

**CITY OF TONAWANDA,  
NEW YORK**

*Basic Financial Statements and  
Required Supplementary Information  
for the Year Ended December 31, 2013 and  
Independent Auditors' Reports*

**CITY OF TONAWANDA, NEW YORK**  
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**Year Ended December 31, 2013**

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*Certified Public Accountants*

## **INDEPENDENT AUDITORS' REPORT**

Honorable City Council  
City of Tonawanda, New York:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Tonawanda, New York (the "City"), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion on the reporting entity and unmodified audit opinions on the governmental activities, major funds, and the aggregate remaining fund information of the primary government.

### ***Basis for Adverse Opinion on the Reporting Entity***

The financial statements referred to above include only the primary government of the City of Tonawanda, 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, 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.

***Adverse Opinion on the Reporting Entity***

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on the Reporting Entity paragraph, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the City, as of December 31, 2013, the changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

***Unmodified Opinions on the Governmental Activities, Major Funds, and Aggregate Remaining Fund Information***

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the primary government of the City, as of December 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 2 to the financial statements, the City has restated its General Fund fund balance and Water Fund fund balance as of December 31, 2012. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other Required Supplementary Information, as listed in the forgoing table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Drescher & Malecki LLP*

June 17, 2014

# **MANAGEMENT DISCUSSION AND ANALYSIS**

**CITY OF TONAWANDA, NEW YORK**  
**Management's Discussion and Analysis**  
**Year Ended December 31, 2013**

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As management of the City of Tonawanda, New York (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2013. 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, 2013, resulting in a negative *net position* of \$4,696,007. The City recognizes a deficit balance of \$16,658,123 within its unrestricted classification. This deficit is caused by long term liabilities of the City which are not required to be funded until due. The most significant items are pollution remediation obligation (\$13.4 million), compensated absences (\$2.7 million) and other post-employment benefits (\$2.2 million).
- During the year ended December 31, 2013, the City's net position decreased by \$1,663,588 as a result of operating activities for the year.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund deficit of \$126,065, a net decrease of \$3,559,865 in comparison with the prior year fund balance of \$3,433,800.
- The General Fund reported an unrestricted, unassigned fund balance of \$1,730,856 at December 31, 2013. This represents approximately 8.47% 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 City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required 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 position* presents information on all of the assets, liabilities and deferred inflows/outflows of resources of the City's primary government, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City's primary government is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will 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 fund.** The City is trustee, or fiduciary, for its agency fund. All of the City's fiduciary activities are reported in a separate statement of fiduciary net position. 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.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's budgetary comparison schedules for each major fund with legally adopted budget and the City's progress in funding its obligation to provide other postemployment benefits. The required supplementary information can be found following the notes to the financial statements.

**Government-wide financial analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, liabilities exceeded assets by \$4,696,007 at the close of the 2013 fiscal year.

**TABLE 1 — CONDENSED STATEMENT OF NET POSITION—PRIMARY GOVERNMENT**

	December 31,	
	2013	2012
Current assets	\$ 13,720,859	\$ 10,243,426
Capital assets	22,519,876	20,670,824
Total assets	<u>36,240,735</u>	<u>30,914,250</u>
Current liabilities	13,046,088	5,984,493
Non-current liabilities	27,890,654	27,962,176
Total liabilities	<u>40,936,742</u>	<u>33,946,669</u>
Net investment in capital assets	10,657,537	10,624,151
Restricted	1,304,579	1,537,364
Unrestricted	<u>(16,658,123)</u>	<u>(15,193,934)</u>
Total net position	<u>\$ (4,696,007)</u>	<u>\$ (3,032,419)</u>

The City's net 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 position. The City uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the City's net 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 City also has certain portions of net position that are restricted for particular purpose. These restrictions decreased slightly from 2012 to 2013, from \$1,537,364 to \$1,304,579.

The remaining component is unrestricted net position, which in the case of the City is a deficit balance of \$16,658,123, caused primarily by certain long-term obligations which are not required to be funded until due (i.e. compensated absences, workers' compensation claims, 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 position decreased \$1,663,588 for the year ended December 31, 2013, as compared to an increase of \$1,209,717 for the year ended December 31, 2012. The 2013 decrease was the result of the City's increase in governmental expenses; whereas, the 2012 increase was the result of operating activities.

A comparison of current assets to current liabilities for the government-wide activities as of December 31, 2013 and 2012 is provided in Table 2 below. The City had favorable current ratios of 1.05 and 1.71 which indicate that the City has sufficient current assets available at December 31, 2013 to cover its current liabilities that are outstanding at December 31, 2013.

**TABLE 2 — CURRENT ASSETS AND LIABILITIES—PRIMARY GOVERNMENT**

	<u>2013</u>	<u>2012</u>
Current assets	\$ 13,720,859	\$ 10,243,426
Current liabilities	13,046,088	5,984,493
Ratio of current assets to liabilities	1.05	1.71

**Governmental Activities.** Table 3, as presented below, shows the changes in net position for the years ended December 31, 2013 and 2012:

**TABLE 3 — CONDENSED STATEMENT OF ACTIVITIES—PRIMARY GOVERNMENT**

	<u>Year Ended December 31,</u>	
	<u>2013</u>	<u>2012</u>
Program revenues:		
Charges for services	\$ 3,200,184	\$ 3,069,116
Operating grants and contributions	265,406	295,293
Capital grants and contributions	1,042,534	2,606,558
General revenues	<u>18,172,717</u>	<u>18,063,459</u>
Total revenues	22,680,841	24,034,426
Program expenses	<u>24,344,429</u>	<u>22,824,709</u>
Change in net position	(1,663,588)	1,209,717
Net position—beginning	<u>(3,032,419)</u>	<u>(4,242,136)</u>
Net position—ending	<u>\$ (4,696,007)</u>	<u>\$ (3,032,419)</u>

A summary of sources of revenues for the years ended December 31, 2013 and 2012 is presented below in Table 4:

**TABLE 4 — SUMMARY OF SOURCES OF REVENUES—PRIMARY GOVERNMENT**

	December 31,		Increase/(decrease)	
	2013	2012	Dollars	Percent
Charges for services	\$ 3,200,184	\$ 3,069,116	\$ 131,068	4.3
Operating grants and contributions	265,406	295,293	(29,887)	(10.1)
Capital grants and contributions	1,042,534	2,606,558	(1,564,024)	(60.0)
Property taxes and tax items	10,401,067	10,192,543	208,524	2.0
Non-property tax items	4,899,623	4,830,921	68,702	1.4
Mortgage tax	146,316	161,551	(15,235)	(9.4)
Use of money and property	16,524	15,386	1,138	7.4
Sale of property and compensation for loss	14,437	48,290	(33,853)	(70.1)
Miscellaneous	92,646	212,664	(120,018)	(56.4)
Unrestricted state aid	<u>2,602,104</u>	<u>2,602,104</u>	<u>-</u>	0.0
Total revenues	<u>\$ 22,680,841</u>	<u>\$ 24,034,426</u>	<u>\$ (1,353,585)</u>	(5.6)

Overall revenues decreased 5.6% compared to the 2012 fiscal year. Key elements of this decrease are as follows:

- *Capital grants and contributions* — Decreased \$1,564,024, or 60.0%, from the prior year. This decrease is the result of the City’s completion of the Pavillion Project and the Spaulding Plant. These two projects were funded largely from Erie County and Federal funds in prior years.
- *Miscellaneous* — Decreased \$120,018, or 56.4%, from the prior year. This decrease is largely the result of a one-time refund of prior years’ expense from insurance received in 2012.
- *Other* — The City saw modest increases in property taxes and tax items (\$208,524), non-property tax items (\$68,702) and charges for services (\$131,068). These increases were the result of an increase in the real property tax rate, an increase in sales within the County and increase in a wide variety of charges to service users, respectively.

