

**CITY OF TONAWANDA,
NEW YORK**

*Basic Financial Statements and
Required Supplementary Information
for the Year Ended December 31, 2014 and
Independent Auditors' Reports*

CITY OF TONAWANDA, NEW YORK
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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, 2014, 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, each major fund, 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, 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.

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, 2014, 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 above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information for the primary government of the City, as of December 31, 2014, 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.

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 May 19, 2015 on our consideration of 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 City's internal control over financial reporting and compliance.

Drescher & Malecki LLP

May 19, 2015

CITY OF TONAWANDA, NEW YORK
Management's Discussion and Analysis
Year Ended December 31, 2014

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, 2014. 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, 2014, resulting in a deficit *net position* of \$4,173,853. The City recognizes a deficit balance of \$15,907,312 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 (\$13.8 million), compensated absences (\$2.8 million) and other post-employment benefits (\$2.4 million).
- The City's net position increased by \$522,154 during the year ended December 31, 2014.
- At the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$888,650, a increase of \$1,014,715 in comparison with the prior year's fund balance deficit of \$126,065.
- At the end of the current fiscal year, *unassigned fund balance* for the General Fund was \$1,742,281, or approximately 8.7 percent of General Fund expenditures and transfers out. This total amount is available for spending at the City's discretion and constitutes approximately 48.5 percent of the General Fund's total fund balance of \$3,595,669 at December 31, 2014.
- The City's total bonded indebtedness increased by \$4,152,000 as a result of the issuance of public improvement serial bonds (\$5,492,000) and scheduled principal payments (\$1,340,000).

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 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 City does not engage in any business-type activities.

The government-wide financial statements can be found pages 11-12 of this report.

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 basic governmental fund financial statements can be found on pages 13-16 of this report.

Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The City

is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The City maintains one fiduciary fund, the Agency Fund.

The fiduciary fund financial statement can be found on page 17 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 on pages 18-38.

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. Required Supplementary Information and a related note to the required supplementary information can be found on pages 39-43 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government’s financial position. In the case of the City, liabilities of the primary government exceeded assets by \$4,173,853 at the close of the most recent fiscal year, as compared to \$4,696,007 at the close of the fiscal year ended December 31, 2014.

Table 1, shown below, presents a condensed statement of net position compared to the prior year.

Table 1—Condensed Statements of Net Position—Primary Government

	Governmental Activities	
	December 31,	
	2014	2013
Current assets	\$ 11,925,000	\$ 13,720,859
Capital assets	<u>25,339,167</u>	<u>22,519,876</u>
Total assets	<u>37,264,167</u>	<u>36,240,735</u>
Current liabilities	13,281,454	13,046,088
Non-current liabilities	<u>28,156,566</u>	<u>27,890,654</u>
Total liabilities	<u>41,438,020</u>	<u>40,936,742</u>
Net position:		
Net investment in capital assets	10,552,281	10,657,537
Restricted	1,181,178	1,304,579
Unrestricted	<u>(15,907,312)</u>	<u>(16,658,123)</u>
Total net position	<u>\$ (4,173,853)</u>	<u>\$ (4,696,007)</u>

The largest portion of the City’s net position reflects its investment in capital assets (e.g. land, buildings, improvements and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide a variety of services to citizens. Accordingly, these assets are not available for future spending. Although the City’s investment in capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves 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 from 2013 to 2014, from \$1,304,579 to \$1,181,178.

The remaining component is unrestricted net position, which in the case of the City is a deficit balance of \$15,907,312, 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.

Table 2, as presented below, shows the changes in net position for the years ended December 31, 2014 and December 31, 2013.

Table 2—Condensed Statements of Changes in Net Position—Primary Government

	Governmental Activities	
	Year Ended December 31,	
	2014	2013
Program revenues:		
Charges for services	\$ 3,204,747	\$ 3,200,184
Operating grants and contributions	151,155	265,406
Capital grants and contributions	2,004,156	1,042,534
General revenues	<u>18,457,141</u>	<u>18,172,717</u>
Total revenues	23,817,199	22,680,841
Program expenses	<u>23,295,045</u>	<u>24,344,429</u>
Change in net position	522,154	(1,663,588)
Net position—beginning	<u>(4,696,007)</u>	<u>(3,032,419)</u>
Net position—ending	<u>\$ (4,173,853)</u>	<u>\$ (4,696,007)</u>

Overall revenues of the primary government increased 5.0 percent from the prior year, due primarily to the recognition of New York State aid related to sewer improvements. Total expenses decreased 4.3 percent from the prior year, which can largely be attributed to a decrease in general governmental support.

