State of New York, Bureau of Labor Statistics. Information not seasonally adjusted.

Selected Listing of Larger Employers

<u>Name</u>	<u>Type</u>	<u>Estimated No. of Employees</u>
Tops Markets - 150 Niagara Street	Retail	300
Sugar Kake	Manufacturing	175
Mueller Services	Insurance Consultants	150
City of Tonawanda	Government	135
Tops Markets - 890 Young Street	Retail	129
BJ's Wholesale Club	Retail	112
Con-Way Freight	Trucking	100
Midland Asphalt	Commercial	98
Tank Real Estate	Housing	90
Building Control Services	HVAC Services	74
Leisure Living	Warehouse/Distribution	70
Exolon	Manufacturing	57
Sterling Sommer	Printing	53
Boulevard Produce	Warehouse/Distribution	50

Source: City Officials

INDEBTEDNESS OF THE CITY

Constitutional Requirements

The New York State Constitution and Local Finance Law limit the power of the City (and other municipalities and certain school districts of the State) to issue obligations and to otherwise contract indebtedness. Such constitutional limitations, in summary form and as generally applicable to the City and the Bonds and the Notes, include the following:

Purpose and Pledge: Subject to certain enumerated exceptions, the City shall not give or loan any money or property to or in aid of any individual, or private corporation or private undertaking or give or loan its credit to or in aid of any of the foregoing or any public corporation.

The City may contract indebtedness only for a City purpose and shall pledge its faith and credit for the payment of principal of and interest thereon.

Payment and Maturity: Except for certain short-term indebtedness contracted in anticipation of taxes or to be paid within three fiscal year periods, indebtedness shall be paid in annual installments commencing no later than two years after the date such indebtedness shall have been contracted and ending no later than the expiration of the period of probable usefulness of the object or purpose as determined by statute; no installment may be more than fifty per centum in excess of the smallest prior installment, unless the City authorizes the issuance of bonds with substantially level or declining debt service. The City is required to provide an annual appropriation for the payment of interest due during the year on its indebtedness and for the amounts required in such year for payment of principal on its serial bonds and bond anticipation notes.

There is no constitutional limitation on the amount that may be raised by the City by tax on real estate in any fiscal year to pay interest and principal on all indebtedness.

The City is further subject to constitutional limitation by the general constitutionally imposed duty of the State Legislature to restrict the power of taxation, assessment, borrowing money, contracting indebtedness and loaning the credit of the City so as to prevent abuses in taxation and assessments and in contracting indebtedness; however, as has been noted under "Security and Source of Payment" the State Legislature is prohibited by a specific constitutional provision from restructuring the power of the City to levy taxes on real estate for the payment of interest on or principal of indebtedness theretofore contracted.

Statutory Procedure

In general, the State Legislature has authorized the power and procedure for the City to borrow and incur indebtedness by the enactment of the Local Finance Law; subject, of course, to the constitutional provisions set forth above. The power to spend money, however, generally derives from other law, including specifically the City Law and the General Municipal Law of the State and City Charter.

Pursuant to the Local Finance Law, the City authorizes the incurrence of indebtedness, including bonds and bond anticipation notes issued in anticipation of such bonds, by the adoption of a resolution, approved (typically) by at least two-thirds of the members of the City Council, the finance board of the City. Certain of such resolutions may be subject to permissive referendum, or may be submitted to the City voters at the discretion of the City Council. Customarily, the City Council has delegated to the City Comptroller, as chief fiscal officer of the City, the power to authorize and sell bond anticipation notes in anticipation of authorized bonds.

The Local Finance Law also provides that where a bond resolution is published with a statutory form of notice, the validity of the bonds authorized thereby, including bond anticipation notes issued in anticipation of the sale thereof, may be contested only if:

- (1) (a) Such obligations are authorized for a purpose for which the City is not authorized to expend money, or
(b) There has not been substantial compliance with the provisions of law which should have been complied with in the authorization of such obligations

and an action contesting such validity is commenced within twenty days after the date of such publication, or

- (2) Such obligations are authorized in violation of the provisions of the Constitution.

Except on rare occasions the City complies with this estoppel procedure, and it has been done with respect to each of the bond resolutions under which the Bonds and the Notes are being issued. It is a procedure that is recommended by Bond Counsel, but is not an absolute legal requirement.

Each bond resolution usually authorizes the construction, acquisition or installation of the object or purpose to be financed, sets forth the plan of financing and specifies the maximum maturity of the bonds subject to the legal (Constitution, Local Finance Law and case law) restrictions relating to the period of probable usefulness with respect thereto.

Each bond resolution also authorizes the issuance of bond anticipation notes prior to the issuance of serial bonds. Statutory law in New York permits bond anticipation notes to be renewed each year, provided annual principal installments are made in reduction of the total amount of such notes outstanding, commencing no later than two years from the date of the first issuance of such notes, and provided that such renewals generally do not extend five years beyond the original date of borrowing. However, notes issued in anticipation of the sale of serial bonds for assessable improvements are not subject to such five year limit. (see “Payment and Maturity” under “Constitutional Requirements,” and “Details of Short-Term Indebtedness Outstanding” herein).

In general, the Local Finance Law contains similar provisions providing the City with power to issue certain other short-term general obligation indebtedness, including revenue and tax anticipation notes and general obligation budget and capital notes (see “Details of Short-Term Indebtedness Outstanding” herein).

The following pages present certain details with respect to the indebtedness of the City as of the date of the Official Statement.

Debt Limit

The City has the power to contract indebtedness for any City purpose so long as the principal amount thereof shall not exceed seven per centum of the average full valuation of taxable real estate of the City and subject to certain enumerated exclusions and deductions such as water and certain sewer facilities and cash or appropriations for current debt service. The constitutional and statutory method for determining full valuation is by taking the total assessed valuation of taxable real estate for the last completed assessment roll of the City and dividing the same by the equalization rate, or the ratio which such assessed valuation bears to the full valuation, as determined by the New York State Office of Real Property Services. The State Legislature is required to prescribe the manner by which such ratio shall be determined. Average full valuation is determined by taking the sum of the full valuations of such last completed assessment roll and the four preceding assessment rolls and dividing such sum by five.

There is no constitutional limitation on the amount that may be raised by the City by tax on real estate in any fiscal year to pay interest and principal on all indebtedness.

The following pages present certain details with respect to the indebtedness of the City as of the date of this Official Statement.

Details of Short-Term Indebtedness Outstanding

As of the date of this Official Statement, the City has the following short-term indebtedness outstanding:

<u>Type</u>	<u>Maturity</u>	<u>Purpose</u>	<u>Amount</u>
BAN	06-16-11	Various	\$2,158,000 ¹
BAN	11-17-11	Spaulding Fibre Site Abatement and Demolition	<u>790,000</u>
		Total	<u><u>\$2,948,000</u></u>

Note: ¹ There are currently outstanding \$2,158,000 Bond Anticipation Notes which will be redeemed and retired with \$1,885,249 proceeds of the Bonds and \$272,751 of available funds of the City.

Revenue and Tax Anticipation Notes

In the fiscal years 2005 and 2007 the City borrowed Tax Anticipation Notes in the amount of \$1,990,000 and \$1,780,000, respectively. The City has not found it necessary to borrow in anticipation of taxes and revenues in recent years, nor does it anticipate such borrowing in the near future.

Status of Outstanding Bond Issues

Year of Issue:	1996	2001	2002A
Amount Issued	\$825,000	\$1,889,500	\$1,233,250
Last Maturity:	12/15/2015	1/15/2015	4/15/2022
Interest Rate/Instrument:	Various - EFC	Various - SB	Various - EFC
Purpose:	Sewer	Various	Sewer
Balance Principal 12-31-10:	\$240,000	\$675,000	\$805,000

Fiscal Year

<u>Ending December 31:</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$45,000	\$12,343	\$150,000 *	\$27,375	\$60,000 *	\$36,230
2012	45,000	10,070	150,000	20,625	60,000	33,780
2013	50,000	7,775	150,000	13,875	60,000	31,247
2014	50,000	5,200	150,000	7,031	60,000	28,627
2015	50,000	2,600	75,000	1,781	65,000	25,831
2016					65,000	22,859
2017					65,000	19,825
2018					70,000	16,592
2019					70,000	13,171
2020					75,000	9,595
2021					75,000	5,870
2022					80,000	2,001
Totals:	<u>\$240,000</u>	<u>\$37,988</u>	<u>\$675,000</u>	<u>\$70,688</u>	<u>\$805,000</u>	<u>\$245,628</u>

Note: * Principal payment prior to Debt Statement dated May 9, 2011.