A summary of program expenses for the years ended December 31, 2013 and 2012 is presented on the following page in Table 5.

**TABLE 5 — SUMMARY OF SOURCES OF EXPENSES—PRIMARY GOVERNMENT**

	December 31,		Increase/(decrease)	
	2013	2012	Dollars	Percent
General government support	\$ 3,472,609	\$ 2,668,352	\$ 804,257	30.1
Public safety	8,939,146	7,825,378	1,113,768	14.2
Transportation	5,371,212	5,156,115	215,097	4.2
Economic assistance and opportunity	50,730	32,450	18,280	56.3
Culture and recreation	1,443,605	1,713,907	(270,302)	(15.8)
Home and community services	4,672,676	5,086,194	(413,518)	(8.1)
Interest on debt	394,451	342,313	52,138	15.2
Total program expenses	<u>\$ 24,344,429</u>	<u>\$ 22,824,709</u>	<u>\$ 1,519,720</u>	6.7

Overall program expenses increased \$1,519,720, or 6.7% from the 2012 fiscal year. Key elements of this change are as follows:

- *Public Safety* — Increased \$1,113,768 or 14.2% from the prior year. The increase is largely attributable increases in employee benefit costs and vehicle maintenance during 2013.
- *Transportation* — Increased \$215,097 or 4.2% from the prior year. The most significant portion of this increase related to employee benefit costs and snow and ice removal costs associated with the severe winter conditions compared to 2012.
- *General Government Support* — increased \$804,257 or 30.1% from the prior year. The increase in 2013 was majorly due to increases in employee benefit costs.

**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, unassigned 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, 2013, the City’s governmental funds reported combined ending fund balance deficit of \$126,065, a decrease of \$3,559,865 from the prior year fund balance of \$3,433,800. The City has \$450,029 of *nonspendable fund balance*, which is an offset of prepaid items. Fund balance of \$1,304,579 is *restricted* 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 and (4) to restore historical property. Additionally, negative \$1,880,673, of the total combined fund balance constitutes *unassigned fund balance or assigned for a specific use*, which is available for spending at the City’s discretion. Fund balance of \$450,000 is *assigned fund balance* for subsequent year’s expenditures and self-insurance.

The *General Fund* is the chief operating fund of the City. At December 31, 2013, the unassigned fund balance of the General Fund was \$1,730,856, while the total fund balance was \$3,931,214. As a measure of the General Fund’s liquidity, it may be useful to compare both the unassigned and total fund

balance to total fund expenditures. Unassigned fund balance represents approximately 8.47% of total General Fund expenditures, while total fund balance represents 19.25% of that same amount. The General Fund fund balance decreased by \$872,282 during the 2013 fiscal year. This decrease is largely the result of rising health care and workers compensation costs for the City.

Other major funds are the Sewer, Water and Capital Project Funds, which realized increases/(decreases) in fund balances of \$63,950, (\$39,282) and (\$2,700,241), respectively. The significant decrease in the Capital Projects Fund is mainly the result of capital project expenditures made in anticipation of the issuance of long-term debt.

**General Fund Budgetary Highlights**

**Original Budget Compared to Final Budget**—During the year the City amended the General Fund budget to increase revenues and appropriations by \$197,546 and \$215,066, respectively. Additionally, there was a need to make amendments to reallocate appropriations among departments as actual expenditures became defined during the year.

**Final Budget Compared to Actual Results**—The difference between the total final budget and actual revenues, expenditures and other financing sources were follows:

	Final Budget	Actual	Variance
Total revenues	\$ 19,748,806	\$ 19,394,731	\$ (354,075)
Total expenditures	19,974,050	20,424,737	(450,687)
Other financing sources (uses)	<u>157,724</u>	<u>157,724</u>	<u>-</u>
Budgeted and actual (use) or increase to fund balance	<u>\$ (67,520)</u>	<u>\$ (872,282)</u>	<u>\$ (804,762)</u>

Overall, the original budget anticipated a use of fund balance of \$50,000. However, actual results showed that General Fund fund balance decreased by \$872,282. Thus, an overall negative variance from the budget of \$804,762. The most significant budget variance of \$400,932 is presented in the City’s employee benefit costs.

**Capital Asset and Debt Administration**

**Capital Assets.** The City’s investment in capital assets for its governmental activities as of December 31, 2013, amounted to \$22,519,876 (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 on the following page in Table 6.

**TABLE 6 — CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)**

	December 31,	
	2013	2012
Land	\$ 328,850	\$ 328,850
Buildings and improvements	3,383,200	3,246,771
Equipment	3,346,462	2,955,847
Infrastructure	<u>15,461,364</u>	<u>14,139,356</u>
Total	<u>\$ 22,519,876</u>	<u>\$ 20,670,824</u>

**Long-term Obligations.** At December 31, 2013, the City’s long-term obligations consisted of bonds payable, capital leases, landfill post-closure costs payable, pollution remediation obligations, compensated absences, workers’ compensation claims and other postemployment benefits, which changed as follows:

**TABLE 7 — LONG-TERM OBLIGATIONS**

	December 31,		
	2013	2012	Change
Bonds payable	\$ 8,265,000	\$ 10,015,000	\$ (1,750,000)
Capital leases	41,078	18,737	22,341
Landfill post-closure costs payable	380,000	400,000	(20,000)
Pollution remediation obligations	13,430,000	11,900,000	1,530,000
Compensated absences	2,678,590	2,636,266	42,324
Workers' compensation claims	889,065	806,692	82,373
Other postemployment benefits	<u>2,206,921</u>	<u>2,021,535</u>	<u>185,386</u>
	<u>\$ 27,890,654</u>	<u>\$ 27,798,230</u>	<u>\$ 92,424</u>

Additional information on 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 6.5% in December 2013, which is favorable from a rate of 8.4% a year ago. This rate is fairly consistent with the New York State average of 7.0% and is favorable in comparison with the national average of 6.7%.

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.

The City assigned \$350,000 of the General Fund’s fund balance at December 31, 2013 for support of 2014 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 Position**  
**December 31, 2013**

	<b>Primary Government Governmental Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 2,312,535
Restricted cash and cash equivalents	6,068,611
Taxes receivable	1,786,688
Other receivables	616,029
Intergovernmental receivables	2,108,880
Internal balances	378,087
Prepays	450,029
Capital assets not being depreciated	328,850
Capital assets, net of accumulated depreciation	22,191,026
Total assets	36,240,735
<b>LIABILITIES</b>	
Accounts payable	1,022,157
Accrued liabilities	729,797
Intergovernmental payables	1,032,134
Bond anticipation notes	10,262,000
Non-current liabilities:	
Due within one year	3,905,497
Due in more than one year	23,985,157
Total liabilities	40,936,742
<b>NET POSITION</b>	
Net investment in capital assets	10,657,537
Restricted for:	
Tax stabilization	200,000
Workers' compensation	965,966
Insurance	137,613
Historical restoration	1,000
Unrestricted	(16,658,123)
Total net position	\$ (4,696,007)

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, 2013**

<u>Function/Program</u>	<u>Expenses</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>Contributions</u>	<u>Contributions</u>	<u>Primary</u>
					<u>Governmental</u>
					<u>Activities</u>
<b>Primary government:</b>					
Governmental activities:					
General government support	\$ 3,472,609	\$ 77,957	\$ 33,788	\$ -	\$ (3,360,864)
Public safety	8,939,146	675,428	196,309	152,428	(7,914,981)
Transportation	5,371,212	99,752	10,922	412,550	(4,847,988)
Economic assistance and opportunity	50,730	46,613	-	-	(4,117)
Culture and recreation	1,443,605	109,284	8,955	15,371	(1,309,995)
Home and community services	4,672,676	2,191,150	15,432	462,185	(2,003,909)
Interest on debt	394,451	-	-	-	(394,451)
Total primary government	<u>\$ 24,344,429</u>	<u>\$ 3,200,184</u>	<u>\$ 265,406</u>	<u>\$ 1,042,534</u>	<u>(19,836,305)</u>
General revenues:					
Real property taxes and tax items					10,401,067
Non-property tax items					4,899,623
Mortgage tax					146,316
Use of money and property					16,524
Sale of property and compensation for losses					14,437
Miscellaneous					92,646
Unrestricted state aid					2,602,104
Total general revenues					<u>18,172,717</u>
Change in net position					(1,663,588)
Net position—beginning					<u>(3,032,419)</u>
Net position—ending					<u>\$ (4,696,007)</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, 2013