A summary of sources of revenues for the years ended December 31, 2014 and December 31, 2013 is presented in Table 3 on the following page.

Table 3—Summary of Sources of Revenues—Primary Government

	Year Ended December 31,		Increase/(Decrease)	
	2014	2013	Dollars	Percent
Charges for services	\$ 3,204,747	\$ 3,200,184	\$ 4,563	0.1
Operating grants and contributions	151,155	265,406	(114,251)	(43.0)
Capital grants and contributions	2,004,156	1,042,534	961,622	92.2
Property taxes	10,387,745	10,401,067	(13,322)	(0.1)
Non-property taxes	5,018,888	4,899,623	119,265	2.4
Mortgage tax	145,184	146,316	(1,132)	(0.8)
Use of money and property	8,563	16,524	(7,961)	(48.2)
Sale of property and compensation for loss	178,299	14,437	163,862	1,135.0
Miscellaneous	116,358	92,646	23,712	25.6
Unrestricted state aid	2,602,104	2,602,104	-	0.0
Total revenues	<u>\$ 23,817,199</u>	<u>\$ 22,680,841</u>	<u>\$ 1,136,358</u>	5.0

The most significant sources of revenues for the year ended December 31, 2014 were property taxes of \$10,387,745, or 43.6 percent of total revenues, non-property taxes of \$5,018,888, or 21.0 percent of total revenues and charges for services of \$3,204,747, or 13.5 percent of total revenues. Similarly, for the year ended December 31, 2013, the largest sources of revenues were property taxes of 10,401,067, or 45.8 percent of total revenues, non-property taxes of \$4,899,623, or 21.6 percent of total revenues and charges for services of \$3,200,184, or 14.1 percent of total revenues.

A summary of program expenses for the years ended December 31, 2014 and December 31, 2013 is presented below in Table 4:

Table 4—Summary of Program Expenses—Primary Government

	Year Ended December 31,		Increase/(decrease)	
	2014	2013	Dollars	Percent
General government support	\$ 2,567,946	\$ 3,472,609	\$ (904,663)	(26.1)
Public safety	9,292,908	8,939,146	353,762	4.0
Transportation	4,820,466	5,371,212	(550,746)	(10.3)
Economic assistance and opportunity	52,535	50,730	1,805	3.6
Culture and recreation	1,304,561	1,443,605	(139,044)	(9.6)
Home and community services	4,913,365	4,672,676	240,689	5.2
Interest and other fiscal charges	343,264	394,451	(51,187)	(13.0)
Total program expenses	<u>\$ 23,295,045</u>	<u>\$ 24,344,429</u>	<u>\$ (1,049,384)</u>	(4.3)

The most significant expense items for the year ended December 31, 2014 were public safety of \$9,292,908, or 39.9 percent of total expenses, home and community services of \$4,913,365, or 21.9 percent of total expenses and transportation of \$4,820,466, or 20.7 percent of total expense. Similarly, for the year ended December 31, 2013, the most significant expense items were public safety of \$8,939,146, or 36.7 percent of total expenses, transportation of \$5,371,212, or 22.0 percent of total expenses, and home and community services of \$4,672,676, or 19.2 percent of total expenses.

Financial Analysis of Governmental Funds

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 discretionary use as they represent the portion of fund balance which has not been limited to use for a particular purpose by an external party, the City itself, or a group of individuals that has been delegated authority to assign resources for use for particular purposes by the City Council.

At December 31, 2014, the City's governmental funds reported combined ending fund balance of \$888,650, an increase of \$1,014,715 from the prior year fund balance deficit of \$126,065. Excluding the Capital Projects Fund, the City's governmental funds reported \$2,255,916 in fund balance which constitutes *unassigned fund balance or assigned for a specific use*, which is available for spending at the City's discretion. The City has \$476,335 of *nonspendable fund balance*, which is an offset of prepaid items. Fund balance of \$1,181,178 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. Fund balance of \$200,000 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, 2014, the unassigned fund balance of the General Fund was \$1,742,281, while the total fund balance was \$3,595,669. 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 8.7% of total General Fund expenditures, while total fund balance represents 18.0% of that same amount.