Status of Outstanding Bond Issues

Year of Issue:	2003 F	2004	2008
Amount Issued:	\$2,394,500	\$1,690,000	\$685,000
Last Maturity:	7/15/2020	6/15/2024	3/1/2013
Interest Rate/Instrument:	EFC SB	Various - SB	2.86% SIB
Purpose:	Landfill	Various	Vehicles
Balance Principal 12-31-10:	\$1,480,000	\$1,050,000	\$450,000

Fiscal Year

<u>Ending December 31:</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$135,000	\$53,586	\$75,000	\$46,219	\$150,000 *	\$10,725
2012	140,000	49,644	75,000	43,031	150,000	6,435
2013	140,000	45,458	75,000	39,844	150,000	2,145
2014	145,000	41,020	75,000	36,656		
2015	145,000	36,144	75,000	33,422		
2016	150,000	31,004	75,000	30,094		
2017	150,000	25,436	75,000	26,719		
2018	155,000	19,694	75,000	23,344		
2019	160,000	13,618	75,000	19,969		
2020	160,000	6,904	75,000	16,547		
2021			75,000	13,031		
2022			75,000	9,375		
2023			75,000	5,625		
2024			75,000	1,875		
Totals:	<u>\$1,480,000</u>	<u>\$322,507</u>	<u>\$1,050,000</u>	<u>\$345,750</u>	<u>\$450,000</u>	<u>\$19,305</u>

Note: * Principal payment prior to Debt Statement dated May 9, 2011.

Status of Outstanding Bond Issues

Year of Issue:	2009 ¹	2009	2010
Amount Issued:	\$2,900,000	\$715,000	\$980,000
Last Maturity:	4/15/2018	6/15/2016	6/15/2019
Interest Rate/Instrument:	Various - Ref. SB	3.050% - SIB	Various - SB
Purpose:	Various	Various	Roads & Equipment
Balance Principal 12-31-10:	\$2,255,000	\$630,000	\$980,000

Fiscal Year

<u>Ending December 31:</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$665,000 *	\$47,500	\$85,000	\$19,215	\$100,000	\$51,564
2012	440,000	36,450	95,000	16,622	110,000	30,250
2013	435,000	27,156	105,000	13,725	110,000	26,400
2014	180,000	19,563	110,000	10,523	110,000	22,550
2015	145,000	14,506	115,000	7,167	110,000	18,700
2016	140,000	10,050	120,000	3,660	110,000	14,850
2017	140,000	5,763			110,000	10,862
2018	110,000	1,788			110,000	6,600
2019					110,000	2,200
Totals:	<u>\$2,255,000</u>	<u>\$162,776</u>	<u>\$630,000</u>	<u>\$70,912</u>	<u>\$980,000</u>	<u>\$183,976</u>

Notes: ¹ Economically defeased the 1994, 1997, 1998 and 1999 serial bonds which were paid in full by the Escrow holder.

* Principal payment prior to Debt Statement dated May 9, 2011.

Total Annual Bond Principal and Interest Due

<u>Fiscal Year</u>	<u>Total</u>			
<u>Ending December 31:</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>	<u>% Paid</u>
2011	\$1,465,000	\$304,756	\$1,769,756	17.10%
2012	1,265,000	246,908	1,511,908	31.87%
2013	1,275,000	207,625	1,482,625	46.76%
2014	880,000	171,171	1,051,171	57.03%
2015	780,000	140,151	920,151	66.14%
2016	660,000	112,516	772,516	73.85%
2017	540,000	88,605	628,605	80.15%
2018	520,000	68,018	588,018	86.22%
2019	415,000	48,958	463,958	91.07%
2020	310,000	33,046	343,046	94.69%
2021	150,000	18,901	168,901	96.44%
2022	155,000	11,376	166,376	98.25%
2023	75,000	5,625	80,625	99.12%
2024	75,000	1,875	76,875	100.00%
Totals:	<u>\$8,565,000</u>	<u>\$1,459,529</u>	<u>\$10,024,529</u>	

Source: City Bond Records

Schedule of Principal Payments - Outstanding and Proposed Bonds

Fiscal Year Ending December 31:	<u>Prior Issues</u>	<u>This Issue</u>	Total Maturing <u>Principal</u>	Outstanding <u>Principal</u>
2011	\$1,465,000	\$0	\$1,465,000	\$9,038,499
2012	1,265,000	368,499	1,633,499	7,405,000
2013	1,275,000	305,000	1,580,000	5,825,000
2014	880,000	285,000	1,165,000	4,660,000
2015	780,000	205,000	985,000	3,675,000
2016	660,000	205,000	865,000	2,810,000
2017	540,000	140,000	680,000	2,130,000
2018	520,000	140,000	660,000	1,470,000
2019	415,000	140,000	555,000	915,000
2020	310,000	150,000	460,000	455,000
2021	150,000		150,000	305,000
2022	155,000		155,000	150,000
2023	75,000		75,000	75,000
2024	75,000		75,000	0
Totals:	<u>\$8,565,000</u>	<u>\$1,938,499</u>	<u>\$10,503,499</u>	

Other Obligations

The City has an outstanding capital lease for the acquisition of certain machinery and equipment. The outstanding principal balance as of December 31, 2010 was \$61,631.

Trend of Outstanding Debt

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Bonds	\$10,885,000	\$9,720,000	\$9,260,000	\$8,900,000	\$8,565,000
Bond Anticipation Notes	0	1,650,000	1,460,000	2,424,750	2,948,000
Tax Anticipation Notes	0	1,780,000	0	0	0
Total Debt Outstanding	<u>\$10,885,000</u>	<u>\$13,150,000</u>	<u>\$10,720,000</u>	<u>\$11,324,750</u>	<u>\$11,513,000</u>

Source: Annual Financial Reports and Records of the City

Computation of Debt Limit and Calculation of Net Indebtedness

(As of May 9, 2011)

<u>Fiscal Year Ended December 31:</u>	<u>Assessed Valuation</u>	<u>State Equalization Rate ¹</u>	<u>Full Valuation</u>
2007	\$405,868,171	73.00%	\$555,983,796
2008	407,025,964	69.00%	589,892,701
2009	597,055,112	100.00%	597,055,112
2010	597,412,172	100.00%	597,412,172
2011	<u>600,475,675</u>	100.00%	<u>600,475,675</u>
Total Full Valuation (2011)	<u>\$2,607,837,094</u>		<u>\$2,940,819,456</u>
Five Year Average Full Valuation			\$588,163,891
Debt Limit: 7% of Average Full Valuation			\$41,171,472
Inclusions:			
Bonds			\$7,540,000
Bond Anticipation Notes			<u>2,948,000</u>
Total Inclusions			<u>\$10,488,000</u>
Exclusions:			
Water ²			\$1,088,000
Budgeted Appropriations ²			<u>952,751</u>
Total Exclusions			<u>\$2,040,751</u>
Total Net Indebtedness Before Giving Effect to the Issue of Bonds and Notes			\$8,447,249
New Monies Included in the Issue of Bonds and Notes			<u>2,388,250</u>
Total Net Indebtedness After Giving Effect to the Issue of Bonds and Notes ³			<u>\$10,835,499</u>
Net Debt-Contracting Margin			\$30,335,973

Notes: ¹ The latest completed assessment roll for which a State Equalization Rate has been established.

² Water indebtedness and budgeted appropriations are automatically excluded pursuant to provisions of Article VIII, Section 5B of the New York State Constitution and Section 136.00 of the Local Finance Law.

³ Represents 26.32% of the City's Debt Limit.

Authorized and Un-Issued Indebtedness

On February 2, 2010, the Council adopted a bond resolution authorizing \$475,000 of serial bonds for the demolition of certain City owned buildings, of which \$75,000 will remain unissued after the issuance of the Bonds.

On April 20, 2010, the Council adopted a bond resolution authorizing \$90,000 of serial bonds for the acquisition of an emergency generator for use at the fire department headquarters, of which \$30,000 will remain unissued after the issuance of the Bonds.

Capital Project Plans and Anticipated Future Borrowings

The City is generally responsible for providing services as required by the citizens on a City-wide basis. The City maintains a road system necessitating road resurfacing and improvements and the acquisition of machinery and, from time to time, equipment. Additionally, although not a capital expense, such road system requires annual expenditures for snow removal as well as regular general operating maintenance expenses. In addition, the City owns, operates, maintains and improves recreation facilities. As has been noted, the City generally has provided for the financing of sanitary sewer

facilities located within the City limits. Since 2004, the City has contracted with the Erie County Water Authority for water service. Future capital improvements made to the water system will be undertaken by the Authority.

After approval of a final environmental impact study of the former Spaulding Fibre plant site, the City and the County are considering plans to install access roads and basic infrastructure for future use by potential businesses at an estimated cost of \$1,100,000, with funding to be supplied by both the County and the City.

Direct and Overlapping Indebtedness

In addition to the City, the following political subdivisions have the power to issue bonds and to levy taxes or cause taxes to be levied on taxable real property in the City.