	<u>General Fund</u>	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 1,297,427	\$ -	\$ 750,139	\$ -	\$ 264,969	\$ 2,312,535
Restricted cash and cash equivalents	1,303,579	-	-	4,764,032	1,000	6,068,611
Taxes receivable	1,786,688	-	-	-	-	1,786,688
Accounts receivable	63,395	487,304	54,689	-	10,641	616,029
Due from other funds	1,650,733	260,762	184,772	1,577,388	2,970	3,676,625
Intergovernmental receivables	1,732,280	-	-	376,600	-	2,108,880
Prepaid items	446,779	3,250	-	-	-	450,029
Total assets	<u>8,280,881</u>	<u>751,316</u>	<u>989,600</u>	<u>6,718,020</u>	<u>279,580</u>	<u>17,019,397</u>
<b>LIABILITIES</b>						
Accounts payable	\$ 213,404	\$ 55,248	\$ -	\$ 750,535	\$ 2,970	\$ 1,022,157
Accrued liabilities	644,183	8,842	-	-	1,892	654,917
Due to other funds	1,806,828	247,603	1,156,137	85,000	2,970	3,298,538
Intergovernmental payables	820,177	195,758	-	-	16,199	1,032,134
Bond anticipation notes payable	-	-	-	10,262,000	-	10,262,000
Total liabilities	<u>3,484,592</u>	<u>507,451</u>	<u>1,156,137</u>	<u>11,097,535</u>	<u>24,031</u>	<u>16,269,746</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenue—property taxes	865,075	-	-	-	-	865,075
Loans receivable	-	-	-	-	10,641	10,641
Total deferred inflows of resources	<u>865,075</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,641</u>	<u>875,716</u>
<b>FUND BALANCES (DEFICIT)</b>						
Nonspendable	446,779	3,250	-	-	-	450,029
Restricted	1,303,579	-	-	-	1,000	1,304,579
Assigned	450,000	240,615	-	-	243,908	934,523
Unassigned	1,730,856	-	(166,537)	(4,379,515)	-	(2,815,196)
Total fund balances (deficit)	<u>3,931,214</u>	<u>243,865</u>	<u>(166,537)</u>	<u>(4,379,515)</u>	<u>244,908</u>	<u>(126,065)</u>
Total liabilities, deferred inflows of resources and fund balances (deficits)	<u>\$ 8,280,881</u>	<u>\$ 751,316</u>	<u>\$ 989,600</u>	<u>\$ 6,718,020</u>	<u>\$ 279,580</u>	<u>\$ 17,019,397</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 Position**  
**December 31, 2013**

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Amounts reported for governmental activities in the statement of net position (page 11) are different because:

Total fund balances (deficit)—governmental funds (page 13)	\$	(126,065)
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$49,178,308 and the accumulated depreciation is \$26,658,432.		22,519,876
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Recognition of certain items which are deferred on the modified accrual basis, but should be recognized on the accrual basis.

Real property taxes	\$ 865,075		
Loans receivable	<u>10,641</u>		875,716

To recognize interest accrual on bonds and notes, which are not recognized in the funds until paid.		(74,880)
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Long-term liabilities that are not due and payable in the current period and therefore are not reported within the funds:

Bonds payable	\$ (8,265,000)		
Capital leases	(41,078)		
Landfill postclosure care costs	(380,000)		
Pollution remediation obligation	(13,430,000)		
Compensated absences	(2,678,590)		
Workers' compensation	(889,065)		
Other postemployment benefits	<u>(2,206,921)</u>		<u>(27,890,654)</u>

Total net position—governmental activities	\$	<u><u>(4,696,007)</u></u>
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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, 2013**

	<u>General Fund</u>	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>						
Real property taxes	\$ 9,659,344	\$ -	\$ -	\$ -	\$ -	\$ 9,659,344
Other tax items	756,568	-	-	-	-	756,568
Non property tax items	4,899,623	-	-	-	-	4,899,623
Departmental income	229,766	1,959,481	211,883	51,826	46,184	2,499,140
Intergovernmental charges	119,610	-	-	-	-	119,610
Use of money and property	9,384	767	-	6,010	363	16,524
Licenses and permits	126,669	-	-	-	-	126,669
Fines and forfeitures	506,591	-	-	-	-	506,591
Sale of property and compensation for loss	50,842	-	-	-	-	50,842
Miscellaneous	32,408	-	-	320,422	-	352,830
State aid	2,861,467	-	-	735,916	-	3,597,383
Federal aid	142,459	-	-	4,508	-	146,967
Total revenues	<u>19,394,731</u>	<u>1,960,248</u>	<u>211,883</u>	<u>1,118,682</u>	<u>46,547</u>	<u>22,732,091</u>
<b>EXPENDITURES</b>						
Current:						
General government support	2,289,160	-	-	-	-	2,289,160
Public safety	5,768,723	-	-	-	20,762	5,789,485
Transportation	1,991,464	-	-	-	-	1,991,464
Economic assistance and opportunity	33,494	-	-	-	-	33,494
Culture and recreation	990,361	-	-	-	25,169	1,015,530
Home and community services	1,191,211	1,199,008	-	-	12,626	2,402,845
Employee benefits	6,748,616	63,764	-	-	-	6,812,380
Debt service:						
Principal	1,183,500	337,500	229,000	-	-	1,750,000
Interest	228,208	134,626	22,165	-	-	384,999
Capital outlay	-	-	-	3,822,599	-	3,822,599
Total expenditures	<u>20,424,737</u>	<u>1,734,898</u>	<u>251,165</u>	<u>3,822,599</u>	<u>58,557</u>	<u>26,291,956</u>
Excess (deficiency) of revenues over expenditures	<u>(1,030,006)</u>	<u>225,350</u>	<u>(39,282)</u>	<u>(2,703,917)</u>	<u>(12,010)</u>	<u>(3,559,865)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	161,400	-	-	3,676	-	165,076
Transfers out	(3,676)	(161,400)	-	-	-	(165,076)
Total other financing sources and uses	<u>157,724</u>	<u>(161,400)</u>	<u>-</u>	<u>3,676</u>	<u>-</u>	<u>-</u>
Net change in fund balances (deficits)	(872,282)	63,950	(39,282)	(2,700,241)	(12,010)	(3,559,865)
Fund balances (deficits)—beginning, as restated	4,803,496	179,915	(127,255)	(1,679,274)	256,918	3,433,800
Fund balances (deficits)—ending	<u>\$ 3,931,214</u>	<u>\$ 243,865</u>	<u>\$ (166,537)</u>	<u>\$ (4,379,515)</u>	<u>\$ 244,908</u>	<u>\$ (126,065)</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**  
**For the Year Ended December 31, 2013**

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Amounts reported for governmental activities in the statement of activities (page 12) are different because:

Net change in fund balances (deficit)—total governmental funds (page 15) \$ (3,559,865)

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	\$ 3,598,079	
Net disposition of capital assets	(35,191)	
Depreciation expense	<u>(1,713,836)</u>	1,849,052

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 position.