The total fund balance of the City's General Fund decreased by \$335,545 during the current fiscal year. During the annual budget process, the City anticipated utilizing \$350,000 of fund balance. As a result of spending less than anticipated, the City's General Fund fund balance ended \$14,455 higher than anticipated.

The City's Sewer Fund ending fund balance was \$390,470. Approximately 99.1 percent, \$387,345, of this amount is reported as fund balance assigned for specific (Sewer Fund) use. During the year ended December 31, 2014, the Sewer Fund fund balance increased \$146,605 primarily due to a decrease in operating costs.

The City's Water Fund ending fund balance was in a deficit position of \$127,441. During the year ended December 31, 2014, the Water Fund fund balance increased \$39,096 primarily due to a decrease in operating costs.

The City's Capital Projects Fund ending fund balance was in a deficit position of \$3,224,779. During the year ended December 31, 2014, the Capital Projects Fund fund balance increased \$1,154,736 primarily due the issuance of serial bonds.

General Fund Budgetary Highlights

The City's General Fund budget generally contains budget amendments during the year. The budget is allowed to be amended upward (increased) for prior year's encumbrances since the funds were allocated under the previous year's budget, and the City has appropriately assigned an equal amount of fund balance at year-end for this purpose. Furthermore, the budget is allowed to be amended upward (increased) for additional current year appropriations supported by an increase in budgeted revenues. A

budgetary comparison schedule within the required supplementary information section of this report has been provided to demonstrate compliance with their budget.

A summary of the General Fund results of operations for the year ended December 31, 2014 is presented below in Table 5.

Table 5—General Fund Budget

	Final Budget	Actual	Variance
Total revenues	\$ 19,615,646	\$ 19,427,073	\$ (188,573)
Total expenditures	19,827,046	19,924,018	(96,972)
Other financing sources (uses)	<u>161,400</u>	<u>161,400</u>	<u>-</u>
Budgeted and actual (use) or increase to fund balance	<u>\$ (50,000)</u>	<u>\$ (335,545)</u>	<u>\$ (285,545)</u>

Original budget compared to final budget—No significant variances were noted between the original budget and final budget for the year ended December 31, 2014.

Final budget compared to actual results—A review of actual revenues and expenditures compared to the estimated revenues and appropriations in the final budget yielded some unfavorable variances. The most significant variance of \$253,910 occurred in the employee benefits function due to larger than anticipated health insurance claims.

Capital Asset and Debt Administration

Capital Assets—The City’s investment in capital assets for its governmental activities as of December 31, 2014, amounted to \$25,339,167 (net of accumulated depreciation). This investment in capital assets includes land, buildings and building improvements, infrastructure, vehicles and equipment.

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 at the years ended December 31, 2014 and December 31, 2013 are presented below in Table 6.

Table 6—Summary of Capital Assets (Net of Depreciation)

	December 31,	
	2014	2013
Land	\$ 328,850	\$ 328,850
Buildings and improvements	4,181,835	3,383,200
Equipment	3,167,027	3,346,462
Infrastructure	<u>17,661,455</u>	<u>15,461,364</u>
Total	<u>\$ 25,339,167</u>	<u>\$ 22,519,876</u>

Additional information on the City’s capital assets can be found in Note 4 to the financial statements.

Long-term Obligations—At December 31, 2014, 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,		Change
	2014	2013	
Serial bonds	\$ 12,417,000	\$ 8,265,000	\$ 4,152,000
Capital leases	28,441	41,078	(12,637)
Landfill post-closure costs	360,000	380,000	(20,000)
Pollution remediation obligations	13,835,000	13,430,000	405,000
Compensated absences	2,851,420	2,678,590	172,830
Workers' compensation	842,565	889,065	(46,500)
OPEB obligation	2,392,307	2,206,921	185,386
	<u>\$ 32,726,733</u>	<u>\$ 27,890,654</u>	<u>\$ 4,836,079</u>

Additional information on long-term debt can be found in note 10 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, not seasonally adjusted, for the Buffalo-Niagara region during December 2014 was 5.7 percent. This is comparable to New York State’s unemployment rate of 5.8 and the national unemployment rate of 5.7 percent. These factors are considered in preparing the City’s budget.