The real property taxpayers of the City are responsible for a proportionate share of outstanding debt obligations of the political subdivisions located within the City’s boundaries. Such taxpayer’s share of this overlapping debt is based upon the amount of the City’s equalized property values taken as a percentage of each separate units total values. The table below sets forth both the total outstanding principal amount of debt issued by the City and the appropriate magnitude of the burden on taxable property of the City of the debt issued and outstanding by such overlapping entities, as of the dates shown.

Calculation of Estimated Overlapping and Underlying Indebtedness

Overlapping Units	Date of Report	Applicable Total Indebtedness	Exclusions ¹	Applicable Net Indebtedness	Full Value of City in Municipality	Total Full Value of Municipality	% Within City	Estimated Applicable Overlapping Debt
County:								
Erie	2010	\$573,732,688	\$236,778,658	\$336,954,030	\$600,475,675	\$46,120,909,981	1.30%	\$4,387,006
School District:								
Tonawanda City	2010	27,468,236	24,693,944	2,774,292	600,475,675	623,773,296	96.27%	<u>2,670,673</u>
Total Net Overlapping Debt:								\$7,057,679
Total Net Direct Debt:								<u>10,835,499</u>
Net Direct and Overlapping Debt:								<u>\$17,893,178</u>

Source: Annual Reports of the respective units for the most recently completed fiscal year on file with the Office of the State Comptroller or more recently published Official Statements.

Note: ¹ Exclusions consist of indebtedness deductible from gross indebtedness for debt limit purposes pursuant to constitutional and statutory provisions (including water and sewer debt and revenue anticipation notes).

Debt Ratios

The following table presents certain debt ratios relating to the City’s net direct and overlapping indebtedness as of May 9, 2011:

	Amount	Debt Per Capita ¹	Debt Full Value ²
Net Direct Debt	\$10,835,499	\$716.16	1.80%
Total Direct & Applicable Total Overlapping Debt	17,893,178	1,182.63	2.98%

Notes: ¹ The 2010 population of the City's is 15,130 according to the 2010 US Census Bureau.

² The full valuation of real property located in the City for the 2011 fiscal year is \$600,475,675.

FINANCES OF THE CITY

Financial Statements and Accounting Procedures

The City annually retains a certified public accountant whose most recent certified report was prepared for the year ended December 31, 2010. A copy of the report is attached hereto as Appendix B.

The City complies with the Uniform System of Accounts as prescribed for cities in New York State by the State Comptroller. With respect to these guidelines, the New York and Local Employees' Retirement System has changed its method of billing for contributions to the System. The accounting implications resulting from this change is different depending on the basis of expenditure recognition for retirement costs. However, this change does not represent a change in the Generally Accepted Accounting Principles (GAAP) as incorporated into the Uniform System of Accounts.

In June, 1999, the Governmental Accounting Standards Board (“GASB”) issued Statement 34, “Basic Financial Statements and Management’s Discussions and Analysis for State and Local Governments”. This Statement established new financial reporting requirements for state and local governments throughout the United States. Statement 34 required new information and restructured much of the information that governments had presented in the past. Comparability with reports issued in all prior years has been affected. GASB required the City to implement this standard for the fiscal year ending December 31, 2003. The City is in compliance with the requirements of GASB Statement 34.

Fund Structure and Accounts

The City utilizes fund accounting to record and report its various service activities. A fund represents both a legal and an accounting entity which segregates the transactions of specific programs in accordance with special regulations, restrictions or limitations.

There are three basic fund types: (1) governmental funds that are used to account for basic services and capital projects; (2) proprietary funds that account for operations of a commercial nature; and, (3) fiduciary funds that account for assets held in trustee capacity. Account groups, which do not represent funds, are used to record fixed assets and long-term obligations that are not accounted for in a specific fund.

The City presently maintains the following governmental funds: General Fund, Sewer Fund, Water Fund and the Capital Projects Fund. Fiduciary funds consist of a Trust and Agency Fund. Account groups are maintained for fixed assets and long-term debt.

Basis of Accounting

The City’s governmental funds are accounted for on a modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become susceptible to accrual – that is, when they become “measurable” and “available” to finance expenditures to the current period. Revenues are susceptible to accrual include real property taxes, intergovernmental revenues (State and Federal aid) and operating transfers.

Expenditures are generally recognized under the modified accrual basis of accounting, which is when the related fund liability is incurred. An exception to this general rule is un-matured interest on general long-term debt which is recognized when due. Compensated absences, such as vacation and sick leave, which vests or accumulates, are charged as an expenditure when paid.

Investment Policy

The primary objectives of the City’s investment policy are, in priority order, as follows:

- To conform to all applicable federal, state and other legal requirements.
- To adequately safeguard principal.
- To provide sufficient liquidity to meet all operating requirements.
- To obtain a reasonable rate of return on invested funds.

Pursuant to State law, including Sections 10 and 11 of the General Municipal Law (the “GML”), the City is generally permitted to deposit moneys in banks or trust companies located and authorized to do business in the State. All such deposits, including special time deposit accounts and certificates of deposit, in excess of the amount insured under the Federal Deposit Insurance Act, are required to be secured in accordance with the provisions of and subject to the limitations of Section 10 of the GML.

The City may also temporarily invest moneys in: (1) obligations of the United States of America; (2) obligations of the State of New York; (3) In repurchase agreements involving the purchase and sale of direct obligations of the United States; (4) certificates of deposit issued by a bank or trust company authorized to do business in New York State; (5) time deposit accounts in a bank or trust company authorized to do business in New York State; (6) in the case of moneys held in certain reserve funds established by the City pursuant to law, in obligations of the City.

All funds may be invested in: (1) obligations guaranteed by agencies of the United States of America where the payment of principal and interest are guaranteed by the United States of America; (2) with the approval of the New York State Comptroller, in tax anticipation notes or revenue anticipation notes issued by any municipality, school district, or district corporation, other than those bonds issued by the City itself.

Only reserve funds may be invested in: (1) obligations of the City.

All other City officials receiving money in their official capacity must turn over such funds to the Chief Fiscal Officer of the City.

All of the foregoing investments are required to be payable or redeemable at the option of the owner within such times as the proceeds will be needed to meet expenditures for purposes for which the moneys were provided and, in the case of obligations purchased with the proceeds of bonds or notes, shall be payable or redeemable in any event, at the option of the owner, within two years of the date of purchase. Unless registered or inscribed in the name of the City, such instruments and investments must be purchased through, delivered to and held in custody of a bank or trust company in the State pursuant to a written custodial agreement as provided by Section 10 of the GML.

The City has adopted an investment policy and such policy conforms with applicable laws of the State governing the deposit and investment of public moneys. All deposits and investments of the City are made in accordance with such policy.

Budgetary Procedures

The City operates on a fiscal year beginning January 1 and ending December 31. Pursuant to the City Charter effective January 1, 1998, the Mayor prepares an executive budget with the assistance of the City Treasurer. The budget is reviewed by the Common Council which must adopt a final budget on or prior to September 15. A public hearing on the budget is required by the City Charter. The budget is not subject to voter approval.

Financial Operations

Subject to the New York State Constitution, the City operates pursuant to its Charter and the City Code, as well as various local laws. Additionally, certain New York State laws govern the City to the extent that such laws are applicable to cities operating under a charter form of government. The City of Tonawanda Common Council is the legislative body responsible for overall operations, the Mayor serves as chief executive officer. The Common Council, as a whole, serves as the finance board of the City and is responsible for authorizing, by resolution, all material financial transactions such as operating and capital budgets and bonded debt. The City Treasurer functions as the chief fiscal officer of the City.

City finances are operated primarily through the General, Water and Wastewater Treatment Funds. The primary sources of income for the Water and Wastewater Funds come from user fees assessed against users based upon consumption of water and sewer services utilized. Capital projects and equipment purchases are accounted for in special capital project funds.

The City observes a calendar year (January 1 through December 31) for operating and reporting purposes.

Revenues

The City receives most of its revenues from real property taxes, and assessments and State aid. A summary of such revenues and other financing sources for the last five fiscal years ending December 31, 2010 may be found under the Statement of Revenues, Expenditures and Fund Balances in Appendix A hereto.

A summary of such revenues and other financing sources for the last five completed fiscal years ending December 31, 2010 and the budget for the fiscal year ending 2011 may be found in Appendix A – Financial Information.

Real Property Taxes

See “Real Property Tax Information”, herein.

State Aid

The City received approximately 16.75% of its total General Fund operating revenue from State aid in fiscal year 2010. There is no assurance, however, that State appropriations for aid to municipalities will continue, either pursuant to existing formulas or in any form whatsoever. The State is not constitutionally obligated to maintain or continue such aid and, in fact, the State has reduced funding to municipalities and school districts in past years in order to balance its own budget.