Repayment of serial bonds	\$ 1,750,000	
Increase in accrued interest expense	(9,452)	
Acquisition of capital leases	(36,405)	
Repayment of capital leases	<u>14,064</u>	1,718,207

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

Landfill postclosure care costs	\$ 20,000	
Pollution remediation obligation	(1,530,000)	
Compensated absences	121,622	
Workers' compensation	(82,373)	
Other postemployment benefits	<u>(185,386)</u>	(1,656,137)

Revenues in the statement of activities that do not provide current financial resources are reported as deferred inflows in the funds.

(14,845)

Change in net position of governmental activities

\$ (1,663,588)

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

**CITY OF TONAWANDA, NEW YORK**  
**Statement of Fiduciary Net Position**  
**Agency Fund**  
**December 31, 2013**

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	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 766,638
Total assets	<u>\$ 766,638</u>
<b>LIABILITIES</b>	
Agency liabilities	\$ 766,141
Accounts payable	<u>497</u>
Total liabilities	<u>\$ 766,638</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, 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Departure from Generally Accepted Accounting Principles***

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.

***Description of Government-Wide Financial Statements***

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

***Financial 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.

***Basis of Presentation—Government-wide Financial Statements***

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government’s enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

***Basis of Presentation—Fund Financial Statements***

The fund financial statements provide information about the City’s funds, including its fiduciary and blended component unit. Separate statements for each fund category—governmental and fiduciary—are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The City considers the following governmental funds as major funds:

- ◆ *General Fund*—is the City’s primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.
- ◆ *Sewer Fund*—This fund is used to record all revenues and expenditures related to the transportation and treatment of City sewage.
- ◆ *Water Fund*—This fund 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 fiduciary fund type that is used to account for assets held by the City in a custodial capacity:

*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.

During the course of operations the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

### ***Measurement Focus and Basis of Accounting***

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide 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 related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter 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 debt service and compensated absences are recorded only when payment is due. General capital asset acquisitions have not been reported as expenditures in governmental funds.

Property taxes, sales taxes, franchise 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

### ***Budgetary Information***

***Budgetary Basis of Accounting***—Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds, except the



Special Grant Fund, Special Purpose Fund and the Capital Projects Fund. The Special Grant Fund, Special Purpose Fund and the Capital Projects fund are appropriated on a project length basis; appropriations are approved through a City Council resolution at the grant/project's inception and lapse upon completion/termination of the grant/project.

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations require the approval of the City Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the departmental level.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- ◆ Prior to August 1, 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 between 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 no later than the third Tuesday of November. 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.

**Excess of Expenditures Over Appropriations**—For the year ended December 31, 2013, expenditures exceeded appropriations in the General Fund by \$450,687. General government support, public safety and home and community services function expenditures each exceeded the General fund budget by \$13,712, \$41,187 and \$16,407, respectively. Rising personnel costs significantly influenced these increased expenditures. Further, the employee benefits service function exceeded the budget by \$400,932 due to unanticipated increases in workers compensation and health insurance costs during 2013.

The Sewer Fund expenditures exceeded appropriations in the employee benefits and debt service functions by \$1,128 and \$7,585, respectively. Unanticipated increases in workers compensation, health insurance and interest costs contributed to these variances.

**Assets, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance**

**Cash, Cash Equivalents and Investments**—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. The City had no investments at December 31, 2013, however, when the City does have investments they are recorded at fair value based on quoted market value.

Restricted cash and cash equivalents represent unspent proceeds from serial bonds and bond anticipation notes, amounts set aside for capital projects, and amounts restricted for tax stabilization, workers’ compensation, insurance and historical restoration.

**Prepaid Items**—Certain payments to vendors and the New York State Retirement Systems reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**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:

<u>Assets</u>	<u>Years</u>
Buildings and building improvements	10 - 50
Machinery and equipment	5 - 20
Infrastructure	15 - 50

***Deferred Outflows/Inflows of Resources***—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and revolving loans receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

***Net Position Flow Assumptions***—Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

***Fund Balance Flow Assumptions***—Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

***Fund Balance Policies***—Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

## ***Revenues and Expenditures/Expenses***

***Program Revenues***—Amounts reported as *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 or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than program revenues.

***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.

***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***

***Insurance***—The City self-insures for workers' compensation losses up to \$200,000 per incident. The City has obtained outside insurance for claims in excess of that amount. The City also purchases insurance covering liability for most risks including, but not limited to, general liability, vehicle liability and excess. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred, the amount of loss can be reasonably estimated and the estimated amount of loss exceeds insurance coverage. General liability insurance is limited to \$1 million per occurrence, and an aggregate \$3 million limit.

***Estimates***—The preparation of the financial statements, in conformity with GAAP, 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 reported period. Actual results could differ from those estimates.

***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 9.

***Adoption of New Accounting Pronouncements***—During the year ended December 31, 2013, the City implemented GASB Statements No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, and No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. GASB Statement No. 61 clarifies the manner in determining whether or not an organization should be included as a component unit, and GASB Statement No. 66 improves accounting and financial reporting for a governmental entity by resolving conflicting guidance that resulted from the issuance of Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statements No. 61 and 66 did not have a material impact on the City's financial position or results from operations.

***Future Impacts of Accounting Pronouncements***—The City has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*; No. 69, *Government Combinations and Disposals of Government Operations*; and No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for the year ending December 31, 2014; and No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB statement No. 27*; and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—and amendment of GASB Statement No. 68*, effective for the year ending December 31, 2015. The City is, therefore, unable to disclose the impact that adopting GASB Statements Nos. 67, 68, 69, 70 and 71 will have on its financial position and results of operations when such statements are implemented.

#### ***Stewardship, Compliance and Accountability***

***Deficit Fund Equity***—The Capital Projects Fund had a deficit fund balance of \$4,379,515 at December 31, 2013. This deficit is temporary in nature and expected to be remedied when the City converts its short-term financing into long-term bonds. Additionally, the Water Fund deficit of \$166,537 is expected to be remedied in future periods by increased operating revenues and decreasing debt service obligations.

## **2. RESTATEMENT**

During 2009, the City issued \$2,900,000 refunding bonds with future principal and interest allocated to the General Fund, Water Fund and Sewer Fund.

The City's General Fund paid principal and interest allocated to the Water Fund in the amount of \$179,644. As a result, the General Fund fund balance was understated by \$179,644 while the Water Fund fund balance was overstated by this same amount. This error had no effect on the City's total governmental funds fund balance or government wide net position.

To correct this error, the General Fund and Water Fund fund balance at December 31, 2012 has been restated by \$179,644 and \$(179,644), respectively. The City believes that this correction appropriately reflects the respective fund balances and outstanding debt related to the General and Water Funds.

The effect of these changes to beginning fund balance is summarized below:

	General Fund	Water Fund	Total Governmental Funds
Fund balance, December 31, 2012, as previously reported	\$ 4,623,852	\$ 52,389	\$ 3,433,800
Correction of error in principal and interest payments	<u>179,644</u>	<u>(179,644)</u>	<u>-</u>
Fund balance, December 31, 2012, as restated	<u>\$ 4,803,496</u>	<u>\$ (127,255)</u>	<u>\$ 3,433,800</u>

### 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, 2013 are as follows:

Cash and cash equivalents consisted of:

	Governmental Activities	Fiduciary Fund	Total
Petty Cash (uncollateralized)	\$ 1,450	\$ -	\$ 1,450
Deposits	<u>8,379,696</u>	<u>766,638</u>	<u>9,146,334</u>
Total	<u>\$ 8,381,146</u>	<u>\$ 766,638</u>	<u>\$ 9,147,784</u>

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

	Bank Balance	Carrying Amount
FDIC Insured	\$ 788,022	\$ 788,022
Uninsured:		
Collateral held by pledging bank's agent in the City's name	<u>8,619,654</u>	<u>8,358,312</u>
Total	<u>\$ 9,407,676</u>	<u>\$ 9,146,334</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, 2013, the City's deposits were FDIC insured or collateralized.