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 \$100,000 of the General Fund’s fund balance at December 31, 2014 for support of 2015 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

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CITY OF TONAWANDA, NEW YORK
Statement of Net Position
Year Ended December 31, 2014

	<u>Primary Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,083,423
Restricted cash and cash equivalents	3,771,772
Taxes receivable	1,782,907
Receivables	614,630
Intergovernmental receivables	3,827,482
Prepaid items	476,335
Internal balances	368,451
Capital assets not being depreciated	328,850
Capital assets, net of accumulated depreciation	<u>25,010,317</u>
Total assets	<u>37,264,167</u>
LIABILITIES	
Accounts payable	720,996
Accrued liabilities	792,565
Intergovernmental payables	956,726
Bond anticipation notes	6,241,000
Non-current liabilities:	
Due within one year	4,570,167
Due in more than one year	<u>28,156,566</u>
Total liabilities	<u>41,438,020</u>
NET POSITION	
Net investment in capital assets	10,552,281
Restricted	1,181,178
Unrestricted	<u>(15,907,312)</u>
Total net position	<u>\$ (4,173,853)</u>

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, 2014

<u>Function/Program</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u> <u>Revenue and Changes</u> <u>in Net Position</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	<u>Primary</u> <u>Governmental</u> <u>Activities</u>
Primary government:					
Governmental activities:					
General government support	\$ 2,567,946	\$ 83,389	\$ 5,052	\$ -	\$ (2,479,505)
Public safety	9,292,908	693,995	86,153	-	(8,512,760)
Transportation	4,820,466	45,672	16,383	277,523	(4,480,888)
Economic assistance and opportunity	52,535	81,175	-	2,832	31,472
Culture and recreation	1,304,561	90,590	3,765	94,500	(1,115,706)
Home and community services	4,913,365	2,209,926	39,802	1,629,301	(1,034,336)
Interest and other fiscal charges	343,264	-	-	-	(343,264)
Total primary government	<u>\$ 23,295,045</u>	<u>\$ 3,204,747</u>	<u>\$ 151,155</u>	<u>\$ 2,004,156</u>	<u>(17,934,987)</u>
General revenues:					
Property taxes					10,387,745
Non-property taxes					5,018,888
Mortgage tax					145,184
Use of money and property					8,563
Sale of property and compensation for losses					178,299
Miscellaneous					116,358
Unrestricted state aid					2,602,104
Total general revenues					<u>18,457,141</u>
Change in net position					522,154
Net position—beginning					<u>(4,696,007)</u>
Net position—ending					<u>\$ (4,173,853)</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, 2014

	<u>General Fund</u>	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Capital Projects Fund</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and cash equivalents	\$ -	\$ -	\$ 809,776	\$ -	\$ 273,647	\$ 1,083,423
Restricted cash and cash equivalents	958,592	-	221,586	2,590,594	1,000	3,771,772
Taxes receivable	1,782,907	-	-	-	-	1,782,907
Receivables	39,647	508,284	52,076	5,225	9,398	614,630
Intergovernmental receivables	1,802,736	-	-	2,024,746	-	3,827,482
Due from other funds	1,813,033	291,145	114,286	394,358	2,433	2,615,255
Prepaid items	473,210	3,125	-	-	-	476,335
Total assets	<u>6,870,125</u>	<u>802,554</u>	<u>1,197,724</u>	<u>5,014,923</u>	<u>286,478</u>	<u>14,171,804</u>
LIABILITIES						
Accounts payable	\$ 229,726	\$ 53,535	\$ -	\$ 435,302	\$ 2,433	\$ 720,996
Accrued liabilities	729,982	9,182	-	-	1,892	741,056
Intergovernmental payables	790,596	150,539	-	-	15,591	956,726
Due to other funds	635,378	198,828	1,325,165	85,000	2,433	2,246,804
Bond anticipation notes payable	-	-	-	6,241,000	-	6,241,000
Total liabilities	<u>2,385,682</u>	<u>412,084</u>	<u>1,325,165</u>	<u>6,761,302</u>	<u>22,349</u>	<u>10,906,582</u>
DEFERRED INFLOWS OF RESOURCES						
Property taxes	888,774	-	-	-	-	888,774
Capital grants	-	-	-	1,478,400	-	1,478,400
Loans receivable	-	-	-	-	9,398	9,398
Total deferred inflows of resources	<u>888,774</u>	<u>-</u>	<u>-</u>	<u>1,478,400</u>	<u>9,398</u>	<u>2,376,572</u>
FUND BALANCES (DEFICITS)						
Nonspendable	473,210	3,125	-	-	-	476,335
Restricted	1,180,178	-	-	-	1,000	1,181,178
Assigned	200,000	387,345	-	-	253,731	841,076
Unassigned	1,742,281	-	(127,441)	(3,224,779)	-	(1,609,939)
Total fund balances (deficits)	<u>3,595,669</u>	<u>390,470</u>	<u>(127,441)</u>	<u>(3,224,779)</u>	<u>254,731</u>	<u>888,650</u>
Total liabilities, deferred inflows of resources and fund balances (deficits)	<u>\$ 6,870,125</u>	<u>\$ 802,554</u>	<u>\$ 1,197,724</u>	<u>\$ 5,014,923</u>	<u>\$ 286,478</u>	<u>\$ 14,171,804</u>