For 2010, the City received \$3,064,175 in its General Fund from all sources of State aid. The City estimates State aid for 2011 will be \$2,884,545.

The State is not constitutionally obligated to maintain or continue State aid to the City. No assurance can be given that present State aid levels will be maintained in the future. State budgetary restrictions which eliminate or substantially reduce State aid could have a material adverse affect upon the City requiring either a counterbalance increase in revenues from other sources to the extent available, or a curtailment of expenditures. (See also “Market and Risk Factors.”)

The State faces the prospect of multi-billion dollar deficits for the next several years, and cuts in State aid to municipalities have been included in the New York State budget for the fiscal year ending March 31, 2012, which was adopted on March 31, 2011. The City has been informed that the adopted 2011-12 State budget does contain State aid reductions for revenues anticipated to be received in the City’s fiscal year ending December 31, 2011.

Expenditures

The major categories of expenditure for the City are General Government Support, Public Safety, Transportation, Home and Community Services, Employee Benefits and Debt Service. A summary of the expenditures for the five most recently completed fiscal years ending December 31, 2010 and the estimated expenditures for the 2011 fiscal year may be found in Appendix A – Financial Information.

Employee Pension System

Substantially all employees of the City are members of the New York State and Local Employees' Retirement System ("ERS") and the Local Police and Fire Retirement System (PFRS). (The System is referred to hereinafter as the "Retirement System" where appropriate.) The Retirement Systems are cost-sharing multiple public employer retirement system. The obligation of employers and employees to contribute and the benefit to employees are governed by the New York State Retirement System and Social Security Law (the "Retirement System Law"). The Retirement Systems offer a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability benefits and optional methods of benefit payments. All benefits generally vest after five years of credited service. The Retirement System Law generally provides that all participating employers in each retirement system are jointly and severally liable for any unfunded amounts. Such amounts are collected through annual billings to all participating employers.

Generally, all employees, except certain part-time employees, participate in the Retirement System. The Retirement System is non-contributory with respect to members hired prior to July 27, 1976. All members hired on or after July 27, 1976 must contribute 3% of gross annual salary, for the first ten years of service, toward the cost of retirement program.

Due to unfavorable capital market returns over recent years, the employer contribution rate for the retirement systems has increased significantly.

The following schedule reflects the City’s contribution to the ERS and PFRS for the last five fiscal years and the amount budgeted for the fiscal year 2011:

<u>Fiscal Year December 31:</u>	<u>ERS</u>	<u>PFRS</u>
Budgeted 2011	\$369,323	\$725,615
2010	351,285	690,063
2009	267,227	585,732
2008	268,052	585,732
2007	302,396	592,317
2006	280,426	577,647

Chapter 49 of the Laws of 2003 changed the cycle of billing to better match budget cycles of the City and other governmental employers. Under the previous method, the City was unsure of how much it would be required to pay to the system until after its budget was implemented. The contribution for a given fiscal year is now based on the value of the pension fund on the prior April 1 instead of the following April 1, so the City is now able to more accurately include the cost of the contribution into its budget. The City is required to a minimum contribution of 4.50% of payroll every year, including years in which the investment performance of the fund would make a lower contribution possible.

Due to significant capital market declines in the recent past, the State's Retirement System portfolio has experienced negative investment performance and severe downward trends in market earnings (until quite recently). As a result of the foregoing, New York State Comptroller Thomas DiNapoli has announced that the employer contribution rate for the State’s Retirement System in 2011 year and subsequent years will be higher than the minimum contribution rate established by Chapter 49. For the year 2011 ERS contributions will be 16.3% and PFRS will be 21.6% of payroll. The Fund posted a 25.9% return for the fiscal year ended March 31, 2010.

Chapter 57 of the Laws of 2010, enacted August 11, 2010, established the Employer Contribution Stabilization Program (“the Program”). This legislation authorizes participating local government employers, if they so elect, to amortize the eligible portion of their annual required contributions to the New York State and Local Retirement System (NYSLRS).

The option to amortize the eligible portion begins with the annual contribution due February 1, 2011. The program allows local government employers to amortize a portion of the annual required contribution based on a “graded” rate. Amortized contributions will be paid in equal annual installments over a ten-year period, but may be prepaid at any time. Interest will be charged on the unpaid amortized portion at a rate which approximates a market rate of return on taxable fixed rate securities of a comparable duration. The interest rate is established annually for each of the amortized yearly amount and applies to the entire ten years of the repayment cycle.

On December 10, 2009, former Governor Paterson signed into law pension reform legislation that will provide (according to a Division of the Budget analysis) more than \$35 billion in long-term savings to State taxpayers over the next thirty years. The legislation creates a new Tier V pension level, the most significant reform of the State’s pension system in more than a quarter-century. Key components of Tier V include:

- Raising the minimum age at which most civilians can retire without penalty from 55 to 62 and imposing a penalty of up to 38 percent for any civilian who retires prior to age 62.
- Requiring employees to continue contributing three percent of their salaries toward pension costs so long as they accumulate additional pension credits.
- Increasing the minimum years of service required to draw a pension from five years to 10 years.
- Capping the amount of overtime that can be considered in the calculation of pension benefits for civilians at \$15,000 per year, and for police and firefighters at 15 percent of non-overtime wages.

In accordance with constitutional requirements, these new pension reforms apply only to public employees hired on or after January 1, 2010.

The investment of monies, and assumptions underlying same, of the Retirement Systems covering the City's employees is not subject to the direction of the City. Thus, it is not possible to predict, control or prepare for future unfunded accrued actuarial liabilities of the Retirement Systems ("UAALs"). The UAAL is the difference between total actuarially accrued liabilities and actuarially calculated assets available for the payment of such benefits. The UAAL is based on assumptions as to retirement age, mortality, projected salary increases attributed to inflation, across-the-board raises and merit raises, increases in retirement benefits, cost-of-living adjustments, valuation of current assets, investment return and other matters. Such UAALs could be substantial in the future, requiring significantly increased contributions from the City which could affect other budgetary matters. Concerned investors should contact the Retirement Systems administrative staff for further information on the latest actuarial valuations of the Retirement Systems.

The City is aware of the potential negative impacts that increased retirement contributions will have on its budget and will take appropriate steps to budget accordingly for the increases. There can be no assurance that its financial position will not be negatively impacted.

Other Post Employment Benefits

It should also be noted that the City provides post-employment healthcare benefits to various categories of former employees. These costs may be expected to rise substantially in the future.

GASB and OPEB. OPEB refers to "other post-employment benefits," and refers to benefits other than pension benefits. OPEB consists primarily of health care benefits, and may include other benefits such as disability benefits and life insurance. Before GASB 45, OPEB costs were generally accounted for and managed.

Recently enacted accounting rule, GASB Statement No. 45 ("GASB 45") of the Governmental Accounting Standards Board ("GASB"), requires state and local governments to account for and report their costs associated with post-retirement benefits and other non-pension benefits ("OPEB"), as it accounts for vested pension benefits. OPEB consists primarily of health care benefits, and may include other benefits such as disability benefits and life insurance.

GASB 45 requires municipalities and school districts to account for OPEB liabilities in the same manner as they already account for pension liabilities. It will require them to adopt the actuarial methodologies used for pensions, with adjustments for the different characteristics of OPEB and the fact that most municipalities and school districts have not set aside any funds against this liability. Unlike GASB Statement No. 27, which covers accounting for pensions, GASB 45 does not require municipalities or school districts to report a net OPEB obligation at the start.

Under GASB 45, based on actuarial valuation, an annual required contribution ("ARC") will be determined for each municipality or school district. The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for), using an amortization period of not more than 30 years. If a municipality or school district contributes an amount less than the ARC, a net OPEB obligation will result, which is required to be recorded as a liability on its financial statements. The City is in compliance with GASB 45.

The City's total unfunded actuarial accrued liability at December 31, 2010 was \$37,331,140. The City's annual required contribution is \$1,856,852, of which the City contributed \$1,439,494, which is a 77.5% contribution.

GASB 45 does not require that the unfunded liability actually be amortized nor that it be advance funded, only that the municipality or school district account for its unfunded accrued liability and its compliance in meeting its ARC.

Actuarial valuation will be required every two years for OPEB plans with more than two hundred members, every three years if there are less than two hundred members.

Additional information about GASB 45 and other accounting rules applicable to municipalities and school districts may be obtained from GASB.

REAL PROPERTY TAX INFORMATION

Real Property Taxes

The City derives a significant portion of its annual revenue through a direct real property tax. The following table presents the total tax levy tax rates and collection performance for each of the last four fiscal years and the 2011 fiscal year.