**Restricted Cash and Cash Equivalents**—The City reports unspent proceeds from debt and amounts to support restricted fund balances as restricted cash and cash equivalents. At December 31, 2013, the City reported \$6,068,611 of restricted cash and cash equivalents within its governmental activities.

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

#### 4. RECEIVABLES

Major revenues accrued by the City funds at December 31, 2013, include:

**Taxes receivable**—consist of unpaid City property taxes. These amounts have been reported as deferred inflows on the balance sheet of the governmental funds and are recognized as revenue when the amounts are both measurable and available.

**Accounts receivable**—represent school tax collection fee, canal fest reimbursement, sewer rents, water surcharges and other miscellaneous items. Similar to taxes receivable, 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.

**Rehabilitation loans receivable**—Rehabilitation loans receivable at December 31, 2013 consist of the individual home improvement revolving loans ranging in amount from \$1,010 to \$6,142 with an interest rate of 4% and repayment terms, secured by second mortgages on the individual properties. At December 31, 2013, outstanding balances totaled \$10,641 within other governmental funds.

**Intergovernmental receivables**—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, 2013 are presented below:

General Fund:			
Erie County—Sales Tax	\$	1,680,256	
NYS 8th Judicial District		47,024	
NYS LEG Police ATV Grant		<u>5,000</u>	<u>\$ 1,732,280</u>
Capital Projects Fund:			
NYS Sanitary Sewer Grant			<u><u>\$ 376,600</u></u>

## 5. CAPITAL ASSETS

Capital asset activity for the City's governmental activities for the year ended December 31, 2013 was as follows:

	Balance 1/1/2013	Additions	Deletions	Balance 12/31/13
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	7,831,996	377,559	-	8,209,555
Machinery and equipment	6,554,913	906,077	(317,576)	7,143,414
Infrastructure	31,182,046	2,314,443	-	33,496,489
Total capital assets, being depreciated	<u>45,568,955</u>	<u>3,598,079</u>	<u>(317,576)</u>	<u>48,849,458</u>
Less accumulated depreciation for:				
Buildings and improvements	(4,585,225)	(241,130)	-	(4,826,355)
Machinery and equipment	(3,599,066)	(480,271)	282,385	(3,796,952)
Infrastructure	(17,042,690)	(992,435)	-	(18,035,125)
Total accumulated depreciation	<u>(25,226,981)</u>	<u>(1,713,836)</u>	<u>282,385</u>	<u>(26,658,432)</u>
Total capital assets, being depreciated, net	<u>20,341,974</u>	<u>1,884,243</u>	<u>(35,191)</u>	<u>22,191,026</u>
Governmental activities capital assets, net	<u>\$ 20,670,824</u>	<u>\$ 1,884,243</u>	<u>\$ (35,191)</u>	<u>\$ 22,519,876</u>

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

Governmental Activities:	
General government support	\$ 45,495
Public safety	229,459
Transportation	1,004,076
Culture and recreation	149,919
Home and community services	284,887
	<u>\$ 1,713,836</u>



## 6. ACCRUED LIABILITIES

Accrued liabilities reported by governmental funds of the City as of December 31, 2013, were as follows:

	General Fund	Sewer Fund	Nonmajor Funds	Total Governmental Funds
Salary and employee benefits	\$ 329,265	\$ 8,842	\$ -	\$ 338,107
Judgments and claims - current	314,918	-	-	314,918
Other liabilities	-	-	1,892	1,892
Total	<u>\$ 644,183</u>	<u>\$ 8,842</u>	<u>\$ 1,892</u>	<u>\$ 654,917</u>

## 7. 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 for the first ten years of membership, and employees who joined on or after January 10, 2010 who generally contribute 3% of their salary for their entire length of service. Those joining after April 1, 2012 (Tier 6) are required to contribute three percent (3.0%) of their annual salary until March 31, 2013, after which the contribution percentage will be based on salary. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers’ contributions based on salaries paid during the New York State Local Retirement Systems fiscal year ending March 31.

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

	ERS	PFRS
2013	\$ 706,927	\$ 1,093,187
2012	558,578	1,052,041
2011	546,566	945,463

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.

**8. 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 \$543,165 were recorded in the General Fund for the year ended December 31, 2013.

At December 31, 2013 the amount of liabilities relating to workers’ compensation was \$889,065. This liability is the City’s best estimate based on available information. Additionally, claims and judgments totaling \$314,918 have been recorded in the General Fund as a current accrued liability. Changes in the reported liability resulted from the following:

	Balance 1/1/2013	Current year claims	Claim payments	Balance 12/31/2013
2013	\$ 806,692	\$ 625,538	\$ 543,165	\$ 889,065
2012	865,671	365,431	424,410	806,692

**9. 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.

**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 past two years, the amount actually contributed to the plan, and changes in the net OPEB obligation.

	Governmental Activities	
	2013	2012
Annual required contribution	\$ 1,957,197	\$ 2,190,549
Interest on net OPEB obligation	80,861	67,195
Adjustment to annual required contribution	(83,739)	(61,792)
Annual OPEB cost (expense)	1,954,319	2,195,952
Expected contributions	(1,768,933)	(1,931,796)
Increase in net OPEB obligation	185,386	264,156
Net OPEB obligation—beginning of year	2,021,535	1,757,379
Net OPEB obligation—end of year	<u>\$ 2,206,921</u>	<u>\$ 2,021,535</u>

**Funding Status and Fund Progress**—The plan was unfunded as of December 31, 2013, and the actuarial accrued liability for benefits for governmental activities was \$43,538,616.

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 Schedule of the City’s contributions is shown below:

Year Ended December 31,	Annual Required Contribution	Contributions Made	Percentage Contributed
2011	2,195,952	1,931,796	88.0%
2012	2,195,952	1,931,796	88.0%
2013	1,954,319	1,768,933	90.5%

**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 December 31, 2013 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 31, 2013. The expected interest rate, salary scale, and inflation rate was 4.0%, 3.0%, and 2.5%, 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, 2013 was 24 years.

## 10. SHORT-TERM DEBT

The purpose of all of the short-time borrowings was to provide resources for various capital construction or improvement projects. The form of financing used in all cases was bond anticipation notes. The amounts issued for governmental activities are accounted for in the capital projects fund.

State law requires that bond anticipation notes issued for capital purposes be converted to long-term obligations within five years after the original issue date, if not completely repaid. However, bond anticipation notes issued for assessable improvement projects may be renewed for periods equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made.

The following is a summary of the City's short-term debt activity for the year ended December 31, 2013:

Description	Interest Rate	Maturity Date	Balance 1/1/2013	Issued	Paid	Balance 12/31/2013
Bond Anticipation Note	0.69%	6/13/2013	\$ 3,440,000	\$ -	\$ 3,440,000	\$ -
Bond Anticipation Note	0.69%	6/12/2014	-	10,262,000	-	10,262,000
			<u>\$ 3,440,000</u>	<u>\$ 10,262,000</u>	<u>\$ 3,440,000</u>	<u>\$ 10,262,000</u>

## 11. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

In the fund financial statements, governmental funds recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Further, the unmatured principal of general long-term debt does not require current appropriations and expenditure of governmental fund financial resources.

The City's outstanding long-term liabilities include bonds payable, capital leases, landfill obligation, pollution remediation obligation, compensated absences, workers' compensation and other post-employment benefits obligation. The bonds payable of the City are secured by its general credit and revenue raising powers, as per State statute.