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

CITY OF TONAWANDA, NEW YORK
Reconciliation of Balance Sheet—Governmental Funds
to the Government-wide Statement of Net Position
Year Ended December 31, 2014

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

Total fund balances (deficits)—governmental funds (page 13)	\$	888,650
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$53,648,433 and the accumulated depreciation is \$28,309,266.		25,339,167
Recognition of certain items which are deferred on the modified accrual basis, but should be recognized on the accrual basis.		
Real property taxes	\$	888,774
Capital grants		1,478,400
Loans receivable		<u>9,398</u>
		2,376,572
Net accrued interest expense for serial bonds is not reported in the funds.		(51,509)
Long-term liabilities are not due and payable in the current period and, therefore are not reported within the funds. The effects of these items are:		
Serial bonds	\$	(12,417,000)
Capital leases		(28,441)
Landfill postclosure costs		(360,000)
Pollution remediation obligation		(13,835,000)
Compensated absences		(2,851,420)
Workers' compensation		(842,565)
Other post-employment benefits		<u>(2,392,307)</u>
		<u>(32,726,733)</u>
Net position of governmental activities	\$	<u>(4,173,853)</u>

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

CITY OF TONAWANDA, NEW YORK
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)—Governmental Funds
Year Ended December 31, 2014

	<u>General Fund</u>	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Capital Projects Fund</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
Real property taxes	\$ 9,693,718	\$ -	\$ -	\$ -	\$ -	\$ 9,693,718
Other tax items	671,571	-	-	-	-	671,571
Non property tax items	5,018,888	-	-	-	-	5,018,888
Departmental income	188,390	1,987,473	210,375	58,762	80,510	2,525,510
Intergovernmental charges	79,629	-	-	-	-	79,629
Use of money and property	5,044	497	-	2,862	160	8,563
Licenses and permits	131,338	-	-	-	-	131,338
Fines and forfeitures	527,032	-	-	-	-	527,032
Sale of property and compensation for loss	178,299	-	-	-	-	178,299
Miscellaneous	34,721	-	-	351,108	-	385,829
State aid	2,842,609	-	-	197,523	-	3,040,132
Federal aid	55,834	-	-	-	-	55,834
Total revenues	<u>19,427,073</u>	<u>1,987,970</u>	<u>210,375</u>	<u>610,255</u>	<u>80,670</u>	<u>22,316,343</u>
EXPENDITURES						
Current:						
General government support	2,041,494	-	-	-	-	2,041,494
Public safety	5,891,501	-	-	-	32,948	5,924,449
Transportation	2,019,364	-	-	-	-	2,019,364
Economic assistance and opportunity	33,966	-	-	-	-	33,966
Culture and recreation	935,316	-	-	-	27,093	962,409
Home and community services	1,099,745	1,130,340	-	-	10,806	2,240,891
Employee benefits	6,853,505	63,396	-	-	-	6,916,901
Debt service:						
Principal	841,000	345,000	154,000	-	-	1,340,000
Interest	208,127	141,229	17,279	-	-	366,635
Capital outlay	-	-	-	4,947,519	-	4,947,519
Total expenditures	<u>19,924,018</u>	<u>1,679,965</u>	<u>171,279</u>	<u>4,947,519</u>	<u>70,847</u>	<u>26,793,628</u>
Excess (deficiency) of revenues over expenditures	<u>(496,945)</u>	<u>308,005</u>	<u>39,096</u>	<u>(4,337,264)</u>	<u>9,823</u>	<u>(4,477,285)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	161,400	-	-	-	-	161,400
Transfers out	-	(161,400)	-	-	-	(161,400)
Proceeds from long-term debt issuance	-	-	-	5,492,000	-	5,492,000
Total other financing sources and (uses)	<u>161,400</u>	<u>(161,400)</u>	<u>-</u>	<u>5,492,000</u>	<u>-</u>	<u>5,492,000</u>
Net change in fund balances (deficits)	(335,545)	146,605	39,096	1,154,736	9,823	1,014,715
Fund balances (deficits)—beginning	<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>
Fund balances (deficits)—ending	<u>\$ 3,595,669</u>	<u>\$ 390,470</u>	<u>\$ (127,441)</u>	<u>\$ (3,224,779)</u>	<u>\$ 254,731</u>	<u>\$ 888,650</u>