	Fiscal Year Ending December 31:				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Taxes on Roll/Net Tax Levy	\$9,303,404	\$9,306,667	\$9,544,363	\$9,765,074	\$10,066,599
Amount Collected	<u>8,974,486</u>	<u>9,004,292</u>	<u>9,227,701</u>	<u>9,481,516</u>	<u>9,062,561</u> *
Uncollected	\$328,918	\$302,375	\$316,662	\$283,558	\$1,004,038 *
Percentage Collected	96.46%	96.75%	96.68%	97.10%	90.03% *

Source: City Officials

Note: * As of May 3, 2011

Tax Collection Procedure

Taxes are due April 1, payable to April 30 without penalty. Penalties consist of 1% for the month of May and 1% per month thereafter which is added to the May penalty.

Tax sales are not held annually but the City Treasurer is directed to sell taxes on designated property. Foreclosures are ordered by the Common Council. The City maintains a reserve for uncollected taxes.

Source: City Officials

	Fiscal Year Ended December 31:				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Assessed Valuation: ¹	\$405,868,171	\$407,025,964	\$597,055,112	\$597,412,172	\$600,475,675
NYS Equalization Rate: ¹	73.00%	69.00%	100.00%	100.00%	100.00%
Full Valuation:	\$555,983,796	\$589,892,701	\$597,055,112	\$597,412,172	\$600,475,675
Tax Rate / \$1,000 Assessed Valuation:	\$21.34	\$22.17	\$15.47	\$15.84	\$16.23

Note: ¹ The assessed valuations and equalization rates shown here may not be the same as those required for debt limit purposes.

Constitutional Tax Limit

The Constitution limits the amount that may be raised by the City *ad valorem* tax levy on real estate in any fiscal year to two per centum (2%) of the five-year average full valuation of taxable real estate of the City plus (1) the amounts required for principal and interest on all capital indebtedness, and (2) current appropriations for certain capital purposes. The tax limit for the City for the 2011 fiscal year is as follows:

Five Year Average Full Valuation	\$588,163,891
Constitutional Tax Limit: (2%)	11,763,278
Tax Levy General City Purposes	9,746,371
Less: Exclusions for Debt and Capital Purposes	1,874,270
Tax Levy Subject to Debt Limit	7,872,101
Percentage of Tax Limit Exhausted	66.92%
Constitutional Tax Margin	\$3,891,177

Source: Constitutional Tax Limit Worksheet as submitted to the NYS
Comptroller's Office by the City.

Ten Largest Taxpayers

2010 Assessment Roll for 2011 Taxes

<u>Name</u>	<u>Type</u>	<u>Estimated Full Valuation</u>
BG GMT	Warehouse and Retail	\$14,678,400
Benderson Development	Warehouse	14,640,000
Special Franchise (NiMo, Nat, Fuel, etc.)	Utilities	12,969,069
New York Central Lines	Railroad	8,952,819
Utilities (Roll Section 6)	Utilities	7,249,812
Con-Way Transportation	Railroad	3,979,200
Washington Mills	Manufacturing	3,950,000
Uniland Development	Commercial	2,987,700
Jack Hunt	Housing	2,750,000
Sugar Kake	Manufacturing	2,491,800
Total		\$74,648,800 ¹

Source: City Officials

Note: ¹ The above ten taxpayers represent 12.43% of the City's 2011 full value of \$600,475,675

LITIGATION

In common with other cities, the City from time to time receives notices of claim and is party to litigation. In the opinion of the City, after consultation with its attorney, unless otherwise set forth herein and apart from matters provided for by applicable insurance coverage, there are no significant claims or actions pending in which the City has not asserted a substantial and adequate defense, nor which, if determined against the City, would have an adverse material effect on the financial condition of the City.

There is no action, suit, proceedings or investigation, at law or in equity, before or by any court, public board or body pending or, to the best knowledge of the City, threatened against or affecting the City to restrain or enjoin the issuance, sale or delivery of the Bonds and the Notes or the levy and collection of taxes or assessments to pay same, or in any way contesting or affecting the validity of the Bonds and the Notes or any proceedings or authority of the City taken with respect to the authorization, issuance or sale of the Bonds and the Notes or contesting the corporate existence or boundaries of the City.

Source: City Officials

BONDHOLDER AND NOTEHOLDER RISKS

There are various forms of risk associated with investing in the Bonds and the Notes. One such risk is that the City will be unable to promptly pay interest and principal on the Bonds and the Notes as they become due (see "Remedies Upon Default", herein). If a Bondholder or Noteholder elects to sell his or her investment prior to its scheduled maturity date, market access or price risk may be incurred. The following is a discussion of certain events that could affect the risk of investing in the Bonds and the Notes. In addition, there may be other risk factors which a potential investor must consider. In order to make an informed investment decision, an investor should be thoroughly familiar with the entire Official Statement, including its appendices, as well as all areas of potential risk.

There are a number of factors which could have a detrimental effect on the ability of the City to continue to generate revenues, particularly its property taxes. For instance, the termination of a major commercial enterprise or an unexpected increase in certiorari proceedings could result in a large reduction in the assessed valuation of taxable real property in the City.

The subprime mortgage crisis and various economic events growing out of it created massive disruptions in the U.S. and global credit and securities markets, and the health of those markets was impaired to the point where significant governmental intervention was deemed necessary. These developments have had a significant adverse effect on the finances of New York State, on which the City depends for State aid. The exact continuing impact on the City cannot be predicted, but it has been negative, and could persist for a significant period of time.

The financial condition of the City as well as the market for the Bonds and the Notes could be affected by a variety of factors, some of which are beyond the City's control. There can be no assurance that adverse events in the State, including, for example, the seeking by a municipality of remedies pursuant to the Federal Bankruptcy Act or otherwise, will not occur which might affect the market price of and market for the Bonds and the Notes. If a significant default or other financial crisis should occur in the affairs of the State or any of its agencies or political subdivisions, thereby further impairing the acceptability of obligations issued by borrowers within the State, both the ability of the City to arrange for additional borrowings and the market for and market value of outstanding debt obligations, including the Bonds and the Notes, could be adversely affected.

If and when a holder of any of the Bonds and the Notes should elect to sell a Bond or Note prior to its maturity, there can be no assurance that a market shall have been established, maintained and be in existence for the purchase and sale of any of the Bonds and the Notes. In addition, the price and principal value of the Bonds and the Notes is dependent on the prevailing level of interest rates; if interest rates rise, the price of a bond or note will decline, causing the bondholder or noteholder to incur a capital loss upon the sale of such bond or note.

Amendments to U.S. Internal Revenue Code could reduce or eliminate the favorable tax treatment granted to municipal debt, including the Bonds and the Notes and other debt issued by the City. Any such future legislation could have an adverse effect on the market value of the Bonds and the Notes (See "Tax Exemption" herein).

TAX EXEMPTION

In the opinion of Hodgson Russ LLP, of Buffalo, New York, Bond Counsel, under existing law, the interest on the Bonds and the Notes is excluded from gross income of the owners thereof for federal income tax purposes, and is not an "item of tax preference" for purposes of the individual and corporate alternative minimum taxes imposed by the Code. However, it should be noted that (1) the City, by failing to comply with certain restrictions contained in the Code, may cause interest on the Bonds and the Notes to become subject to federal income taxation from the date of issuance of the Bonds and the Notes; (2) Section 56 of the Code provides that for purposes of computing the alternative minimum tax on corporations (as defined for federal income tax purposes) interest on the Bonds and the Notes is taken into account in determining adjusted current earnings; and (3) interest on the Bonds and the Notes earned by foreign corporations doing business in the United States could be subject to the branch profits tax imposed by Section 884 of the Code. Interest on the Bonds and the Notes is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

In rendering the foregoing opinions, Hodgson Russ LLP noted that the exclusion of the interest on the Bonds and the Notes from gross income for federal income tax purposes is subject to, among other things, continuing compliance by the City with the applicable requirements of Sections 141, 148 and 149 of the Code and the regulations promulgated thereunder (collectively, the "Tax Requirements"). In the opinion of Hodgson Russ LLP, the tax certificate that will be executed and delivered by the City in connection with the issuance of the Bonds and the Notes (the "Tax Certificate") establishes requirements and procedures, compliance with which will satisfy the Tax Requirements applicable to the Bonds and the Notes.

The Tax Requirements referred to above, which must be complied with in order that interest on the Bonds and the Notes remains excluded from gross income for federal income tax purposes, include, but are not limited to:

- (1) The requirement that the proceeds of the Bonds and the Notes be used in a manner so that the Bonds and the Notes are not obligations which meet the definition of a "private activity bond" within the meaning of Section 141 of the Code.
- (2) The requirements contained in Section 148 of the Code relating to arbitrage Bonds or Notes.
- (3) The requirements that payment of principal or interest on the Bonds and the Notes not be directly or indirectly guaranteed (in whole or in part) by the United States (or any agency or instrumentality thereof) as provided in Section 149(b) of the Code.