The following is a summary of changes in long-term debt for the year ended December 31, 2013:

	Balance 1/1/2013	Additions	Deletions	Balance 12/31/2013	Due within one year
Bonds payable	\$ 10,015,000	\$ -	\$ 1,750,000	\$ 8,265,000	\$ 1,340,000
Capital leases	18,737	36,405	14,064	41,078	12,637
Landfill post-closure costs	400,000	-	20,000	380,000	20,000
Pollution remediation obligation	11,900,000	2,755,000	1,225,000	13,430,000	2,350,000
Compensated absences	2,636,266	382,574	340,250	2,678,590	133,930
Workers' compensation	806,692	625,538	543,165	889,065	48,929
Other postemployment benefits	2,021,535	1,954,319	1,768,933	2,206,921	-
	<u>\$ 27,798,230</u>	<u>\$ 5,753,836</u>	<u>\$ 5,661,412</u>	<u>\$ 27,890,654</u>	<u>\$ 3,905,496</u>

**General Obligation Bonds**—The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as serial bonds with equal amounts of principal maturing each year with maturities that range from 4 to 25 years.

The following is a summary of City bond transactions for the year ended December 31, 2013:

Description	Original Issue	Year of Issue/ Maturity	Interest Rate (%)	Balance 1/1/2013 (as restated)	Additions	Deletions	Reclasses	Balance 12/31/2013
<b>General Fund:</b>								
Recreation & Water Line	\$ 1,620,000	2001-2015	4.38-4.75	\$ 335,000	\$ -	\$ (130,000)	\$ -	\$ 205,000
Energy Performance	269,500	2001-2014	4.30-4.75	40,000	-	(20,000)	-	20,000
Wales Ave Landfill Closure	2,394,500	2003-2020	4.38-4.75	1,205,000	-	(140,000)	-	1,065,000
Public Improvement	1,690,000	2004-2024	4.25-5.00	900,000	-	(75,000)	-	825,000
Fire Ladder Truck	685,000	2008-2013	2.86	150,000	-	(150,000)	-	-
Fire Headquarters Roof	115,000	2009-2016	3.05	70,000	-	(15,000)	-	55,000
Street Improve. (Refunding)	1,280,000	2009-2018	2.00-3.25	187,000	-	(196,000)	85,000	76,000
Roads & Equipment	980,000	2010-2019	3.50-4.00	770,000	-	(110,000)	-	660,000
Various Purpose	1,728,499	2011-2020	2.00-2.75	1,435,000	-	(240,000)	-	1,195,000
Public Improvement	710,000	2012-2022	2.50-4.00	710,000	-	(107,500)	-	602,500
Total General	<u>11,472,499</u>			<u>5,802,000</u>	<u>-</u>	<u>(1,183,500)</u>	<u>85,000</u>	<u>4,703,500</u>
<b>Water Fund:</b>								
Recon. Water Plan (Refunding)	<u>1,567,710</u>	2009-2018	2.00-3.25	<u>943,000</u>	<u>-</u>	<u>(229,000)</u>	<u>(85,000)</u>	<u>629,000</u>
Total Water	<u>1,567,710</u>			<u>943,000</u>	<u>-</u>	<u>(229,000)</u>	<u>(85,000)</u>	<u>629,000</u>
<b>Sewer Fund:</b>								
Pump Station - EFC	825,000	1996-2015	2.95-5.20	150,000	-	(50,000)	-	100,000
Sewer Improvement	1,233,250	2002-2022	1.50-5.00	685,000	-	(60,000)	-	625,000
Sewer Pump and Improve.	600,000	2009-2016	3.05	380,000	-	(90,000)	-	290,000
Sewer Improve. (Refunding)	52,290	2009-2014	2.00-3.25	20,000	-	(10,000)	-	10,000
Sewer System Evaluation	210,000	2011-2014	2.00-2.75	135,000	-	(65,000)	-	70,000
Public Improvement	<u>1,900,000</u>	2012-2037	2.50-4.00	<u>1,900,000</u>	<u>-</u>	<u>(62,500)</u>	<u>-</u>	<u>1,837,500</u>
Total Sewer	<u>\$ 4,820,540</u>			<u>\$ 3,270,000</u>	<u>\$ -</u>	<u>\$ (337,500)</u>	<u>\$ -</u>	<u>\$ 2,932,500</u>
Total All Funds	<u>\$ 17,860,749</u>			<u>\$10,015,000</u>	<u>\$ -</u>	<u>\$(1,750,000)</u>	<u>\$ -</u>	<u>\$ 8,265,000</u>

Annual principal and interest requirements to amortize bond debt outstanding as of December 31, 2013 are as follows:

	<u>Bond Principal</u>	<u>Bond Interest</u>	<u>Total</u>
2014	\$ 1,340,000	\$ 276,590	\$ 1,616,590
2015	1,140,000	236,547	1,376,547
2016	1,020,000	200,808	1,220,808
2017	840,000	169,207	1,009,207
2018	775,000	141,681	916,681
2019-2023	1,910,000	396,506	2,306,506
2024-2028	460,000	196,975	656,975
2029-2033	420,000	115,000	535,000
2034-2037	360,000	28,800	388,800
Total	<u>\$ 8,265,000</u>	<u>\$ 1,762,114</u>	<u>\$ 10,027,114</u>

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

**Reclassifications**—Represents portions of the 2009 refunding bonds that have been re-allocated to the appropriate fund.

**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.

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2013 are as follows:

<u>Fiscal year ending December 31,</u>	<u>Governmental Activities</u>
2014	15,319
2015	15,319
2016	8,219
2017	<u>8,218</u>
Total minimum lease payment	47,075
Less: amount representing interest	<u>(5,997)</u>
Present value of minimum lease payments	<u>\$ 41,078</u>

**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 \$380,000 reported as the accrued landfill post-closure care liability at December 31, 2013 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 2013.

**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, 2013, to address the violation is \$13,430,000. This estimated liability is recorded in the City’s government-wide financial statements.

**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.

**Workers’ Compensation**—As explained in Note 8, the estimated liability related to workers’ compensation claims amounted to \$889,065 at December 31, 2013.

**Other postemployment benefits**—As explained in Note 9, the City provides health insurance coverage for retirees. The City’s annual postemployment benefit (“OPEB”) cost is calculated based 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 \$2,206,921 as of December 31, 2013.

## 11. NET POSITION AND FUND BALANCE

The government-wide financial statements utilize a net position presentation. Net position is categorized net investment in capital assets, restricted, and unrestricted.

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

Capital assets, net of accumulated depreciation		\$ 22,519,876
Less:		
Total outstanding bonds	\$ (8,265,000)	
Total bond anticipation notes	(10,262,000)	
Total outstanding capital leases	(41,078)	
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	1,065,000	
Bonds issued for water system	629,000	
Unspent debt proceeds used for capital projects	5,011,739	<u>(11,862,339)</u>
Net investment in capital assets		<u>\$ 10,657,537</u>

- **Restricted net position**—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.
- **Unrestricted net position**—This category represents net investment in assets of the City not restricted for any project or other purpose.

**GASB No. 54**—The GASB has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance to be properly reported within one of the fund balance categories listed below.

**Nonspendable**—Represents amount of assets that cannot be spent in the current period because of their form or because they must be maintained intact. As of December 31, 2013, the City had \$450,029 of prepaid items that were classified as nonspendable funds.

**Restricted**—Represents amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation. As of December 31, 2013, the City had restricted funds as presented below:

	General Fund	Capital Projects Fund	Other Governmental Funds	Total
Tax stabilization reserve	\$ 200,000	\$ -	\$ -	\$ 200,000
Workers' compensation reserve	965,966	-	-	965,966
Insurance reserve	137,613	-	-	137,613
Historical restoration reserve	-	-	1,000	1,000
Total restricted fund balance	<u>\$ 1,303,579</u>	<u>\$ -</u>	<u>\$ 1,000</u>	<u>\$ 1,304,579</u>

**Committed**—Amounts that are subject to a purpose constraint imposed by a formal action of the City's highest level of decision-making authority, or by their designated body or official. As of December 31, 2013, the City of Tonawanda Common Council has not committed any fund balance to a specific purpose.