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

CITY OF TONAWANDA, NEW YORK
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)—
Governmental Funds to the Government-wide Statement of Activities
Year Ended December 31, 2014

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) \$ 1,014,715

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. The amount of the current year capital additions, disposals and depreciation are as follows:

Capital asset additions	\$ 4,776,872	
Net disposition of capital assets	(69,138)	
Depreciation expense	<u>(1,888,443)</u>	2,819,291

In the statement of activities, interest expense is recognized as it accrues, regardless of when it is paid. 23,371

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.

Issuance of serial bonds	\$ (5,492,000)	
Repayment of serial bonds	1,340,000	
Repayment of capital leases	<u>12,637</u>	(4,139,363)

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 costs	\$ 20,000	
Pollution remediation obligation	(405,000)	
Compensated absences	(172,830)	
Workers' compensation	46,500	
Other postemployment benefits	<u>(185,386)</u>	(696,716)

Revenues in the statement of activities that do not provide current financial resources are reported as deferred inflows in the funds. 1,500,856

Change in net position of governmental activities \$ 522,154

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

CITY OF TONAWANDA, NEW YORK
Statement of Net Position—Agency Fund
Year Ended December 31, 2014

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 739,536
Total assets	<u>\$ 739,536</u>
LIABILITIES	
Agency liabilities	\$ 370,976
Accounts payable	109
Due to other funds	<u>368,451</u>
Total liabilities	<u>\$ 739,536</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, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Tonawanda, New York (the “City”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental 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 (the “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 City. Fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. The City reports no business-type activities. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable. The City reports no component units.

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).

Departure from Generally Accepted Accounting Principles

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. Separate financial statements are provided for governmental 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*—The General Fund constitutes the primary operating fund of the City and includes all operations not required to be recorded in other funds. The principal source of revenue for the General Fund is real property taxes.
- *Sewer Fund*—The Sewer Fund is used to record all revenues and expenditures related to the transportation and treatment of City sewage. The principal source of revenue for the Sewer Fund is sewer usage fees.
- *Water Fund*—Water services are provided to the City by the Erie County Water Authority ("ECWA"). The Water Fund is used to record the billing and the collection of water surcharges (via ECWA) used to pay debt service costs on remaining City Water Fund debt that was outstanding at the time of the transfer of the City's water system.

- *Capital Projects Fund*—The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The City's nonmajor funds are aggregated into a single column of the fund statements. Individual fund information is available in the City Treasurer's Office.

Additionally, the City reports the following fiduciary fund type:

Fiduciary Funds—These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Trust funds account for resources received and disbursements made in accordance with trust agreements or applicable legislative enactments for each particular fund. Fiduciary funds include the *Agency Fund*. Activities reported in the fiduciary funds include monies held in trust, deposits that are to be returned, and payroll withholdings due to other entities.

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 revenue 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, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental

funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, charges for services provided, and state and federal aid associated with the current fiscal period are all considered 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 of availability. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements are met and amount is received during the period of availability. All other revenue items are considered to be measurable and available only when cash is received by the City.

The Agency Fund has no measurement focus, but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

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

Cash, Cash Equivalents and Investments—The City’s cash, cash equivalents and investments consist of cash on hand, demand deposits, time deposits and short-term, highly liquid investments with original maturities of three months or less from the date of acquisition. The City had no investments at December 31, 2014; 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 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 expenses/expenditures when consumed rather than when purchased.

Capital Assets—Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than an established threshold for the type of asset and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. The reported value excludes normal maintenance and repairs, which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at estimated fair market value of the item at the date of its donation.

Land and construction in progress are not depreciated. The other capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

	<u>Estimated Useful Life</u>
Buildings and building improvements	10 - 50
Machinery and equipment	5 - 20
Infrastructure	15 - 50

The capital outlay character classification is employed only for expenditures reported in the Capital Projects Fund. Routine capital expenditures in the General Fund and other governmental funds are included in the appropriate functional category.