In the Tax Certificates that will be delivered in connection with the issuance of the Bonds and the Notes, the City has covenanted to comply with the Tax Requirements, and to refrain from taking any action which would cause the interest on the Bonds and the Notes to be includable in gross income for federal income tax purposes. Any violation of the Tax Requirements may cause the interest on the Bonds and the Notes to be included in gross income for federal income tax purposes from the date of issuance of the Bonds and the Notes. Hodgson Russ LLP, Bond Counsel, expresses no opinion regarding other federal tax consequences arising with respect to the Bonds and the Notes.

The interest on the Bonds and the Notes is subject to, among others, the following provisions contained in the Code:

- (1) Interest on the Bonds and the Notes is not an "item of tax preference" for purposes of the individual and corporate alternative minimum taxes imposed by the Code. However, interest on the Bonds and the Notes is includable in the "adjusted current earning" of any corporate owner of the Bonds and the Notes and 75% of the interest on the Bonds and the Notes is thus includable in the tax base for computing a corporation's liability with respect to the 20% alternative minimum tax imposed on corporations by the Code.
- (2) If the Bonds and the Notes are held by certain foreign corporations doing business in the United States, the interest on the Bonds and the Notes will be included in "effectively connected earnings and profits" for purposes of computing a branch profits tax of up to 30%.
- (3) A property casualty insurance company's deduction for the losses incurred will be reduced by 15% of the income received from tax-exempt obligations.
- (4) The United States Treasury Department has promulgated regulations which might have the effect of imposing a tax at ordinary income rates with respect to interest on the Bonds and the Notes owned by "S Corporations" in certain cases.
- (5) In addition, the Bonds or the Notes will constitute "qualified tax-exempt obligations" within the meaning of the Code, and if the Bonds and the Notes are held by a financial institution, a portion of the interest expense allocable to the Bonds and the Notes will be deductible for federal income tax purposes.

Under the Code, the benefits of the exclusion of the interest on the Bonds and the Notes from gross income for federal income tax purposes may be diminished by operation of certain provisions of the Code which affect recipients of Social Security and railroad retirement benefits.

Each purchaser of the Bonds or the Notes should consult his or her tax advisor regarding the impact of the foregoing and other provisions of the Code on his or her individual tax position.

Amendments to Code could reduce or eliminate the favorable tax treatment granted to municipal debt, including the Bonds and the Notes and other debt issued by the City. Any such future legislation could have an adverse effect on the market value of the Bonds and the Notes.

DOCUMENTS ACCOMPANYING DELIVERY OF THE NOTES

Absence of Litigation

Upon delivery of the Bonds and the Notes, the City will furnish certificates, dated the date of delivery of the Bonds and the Notes, respectively, to the effect that there is no controversy or litigation of any nature pending or threatened to restrain or enjoin the issuance, sale, execution, or delivery of the Bonds and the Notes, or in any way contesting or affecting the validity of the Bonds and the Notes or any of the proceedings taken with respect to the issuance and sale thereof or the application of moneys to the payment of the Bonds and the Notes. Additional certificates will state that there is no controversy or litigation of any nature now pending or threatened by or against the City wherein an adverse judgment or ruling could have a material adverse impact on the financial condition of the City or adversely affect the power of the City to levy, collect, and enforce the collection of taxes or other revenues for the payment of the Bonds and the Notes, which has not been disclosed in this Official Statement.

Legal Matters

The legality of the authorization and issuance of the Bonds and the Notes will be covered by the legal opinions of Hodgson Russ LLP, of Buffalo, New York, Bond Counsel. Such legal opinions will state that in the opinion of Bond Counsel (i) the Bonds or the Notes, as the case may be, have been authorized and issued in accordance with the Constitution and statutes of the State of New York and constitute valid and legally binding general obligations of the City, are payable as to principal and interest from *ad valorem* taxes levied upon all the taxable real property within the City, without limitation as to rate or amount; provided, however, that the enforceability (but not the validity) of the Bonds or the Notes may be limited or otherwise affected by (a) any applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or similar statute, rule, regulation or other law affecting the enforcement of creditors' rights and remedies heretofore or hereafter enacted or (b) by the unavailability of equitable remedies or the application thereto of equitable principles, (ii) assuming that the City complies with certain requirements of the Code, interest on the Bonds and the Notes (a) is excluded from gross income for federal alternative minimum tax on purposes and (b) is not an item of preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and (iii) assuming that the City complies with certain requirements of the Code, interest on the Bonds and the Notes is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, including The City of New York. Bond Counsel will express no opinion regarding other federal income tax consequences arising with respect to the Bonds and the Notes.

Such legal opinions also will state that (i) in rendering the opinions expressed therein, Bond Counsel has assumed, without inquiry or other investigation, (a) the legal capacity of each natural person, (b) the full power and authority of each person other than the City to execute and deliver certain documents and to perform certain acts, (c) no modification of any provision of any document, no waiver of any right or remedy and no exercise of any right or remedy other than in a commercially reasonable and conscionable manner and in good faith, (d) the genuineness of each signature, the completeness of each document submitted to Bond Counsel, the authenticity of each document submitted to Bond Counsel as an original, the conformity to the original of each document submitted to Bond Counsel as a copy and the authenticity of the original of each document submitted to Bond Counsel as a copy, (e) the accuracy on the date of this letter of certain reviewed documents, (f) the truthfulness of each statement as to any factual matter contained in such reviewed documents, and (g) the due and timely filing of certain filed documents; (ii) the scope of Bond Counsel's engagement in relation to the issuance of the Bonds and the Notes has extended solely to rendering the opinions expressed therein, (iii) the opinions expressed therein are not intended and should not be construed to express or imply any conclusion that the amount of real property subject to taxation within the boundaries of the City, together with other legally available sources of revenue, if any, will be sufficient to enable the City to pay the principal of and interest on the Bonds and the Notes as the same respectively become due and payable, and (iv) no opinion is expressed by Bond

Counsel as to whether the City, in connection with the sale of the Bonds and the Notes, has made any untrue statement of a material fact, or omitted to state a material fact necessary in order to make any statements made, in the light of the circumstances under which they were made, not misleading.

DISCLOSURE UNDERTAKING FOR THE BONDS

Because at the time of the delivery of the Bonds, the City will be an “obligated person” (as such is defined in Rule 15c2-12 (the “Rule”), the City has agreed for the benefit of the beneficial owners of the Bonds to provide to the Municipal Securities Rulemaking Board (the “MSRB”) Electronic Municipal Market Access (“EMMA”) system, or its successor, in an electronic format as prescribed by the MSRB, certain annual financial information and operating data relating to the City (the “annual information”) for the preceding fiscal year on or prior to the later of either the end of the sixth month of each succeeding fiscal year, if audited financial statements are prepared, 60 days following receipt by the City of audited financial statements for the preceding fiscal year, but in no event, later than the last business day of each such succeeding fiscal year.

The City’s undertaking with respect to material events includes timely notice not in excess of ten (10) business days after the occurrence of any of the following events with respect to the Bonds, to the EMMA system or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults, if material;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (g) modifications to rights of Bondholders, if material;
- (h) bond calls, if material and tender offers;
- (i) defeasances;
- (j) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (k) rating changes;
- (l) bankruptcy, insolvency, receivership or similar events of the City;
- (m) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

All documents provided by the MSRB shall be accompanied by identifying information as prescribed by the MSRB.

The City has agreed to the foregoing undertakings in order to assist participating underwriters of the Bonds and brokers, dealers and municipal securities dealers in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934. The City will provide the foregoing information for so long as the Rule is applicable to the Bonds and the City remains an “obligated person” under the Rule with respect to the Bonds.

The City may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if the City determines that any such other event is material with respect to the Bond; but the City does not undertake to commit to provide any such notice of the occurrence of any material event except those events listed above.

The City reserves the right to terminate its obligation to provide the aforescribed notices of material events, as set forth above, if and when the City no longer remains an obligated person with respect to the Bond within the meaning of the Rule. The City acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the holders of the Bond (including holders of beneficial interests in the Bond). The right of holders of the Bond to enforce the provisions of the undertaking will be limited to a right to obtain specific enforcement of the City obligations under its material event notices undertaking and any failure by the City to comply with the provisions of the undertaking will neither be a default with respect to the Bond nor entitle any holder of the Bond to recover monetary damages.

The City reserves the right to modify from time to time the specific types of information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the City; provided that the City agrees that any such modification will be done in a manner consistent with the Rule.

The City may amend the continuing disclosure undertaking upon a change in circumstances provided that (a) the undertaking, as amended, would have complied with the requirements of the Rule at the time of this offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances and (b) in the opinion of nationally recognized bond counsel selected by the City, the amendment does not materially impair the interests of the beneficial owners of the Bonds.

Annual information and notices of material events can be obtained from the City of Tonawanda, 200 Niagara Street, Tonawanda, New York 14150-1099, telephone: 716-695-1800.