**Assigned**—Amounts that are subject to a purpose constraint that represents an intended use established by the City's Common Council, or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance. As of December 31, 2013, the balances considered to be assigned are presented on the following page.



	General	Sewer	Other	Total
	Fund	Fund	Governmental Funds	
Assigned for:				
Subsequent years' expenditures	\$ 350,000	\$ -	\$ -	\$ 350,000
Self-insurance	100,000	-	-	100,000
Specific use	-	240,615	243,908	484,523
Total assigned fund balance	<u>\$ 450,000</u>	<u>\$ 240,615</u>	<u>\$ 243,908</u>	<u>\$ 934,523</u>

Significant encumbrances are considered to be amounts encumbered in excess of \$50,000. As of December 31, 2013, the City did not have any encumbrances that were considered to be significant.

**Unassigned**—Represents the residual classification of the City’s General Fund surplus and the Capital Projects Fund and Water Fund deficits.

**Order of Fund Balance Spending Policy**—The City’s policy does not address the order of spending fund balance. The default would expend fund balances in the following order: nonspendable fund balances, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year by adjusting journal entries.

## 12. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables and interfund transfers as of and for the year ended December 31, 2013 are presented below:

Fund	Interfund			
	Receivables	Payables	Transfers In	Transfers Out
Governmental Funds:				
General Fund	\$ 1,650,733	\$ 1,806,828	\$ 161,400	\$ 3,676
Sewer Fund	260,762	247,603	-	161,400
Water Fund	184,772	1,156,137	-	-
Capital Projects Fund	1,577,388	85,000	3,676	-
Other Governmental Funds	<u>2,970</u>	<u>2,970</u>	<u>-</u>	<u>-</u>
Total governmental funds	3,676,625	3,298,538	165,076	165,076
Fiduciary Fund	<u>-</u>	<u>378,087</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,676,625</u>	<u>\$ 3,676,625</u>	<u>\$ 165,076</u>	<u>\$ 165,076</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 were included in the original budget for operations.

## 13. LABOR CONTRACTS AND CONTINGENCIES

**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, The City of Tonawanda Civil Service Employee Association, Uniformed Professional Firefighters

and the City of Tonawanda Police Benevolent Association have contracts with the City negotiated through December 31, 2016.

**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 (“NYSDEC”) 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, 2013, the NYSDEC has required that the City commit an estimated \$13,430,000 in capital outlays over the next five-years to remedy the above mentioned sanitary sewer overflows. The City has received notice of a grant award from the State of New York to offset a portion of this liability beginning in 2013. At December 31, 2013, the award amounted to \$1,855,000 of which the City recognized \$376,600 in revenues. During the year the City was informed that the contract for the grant will be extended from December 31, 2013 to December 31, 2014.

**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.

#### **14. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through June 17, 2014, which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF TONAWANDA, NEW YORK**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual—General Fund**  
**Year Ended December 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>with Final</u> <u>Budget</u>
<b>REVENUES</b>				
Real property taxes	\$ 10,044,556	\$ 10,044,556	\$ 9,659,344	\$ (385,212)
Other tax items	573,000	573,000	756,568	183,568
Non property tax items	4,992,000	4,992,000	4,899,623	(92,377)
Departmental income	206,800	206,800	229,766	22,966
Intergovernmental charges	202,700	202,700	119,610	(83,090)
Use of money and property	21,800	21,800	9,384	(12,416)
Licenses and permits	161,000	161,000	126,669	(34,331)
Fines and forfeitures	450,000	450,000	506,591	56,591
Sale of property and compensation for loss	65,000	65,000	50,842	(14,158)
Miscellaneous local sources	23,000	23,000	32,408	9,408
State aid	2,811,404	2,861,404	2,861,467	63
Federal aid	-	147,546	142,459	(5,087)
Total revenues	<u>19,551,260</u>	<u>19,748,806</u>	<u>19,394,731</u>	<u>(354,075)</u>
<b>EXPENDITURES</b>				
Current:				
General government support	2,244,273	2,275,448	2,289,160	(13,712)
Public safety	5,543,666	5,727,536	5,768,723	(41,187)
Transportation	1,985,434	1,996,454	1,991,464	4,990
Economic assistance and opportunity	31,491	33,991	33,494	497
Culture and recreation	978,160	1,006,385	990,361	16,024
Home and community services	1,072,804	1,174,804	1,191,211	(16,407)
Employee benefits	6,481,084	6,347,684	6,748,616	(400,932)
Debt service:				
Principal	1,183,500	1,183,500	1,183,500	-
Interest	242,248	228,248	228,208	40
Total expenditures	<u>19,762,660</u>	<u>19,974,050</u>	<u>20,424,737</u>	<u>(450,687)</u>
Excess (deficiency) of revenues over expenditures	<u>(211,400)</u>	<u>(225,244)</u>	<u>(1,030,006)</u>	<u>(804,762)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	161,400	161,400	161,400	-
Transfers out	-	(3,676)	(3,676)	-
Total other financing sources (uses)	<u>161,400</u>	<u>157,724</u>	<u>157,724</u>	<u>-</u>
Net change in fund balance*	(50,000)	(67,520)	(872,282)	(804,762)
Fund balance—beginning, as restated	<u>4,803,496</u>	<u>4,803,496</u>	<u>4,803,496</u>	<u>-</u>
Fund balance—ending	<u>\$ 4,753,496</u>	<u>\$ 4,735,976</u>	<u>\$ 3,931,214</u>	<u>\$ (804,762)</u>

\*The net change in fund balance was included in the budget as an appropriation (i.e. spenddown) of fund balance.

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—Sewer Fund**  
**Year Ended December 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Departmental income	\$ 1,945,161	\$ 1,945,161	\$ 1,959,481	\$ 14,320
Use of money and property	1,000	1,000	767	(233)
Total revenues	<u>1,946,161</u>	<u>1,946,161</u>	<u>1,960,248</u>	<u>14,087</u>
<b>EXPENDITURES</b>				
Current:				
Home and community services	1,257,584	1,257,584	1,199,008	58,576
Employee benefits	62,636	62,636	63,764	(1,128)
Debt service:				
Principal	337,500	337,500	337,500	-
Interest	<u>127,041</u>	<u>127,041</u>	<u>134,626</u>	<u>(7,585)</u>
Total expenditures	<u>1,784,761</u>	<u>1,784,761</u>	<u>1,734,898</u>	<u>49,863</u>
Excess (deficiency) of revenues over expenditures	<u>161,400</u>	<u>161,400</u>	<u>225,350</u>	<u>63,950</u>
<b>OTHER FINANCING USES</b>				
Transfers out	<u>(161,400)</u>	<u>(161,400)</u>	<u>(161,400)</u>	<u>-</u>
Total other financing uses	<u>(161,400)</u>	<u>(161,400)</u>	<u>(161,400)</u>	<u>-</u>
Net change in fund balance	-	-	63,950	63,950
Fund balance—beginning	<u>179,915</u>	<u>179,915</u>	<u>179,915</u>	<u>-</u>
Fund balance—ending	<u>\$ 179,915</u>	<u>\$ 179,915</u>	<u>\$ 243,865</u>	<u>\$ 63,950</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, 2013**

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	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Departmental income	\$ 251,165	\$ 251,165	\$ 211,883	\$ (39,282)
Total revenues	251,165	251,165	211,883	(39,282)
<b>EXPENDITURES</b>				
Debt service				
Principal	229,000	229,000	229,000	-
Interest	22,165	22,165	22,165	-
Total expenditures	251,165	251,165	251,165	-
Net change in fund balance	-	-	(39,282)	(39,282)
Fund balance (deficit)—beginning, as restated	(127,255)	(127,255)	(127,255)	-
Fund balance (deficit)—ending	\$ (127,255)	\$ (127,255)	\$ (166,537)	\$ (39,282)

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

**CITY OF TONAWANDA, NEW YORK**  
**Schedule of Funding Progress—Other Postemployment Benefits Obligation**  
**Year Ended December 31, 2013**

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Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	Ratio of UAAL to Budget Covered Payroll
12/31/2013	12/31/2013	-	43,538,616	43,538,616	0.0%	N/A	N/A
12/31/2011	5/1/2012	-	47,731,182	47,731,182	0.0%	N/A	N/A
12/31/2009	1/1/2008	-	37,331,140	37,331,140	0.0%	N/A	N/A

**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, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Tonawanda, New York ("the City") as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 17, 2014. Our report expresses an adverse opinion on the reporting entity since the financial statements do not include the financial data for the City's legally separate component unit and contains an emphasis of matter paragraph relating to the restatement of beginning fund balance in the General Fund and Water Fund.