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. At December 31, 2014, 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 three sources: property taxes, capital grants and 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 1st for the fiscal year beginning the previous January 1st. City taxes are payable without penalty until May 1st. 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 1st 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.

Pensions—Nearly all City employees are members of various New York State retirement systems. The City is invoiced annually by the systems for its share of the cost.

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 8.

Other

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

Adoption of New Accounting Pronouncements—During the year ended December 31, 2014, the City implemented 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*. The objective of GASB Statement No. 67 is to improve financial reporting by state and local governmental pension plans. This Statement replaces GASB Statement No. 25 and Statement No. 50. The objective of GASB Statement No. 69 is to establish accounting and financial reporting standards related to government combinations and disposals of government operations. The objective of GASB Statement No. 70 is to improve financial reporting by state and local governments that extend and receive nonexchange financial guarantees. GASB Statements Nos. 67, 69, and 70 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. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*; 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; and No. 72, *Fair Value Measurement and Application*, effective for the year ending December 31, 2016. The City is, therefore, unable to disclose the impact that adopting GASB Statement Nos. 68, 71 and 72 will have on its financial position and results of operations.

Stewardship, Compliance and Accountability

Legal Compliance—Budgets

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

- Prior to August 1st, 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 1st.
- 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 1st.
- 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.

Additional information regarding the City's budgets can be found in the Note to the Required Supplementary Information section of this report.

Excess of Expenditures Over Appropriations—For the year ended December 31, 2014, expenditures exceeded appropriations in the General Fund by \$285,545. General government support, public safety, transportation and home and community services function expenditures each exceeded the General fund budget by \$41,616, \$26,996, \$30,898 and \$253,910, respectively. Rising personnel costs significantly influenced these increased expenditures.

The Sewer Fund expenditures exceeded appropriations in the employee benefits function by \$89. Unanticipated increases in workers compensation, health insurance and interest costs contributed to these variances.

Deficit Fund Equity—The Capital Projects Fund had a deficit fund balance of \$3,224,779 at December 31, 2014. 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 \$127,441 is expected to be remedied in future periods by increased operating revenues and decreasing debt service obligations.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

The City's investment policies are governed by State statutes. In addition, the City has its own written investment policy. City monies must be deposited in FDIC-insured commercial banks or trust companies located within New York State. The City 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.

Collateral is required for demand deposit accounts, time deposit accounts and certificates of deposit at 100% of all deposits not covered by Federal deposit insurance. The City has entered into custodial agreements with the various banks which hold their deposits. These agreements authorize the obligation that may be pledged as collateral. Obligations that may be pledged as collateral are outlined in Chapter 623 of the laws of the State of New York.

Cash and cash equivalents at December 31, 2014, are as follows:

	Governmental Funds	Fiduciary Fund	Total
Petty Cash (uncollateralized)	\$ 1,450	\$ -	\$ 1,450
Deposits	<u>4,853,745</u>	<u>739,536</u>	<u>5,593,281</u>
Total	<u>\$ 4,855,195</u>	<u>\$ 739,536</u>	<u>\$ 5,594,731</u>

Deposits—All deposits are carried at fair value and are classified by custodial credit risk at December 31, 2014 as follows:

	Bank Balance	Carrying Amount
FDIC Insured	\$ 767,719	\$ 767,719
Uninsured:		
Collateral held by pledging bank's agent in the City's name	<u>4,983,882</u>	<u>4,825,562</u>
Total	<u>\$ 5,751,601</u>	<u>\$ 5,593,281</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 New York State statute all deposits in excess of FDIC insurance coverage must be collateralized. At December 31, 2014, the City’s deposits were either FDIC insured or collateralized with securities held by the pledging bank’s agent in the City’s name.

Restricted cash and cash equivalents—The City reports restricted fund balance and unspent proceeds of debt as restricted cash and cash equivalents. At December 31, 2014, the City reported \$3,771,772 of restricted cash and cash equivalents within its governmental activities.

Investments—The City had no investments at December 31, 2014.

Interest Rate Risk—In accordance with its investment policy, the City manages exposures by limiting investments to low risk type investments governed by New York State statute.

3. RECEIVABLES

Major revenues accrued by the City funds at December 31, 2014, 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.