A Continuing Disclosure Undertaking Certificate to this effect shall be provided to the purchaser at closing.

The City is in compliance with all prior undertakings pursuant to the Rule.

DISCLOSURE UNDERTAKING FOR THE NOTES

In accordance with the provisions of Rule 15c2-12, as the same may be amended or officially interpreted from time to time (the "Rule"), promulgated by the Securities and Exchange Commission (the "Commission") pursuant to the Securities Exchange Act of 1934, the City has agreed to provide or cause to be provided, in a timely manner not in excess of ten (10) business days after the occurrence of the event, during the period in which the Notes are outstanding, to the Electronic Municipal Market Access ("EMMA") system of the Municipal Securities Rulemaking Board ("MSRB") or any other entity designated or authorized by the Commission to receive reports pursuant to the Rule, notice of the occurrence of any of the following events with respect to the Notes:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults, if material;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) in the case of credit enhancement, if any, provided in connection with the issuance of the Notes, unscheduled draws on credit enhancements reflecting financial difficulties;

- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax status of the Notes, or other material events affecting the tax status of the Notes;
- (g) modifications to rights of Noteholders, if material;
- (h) note calls, if material and tender offers;
- (i) defeasances;
- (j) release, substitution, or sale of property securing repayment of the Notes;
- (k) rating changes;
- (l) bankruptcy, insolvency, receivership or similar event of the City;
- (m) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

Event (c) is included pursuant to a letter from the SEC staff to the National Association of Bond Lawyers dated September 19, 1995. However, event (c) is not applicable, since no "debt service reserves" will be established for the Notes.

With respect to event (d), the City does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the Notes.

The City may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if the City determines that any such other event is material with respect to the Notes; but the City does not undertake to commit to provide any such notice of the occurrence of any material event except those events listed above.

The City reserves the right to terminate its obligation to provide the aforescribed notices of material events, as set forth above, if and when the City no longer remains an obligated person with respect to the Notes within the meaning of the Rule.

The City acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the holders of the Notes (including holders of beneficial interests in the Notes). The right of holders of the Notes to enforce the provisions of the undertaking will be limited to a right to obtain specific enforcement of the City's obligations under its material event notices undertaking and any failure by the City to comply with the provisions of the undertaking will neither be a default with respect to the Notes nor entitle any holder of the Notes to recover monetary damages.

The City reserves the right to modify from time to time the specific types of information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the City; provided that the City agrees that any such modification will be done in a manner consistent with the Rule.

Annual information and notices of material events can be obtained from the City of Tonawanda, 200 Niagara Street, Tonawanda, New York 14150-1099, telephone: 716-695-1800.

An "Undertaking to Provide Notice of Material Events" to this effect shall be provided to the purchaser(s) at closing.

The City is in compliance with all prior undertakings pursuant to the Rule.

RATING

An application has been made to Standard & Poor's Inc. for a rating assignment on the Bonds. Such rating will be indicated on the revised cover page of the Official Statement. Such rating will reflect only the view of such rating agency and any desired explanation of the significance of such rating should be obtained from such rating agency. Generally, rating agencies base their ratings on rating investigation, studies and assumptions they have made in addition to the information and materials provided by the issuer. There is no assurance that a particular rating will apply for any given period of time or that it will be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. Any downward revision or withdrawal of such rating could have an adverse effect on the market price of the Bonds. Such rating should not be taken as a recommendation to buy or hold the Bonds.

The Notes will not be rated.

FINANCIAL ADVISOR

Municipal Solutions, Inc. has assisted the City as financial advisor in certain matters with respect to the sale and issuance of the Bonds and the Notes.

ADDITIONAL INFORMATION

Additional information may be obtained upon request from the office of the City Treasurer, Joseph M. Hogenkamp, 200 Niagara Street, Tonawanda, NY 14150, telephone number: 716-695-1800 or from the office of Municipal Solutions, Inc., 2528 State Route 21, Canandaigua, New York 14424, telephone number 585-394-4090, fax number 585-394-4092, and website at: <http://www.municipalsolution.com>.

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. This Official Statement is not to be construed as a contract or agreement between the City and the original purchasers or holders of any of the Bonds and the Notes.

This Official Statement is submitted only in connection with the sale of the Bonds and the Notes by the City and may not be reproduced or used in whole or in part for any other purpose.

So far as any statements made in this Official Statement, and the documents included by specific reference, that are not historical facts are forward-looking statements, which are based on the City's management's beliefs as well as assumptions made by, and information available to, the City management and staff. Because the statements are based on expectations about future events and economic performance and are not statements of fact, actual results may differ materially from those projected. Important factors that could cause future results to differ include legislative and regulatory changes, changes in the economy, and other factors discussed in this and other documents that the City files with the repositories. When used in City documents or oral presentations, the words "anticipate", "estimate", "expect", "objective", "projection", "forecast", "goal", or similar words are intended to identify forward-looking statements.

Municipal Solutions, Inc. will place a copy of this Official Statement on its website: <http://www.municipalsolution.com>. Unless the Official Statement specifically indicated otherwise, no statement on such website is included by specific reference or constitutes a part of this Official Statement. Municipal Solutions, Inc. has prepared such website information for convenience, but no decisions should be made in reliance upon that information. Typographical or other errors may have occurred in converting original source documents to digital format, and neither the City nor Municipal Solutions, Inc. assumes any liability or responsibility for errors or omissions on such website. Further, Municipal Solutions, Inc., and the City disclaim any duty or obligation either to update or to maintain that information or any responsibility or liability for any damages caused by viruses in the electronic files on the website. Municipal Solutions, Inc. and the City also assume no liability or responsibility for any errors or omissions or for any updates to dated website information.

CITY OF TONAWANDA

May 16, 2011
Tonawanda, New York

By: s/s Joseph M. Hogenkamp
City Treasurer and Chief Fiscal Officer

Additional copies of the Notices of Sale and Official Statement may be obtained upon request
from the office of Municipal Solutions, Inc., 2528 State Route 21,
Canandaigua, New York 14424, telephone (585) 394-4090.
Website: www.municipalsolution.com

APPENDIX A

FINANCIAL INFORMATION

Statement of Revenues, Expenditures and Fund Balances
General Fund - City of Tonawanda

	Fiscal Year Ending December 31:				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Revenues:					
Real Property Taxes	\$8,158,778	\$8,327,047	\$8,719,765	\$8,914,981	\$9,202,917
Real Property Tax Items	570,532	528,719	666,697	405,792	545,641
Non-Property Tax Items	3,957,510	4,499,874	4,569,320	4,428,476	4,509,550
Departmental Income	162,128	172,942	161,666	191,273	159,034
Intergovernmental Charges	212,995	225,369	180,735	132,119	185,982
Use of Money and Property	106,624	202,207	68,150	19,175	13,857
Licenses & Permits	110,562	126,720	111,379	126,020	143,355
Fines & Forfeitures	330,228	285,675	265,314	272,944	325,984
Sale of Prop. & Comp. For Loss	29,306	24,285	65,116	56,229	76,874
Miscellaneous	37,636	17,485	29,719	46,531	20,865
Interfund Revenues	0	0	0	0	0
State Aid	2,909,028	2,950,806	3,195,815	3,120,638	3,064,175
Federal Aid	442,057	71,979	0	54,423	43,596
Interfund Transfers	80,318	0	0	0	0
Proceeds from long-term debt	29,593	0	0	0	0
Total Revenues	<u>\$17,137,295</u>	<u>\$17,433,108</u>	<u>\$18,033,676</u>	<u>\$17,768,601</u>	<u>\$18,291,830</u>
Expenditures:					
General Governmental Support	\$1,764,738	\$2,100,803	\$2,185,460	\$1,742,106	\$1,925,730
Public Safety	4,760,303	4,750,073	4,886,622	5,027,691	5,204,133
Transportation	2,054,613	2,084,810	2,348,872	2,174,179	1,947,842
Economic and Assistance	28,034	28,840	29,668	30,089	30,841
Culture & Recreation	921,900	913,728	934,315	987,845	949,601
Home & Community Service	1,070,669	1,019,402	1,039,106	1,063,157	1,083,151
Employee Benefits	4,422,738	4,784,896	5,170,104	5,326,413	5,665,372
Debt Service	1,281,306	1,192,216	1,266,180	1,224,153	1,228,695
Interfund Transfers	0	273,500	75,000	200,969	60,000
Total Expenditures	<u>\$16,304,301</u>	<u>\$17,148,268</u>	<u>\$17,935,327</u>	<u>\$17,776,602</u>	<u>\$18,095,365</u>
Excess (Deficit) Revenues					
Over Expenditures	\$832,994	\$284,840	\$98,349	(\$8,001)	\$196,465
Net Adjustments to Fund Balances	0	0	0	0	0
Fund Balance Beg. of Fiscal Year	<u>1,929,218</u>	<u>3,845,700</u> ¹	<u>4,130,540</u>	<u>4,228,889</u>	<u>4,220,888</u>
Fund Balance End of Fiscal Year	<u>\$2,762,212</u>	<u>\$4,130,540</u>	<u>\$4,228,889</u>	<u>\$4,220,888</u>	<u>\$4,417,353</u>

Source: Independent Auditor's Reports of the City.