***Internal Control over Financial Reporting***

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items 2013-001 and 2013-002 to be material weaknesses.



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 as items 2013-003, 2013-004, 2013-005 and 2013-006 to be significant deficiencies.

### ***Compliance and Other Matters***

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

### **The City's Response to Findings**

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Drescher & Malecki LLP*

June 17, 2014

**CITY OF TONAWANDA, NEW YORK**  
**Schedule of Findings**  
**Year Ended December 31, 2013**

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*We consider the deficiencies presented below to be a material weakness in internal control.*

**Finding 2013-001—Financial Activities of Tonawanda Housing Authority**

**Criteria**—GASB Statement No. 14, as amended by GASB Statement No. 61, establishes the standards for defining and reporting on the financial reporting entity. These statements apply 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.

**Context**—We performed an audit of the City’s financial statement at December 31, 2013 and confirmed the Tonawanda Housing Authority is not presented within the financial activities of the City.

**Effect**—The independent auditors’ report on the City’s financial statements has been modified due to this exclusion.

**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.

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

**Management’s Response**—The City has determined that it is not beneficial to include the component unit. It has disclosed within its notes to the financial statements that readers may obtain separately issued component unit statements.

**Finding 2013-002—Improper Treatment of Debt Payments**

**Criteria**—The City should ensure that debt service payments are expensed in the correct fund, consistent with amounts allocated in the original debt schedules.

**Condition**—Based on testing performed during our audit, we noted that the General Fund paid for and expensed a portion of principal and interest payments allocated to the Water Fund during the fiscal years ended 2010 and 2011.

**Context**—Debt service balances were analyzed in the General Fund and the Water Fund and it was determined that \$179,644 of Water Fund debt service expenditures were expensed and paid in the General Fund during fiscal years ended 2010 and 2011.

**Effect**—As of December 31, 2012, the General Fund fund balance was understated in the amount of \$179,644. Conversely, the Water Fund fund balance was overstated by the same amount of \$179,644. To correct this error, a prior period adjustment was made to beginning fund balances in the General and Water funds.

**Cause**—The City did not effectively expense debt service costs related to its 2009 refunding bonds within the correct funds.

**Recommendation**—We recommend the City implement procedures which management reviews long-term debt journal entries to ensure proper amounts and fund allocations prior to payment.

**Management's Response**—The error likely occurred during a period of time when the Water Fund was not self-sustaining and could not pay the debt payments as they became due. In recent years, the Water Fund has been able to make the full principal and interest payments on all outstanding debt.

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

#### **Finding 2013-003—Financial Accounting System**

**Criteria**—Employees with the ability to post financial data should not have administrator rights to the financial software.

**Condition**—We noted that an employee with the ability to edit financial data currently has administrator rights.

**Context**—During our testing of IT controls and inquires with City personnel, we noted an employee with administrator rights and has the ability to post financial data.

**Effect**—Employees who have the ability to edit financial data should not have administrator rights to the financial software, as an administrator has the ability to create and delete users.

**Cause**—Employees within the City have improper administrator rights in the financial accounting system.

**Recommendation**—Employees who have the ability to edit financial data should not have system administrator rights for proper segregation of duties. We recommend that the City's Information Technology Department possess the rights to create and delete users, but should not be given full administrators rights, as this would allow individuals with this department to inappropriately edit financial data.

**Management's Response**—Management intends to evaluate the feasibility of implementing the controls discussed above and determine if restricting administrator rights is appropriate under the circumstances.

## **Finding 2013-004—Information Technology General Controls**

**Criteria**—The City should have a formal information security policy that addresses computer and financial software access. City employees should have a unique password to log on to the network, as well as a different password for financial accounting software, both of which should expire on a regular basis. Additionally, the City should have a formal written backup policy and disaster recovery plan that address how the City would function in the event of a disaster, natural or otherwise. Finally, the City should periodically perform an information technology risk assessment to mitigate the City’s risk to any information technology threats and address any existing deficiencies.

**Condition**—Currently, the City does not have a formal information security policy that addresses computer and financial software access. Employees are not required to change passwords after an extent of time, since they do not expire. The City does not have a formal written backup policy or disaster recovery plan that detail what would happen and how the City would function in the event of a disaster. Finally, the City does not perform a formal, periodic information technology risk assessment.

**Context**—During our control testing of information technology we were unable to obtain a formal written back up, computer use or remote access policy. Further, we were unable to obtain policies or procedures for establishing, removing or modifying user accounts or a disaster recovery plan. Lastly, through inquires with client personnel, there are no controls in place surrounding user account passwords nor does the City perform periodic IT risk assessments.

**Effect**—The absence of a formal information security policy prevents the City from holding employees accountable should they use their computers or laptops for personal business or accessing inappropriate websites. In addition, not having a formal policy regarding financial data increases the risk of misappropriation of this data. The City does not have a formal written backup policy, and although backups are performed, if the employee who performs the backups were to become unavailable for an extended length of time, other employees would not have a written guide to back up the system. A formal written disaster recovery policy is essential in the event of a disaster so that the City will be able to function in the event of this scenario. The absence of formal information technology risk assessments increases the City’s exposure to risk from internal and external information technology risks.

**Cause**—The City does not have policies or procedures in place regarding information security, passwords, backups, disaster recovery, and formal informational technology risk assessments.

**Recommendation**—The City should create and implement formal written policies or procedures regarding information security, passwords, backups, disaster recovery, and formal information technology risk assessments.

**Management’s response**—Management intends to evaluate the possibility of implementing the policies and procedures discussed above. However, due the lack of a formal IT department the City will review a cost-benefit analysis to determine the practicality of implementation of such controls.

### **Finding 2013-005—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 Response**—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. However, in efforts to reduce the risk of error or fraud the City has implemented mitigating controls which include journal entry and bank reconciliation review procedures performed by an employee independent of key cash functions.

### **Finding 2013-006—Overspending Budget Appropriations**

**Criteria**—The City should establish annual operating budgets and closely monitor actual activity to the adopted revenues and appropriations.

**Condition**—During the year ended December 31, 2013, the City exceeded the adopted appropriations in the General Fund by a total of \$450,687.

**Cause**—Currently, there is no formal process for departments to identify and address potential budget variances.

**Effect**—The risk involved is that expenditures will be overspent in excess of spending allowed by law. Because statutory laws of the State of New York require staying within appropriated budgets, the accounting structure should be designed to ensure and demonstrate compliance with the budget at the legal level of control.

**Recommendation**—We recommend that the City formalize its process for departments to identify and address potential budget variances, to ensure that amounts are not expended in excess of the authorized budget.

**Management's Response**—Management will consider implementing a formal process to closely monitor its budget to actual revenues and appropriations on an ongoing basis.