Notes: ¹ Restated fund balance due to a portion of worker's compensation that was incorrectly reported as a liability.

This table NOT audited

**Statement of Revenues, Expenditures and Fund Balance
Water Fund - City of Tonawanda**

	Fiscal Year Ending December 31:				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Revenues:					
Departmental Income	\$231,342	\$230,393	\$225,097	\$227,491	\$213,561
Use of Money & Property	358	411	172	0	0
Miscellaneous	55	0	0	0	0
Total Revenues	<u>\$231,755</u>	<u>\$230,804</u>	<u>\$225,269</u>	<u>\$227,491</u>	<u>\$213,561</u>
Expenditures:					
Debt Service	<u>\$202,584</u>	<u>\$200,131</u>	<u>\$192,553</u>	<u>\$155,650</u>	<u>\$146,672</u>
Subtotal: Expenditures	<u>\$202,584</u>	<u>\$200,131</u>	<u>\$192,553</u>	<u>\$155,650</u>	<u>\$146,672</u>
Excess (Deficit) Revenues					
Over Expenditures	\$29,171	\$30,673	\$32,716	\$71,841	\$66,889
Net Adjustments to Fund Balances	0	0	0	0	0
Fund Balance Beg. of Fiscal Year	<u>(132,604)</u>	<u>(103,433)</u>	<u>(72,760)</u>	<u>(40,044)</u>	<u>31,797</u>
Fund Balance End of Fiscal Year	<u><u>(\$103,433)</u></u>	<u><u>(\$72,760)</u></u>	<u><u>(\$40,044)</u></u>	<u><u>\$31,797</u></u>	<u><u>\$98,686</u></u>

Source: Independent Auditor's Reports of the City

Note: This table NOT audited

**Statement of Revenues, Expenditures and Fund Balance
Sewer Fund - City of Tonawanda**

	Fiscal Year Ending December 31:				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Revenues:					
Departmental Income	\$1,442,340	\$1,395,215	\$1,490,349	\$1,486,099	\$1,539,883
Use of Money & Property	2,334	4,930	6,084	2,319	1,384
Miscellaneous	2,985	160	0	20	0
Total Revenues	<u>\$1,447,659</u>	<u>\$1,400,305</u>	<u>\$1,496,433</u>	<u>\$1,488,438</u>	<u>\$1,541,267</u>
Expenditures:					
Home and Community Services	\$1,243,333	\$1,196,125	\$1,278,315	\$1,275,561	\$1,180,065
Employee Benefits	58,593	61,341	63,312	59,582	52,983
Debt Service	182,818	182,542	189,938	145,716	239,047
Subtotal: Expenditures	<u>\$1,484,744</u>	<u>\$1,440,008</u>	<u>\$1,531,565</u>	<u>\$1,480,859</u>	<u>\$1,472,095</u>
Excess (Deficit) Revenues					
Over Expenditures	(\$37,085)	(\$39,703)	(\$35,132)	\$7,579	\$69,172
Net Adjustments to Fund Balances	0	0	0	0	0
Fund Balance Beg. of Fiscal Year	<u>(136,631)</u>	<u>(173,716)</u>	<u>(213,419)</u>	<u>(248,551)</u>	<u>(240,972)</u>
Fund Balance End of Fiscal Year	<u><u>(\$173,716)</u></u>	<u><u>(\$213,419)</u></u>	<u><u>(\$248,551)</u></u>	<u><u>(\$240,972)</u></u>	<u><u>(\$171,800)</u></u>

Source: Independent Auditor's Reports of the City

Note: This table NOT audited

Balance Sheet
Combined Funds - City of Tonawanda
Fiscal Year Ended December 31, 2010

	<u>General</u>	<u>Water</u>	<u>Sewer</u>
Assets:			
Cash and Cash Equivalents	\$2,953,835	\$546,952	\$0
Taxes Receivable	1,202,275	0	0
Other Receivable	19,228	51,939	337,686
State and Federal Aid Receivables	29,290	0	0
Due from Other Funds	1,544,017	246,357	0
Due from Other Governments	1,512,566	0	0
Prepaid Expenses	0	0	0
Total Assets	<u>\$7,261,211</u>	<u>\$845,248</u>	<u>\$337,686</u>
Liabilities:			
Accounts Payable	\$425,058	\$0	\$77,214
Accrued Liabilities	283,663	0	4,864
Other Liabilities	27,126	0	0
Due to Other Funds	170,341	746,562	263,225
Due to Other Governments	1,324,233	0	164,183
Deferred Revenue	613,437	0	0
Total Liabilities	<u>\$2,843,858</u>	<u>\$746,562</u>	<u>\$509,486</u>
Fund Balances:			
Reserved for:			
Encumbrances	\$8,016	\$0	\$0
Tax Stabilization	200,000	0	0
Worker's Compensation	1,109,132	0	0
Insurance	172,090	0	0
Unreserved Fund Balance:			
Appropriated	275,000	0	0
Unappropriated	2,653,115	98,686	(171,800)
Total Fund Balance	<u>\$4,417,353</u>	<u>\$98,686</u>	<u>(\$171,800)</u>
Total Liabilities and Fund Balance	<u><u>\$7,261,211</u></u>	<u><u>\$845,248</u></u>	<u><u>\$337,686</u></u>

Source: Independent Auditor's Reports of the City

Note: This table NOT audited

Budget Summaries
Combined Funds - City of Tonawanda
Fiscal Year Ending December 31, 2011

	<u>General</u>	<u>Water</u>	<u>Sewer</u>
Revenues:			
Real Property Taxes	\$9,746,371	\$0	\$0
Real Property Tax Items	505,000	0	0
Non-Property Tax Items	4,442,000	0	0
Departmental Income	175,000	225,000	1,607,216
Intergovernmental Charges	194,700	0	0
Use of Money & Property	41,600	0	1,000
Licenses and Permits	148,200	0	0
Fines and Forfeitures	280,000	0	0
Sale of Prop. & Comp. for Loss	59,000	0	0
Miscellaneous Items	25,000	0	1,000
State Aid	2,884,545	0	0
Fund Balance	275,000	0	0
Total Revenues:	<u>\$18,776,416</u>	<u>\$225,000</u>	<u>\$1,609,216</u>
Expenditures:			
General Government Support	\$2,040,884	\$0	\$0
Public Safety	5,203,298	0	0
Transportation	2,106,544	0	0
Economic Assistance and Opportunity	31,838	0	0
Culture and Recreation	977,209	0	0
Home and Community Services	1,144,785	0	1,296,573
Employee Benefits	5,632,717	0	56,340
Debt Service	1,314,141	225,000	252,007
Deficiency Tax	325,000	0	0
Total Expenditures:	<u>\$18,776,416</u>	<u>\$225,000</u>	<u>\$1,604,920</u>

Source: Adopted Budgets of the City

Note: This table NOT audited

APPENDIX B

**CITY OF TONAWANDA
ERIE COUNTY, NEW YORK**

**AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

NOTE: SUCH FINANCIAL REPORT AND OPINIONS WERE PREPARED AS OF THE DATE THEREOF AND HAVE NOT BEEN REVIEWED AND/OR UPDATED BY THE CITY'S AUDITORS IN CONNECTION WITH THE PREPARATION AND DISSEMINATION OF THIS OFFICIAL STATEMENT. CONSENT OF THE AUDITORS FOR INCLUSION OF THE AUDITED FINANCIAL REPORTS IN THIS OFFICIAL STATEMENT HAS NEITHER BEEN REQUESTED NOR OBTAINED.

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
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CITY OF TONAWANDA, NEW YORK
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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 or 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
<p>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.</p>		
		15,942,613
<p>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.</p>		
		641,548
<p>To recognize interest accrual on long term debt (serial bonds), which are not recognized in the funds until paid.</p>		
		(73,674)
<p>Long-term liabilities that are not due and payable in the current period and therefore are not reported within the funds:</p>		
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		(850,793)
		<u>(23,404,387)</u>
Total net assets - governmental activities	\$	<u>(3,913,344)</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	-	(60,000)	(60,000)	-
Net change in fund balance	50,000	(30,621)	196,465	227,086
Fund balance - beginning	4,220,888	4,220,888	4,220,888	-
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 Statues.

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:

	<u>ERS</u>	<u>PFRS</u>
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><u>\$ 701,889</u></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.

Drescher & 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.

Dresser & 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.