Receivables—Represent school tax collection fee, 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, 2014 consist of the individual home improvement revolving loans ranging in amount from \$330 to \$6,142 with an interest rate of 4% and repayment terms, secured by second mortgages on the individual properties. At December 31, 2014, outstanding balances totaled \$9,398 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. Intergovernmental receivables at December 31, 2014 are:

General Fund:		
Due from New York State	\$	9,890
Due from local municipalities		53,660
Due from Erie County		1,717,646
Due from Federal		21,540
		<u>\$ 1,802,736</u>
Capital Projects Fund:		
Due from New York State	\$	1,855,000
Due from Erie County		169,746
		<u>2,024,746</u>
Total governmental funds		<u>\$ 3,827,482</u>

4. CAPITAL ASSETS

Capital asset activity for the City's governmental activities for the year ended December 31, 2014 was as follows:

	Balance 1/1/2014	Increases	Decreases	Balance 12/31/2014
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	8,209,555	1,087,605	-	9,297,160
Machinery and equipment	7,143,414	376,816	306,747	7,213,483
Infrastructure	<u>33,496,489</u>	<u>3,312,451</u>	<u>-</u>	<u>36,808,940</u>
Total capital assets, being depreciated	<u>48,849,458</u>	<u>4,776,872</u>	<u>306,747</u>	<u>53,319,583</u>
Less accumulated depreciation for:				
Buildings and improvements	4,826,355	288,970	-	5,115,325
Machinery and equipment	3,796,952	487,113	237,609	4,046,456
Infrastructure	<u>18,035,125</u>	<u>1,112,360</u>	<u>-</u>	<u>19,147,485</u>
Total accumulated depreciation	<u>26,658,432</u>	<u>1,888,443</u>	<u>237,609</u>	<u>28,309,266</u>
Total capital assets, being depreciated, net	<u>22,191,026</u>	<u>2,888,429</u>	<u>(69,138)</u>	<u>25,010,317</u>
Governmental activities capital assets, net	<u>\$ 22,519,876</u>	<u>\$ 2,888,429</u>	<u>\$ (69,138)</u>	<u>\$ 25,339,167</u>

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

General government support	\$ 83,895
Public safety	239,381
Transportation	1,039,279
Culture and recreation	171,393
Home and community services	<u>354,495</u>
	<u>\$ 1,888,443</u>

5. ACCRUED LIABILITIES

Accrued liabilities reported by governmental funds of the City as of December 31, 2014, were as follows:

	General Fund	Sewer Fund	Nonmajor Funds	Total Governmental Funds
Salary and employee benefits	\$ 353,906	\$ 9,182	\$ -	\$ 363,088
Judgments and claims - current	376,076	-	-	376,076
Other liabilities	<u>-</u>	<u>-</u>	<u>1,892</u>	<u>1,892</u>
Total	<u>\$ 729,982</u>	<u>\$ 9,182</u>	<u>\$ 1,892</u>	<u>\$ 741,056</u>

6. PENSION PLANS

Plan Description—The City participates in the New York State and Local Employees’ Retirement System (“ERS”) and the Public Employees’ Group Life Insurance Plan (the “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 (the “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 transactions of the business of the Systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

Funding Policy—The Systems are noncontributory, except for employees who joined the ERS after July 27, 1976 who contribute three percent (3%) of their salary for the first ten years of membership, and employees who joined on or after January 10, 2010 (ERS) who generally contribute three percent (3%) of their salary for their entire length of service. Those joining after April 1, 2012 (Tier 6) are required to contribute a percentage ranging from three percent (3%) to six percent (6%), 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 Systems’ fiscal year ending March 31st.

The City is required to contribute at an actuarially determined rate. The required contributions per the New York State and Local Retirement Systems invoices for the current year and two preceding years were:

<u>Year Ended December 31,</u>	<u>ERS</u>	<u>PFRS</u>
2014	\$ 704,448	\$ 1,209,271
2013	706,927	1,093,187
2012	558,578	1,052,041

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

7. 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 \$378,943 were recorded in the General Fund for the year ended December 31, 2014.

At December 31, 2014 the amount of liabilities relating to workers' compensation was \$842,565. This liability is the City's best estimate based on available information. Additionally, claims and judgments totaling \$376,076 have been recorded in the General Fund as a current accrued liability. Changes in the reported liability resulted from the following:

Year Ended December 31,	Liability Balance Beginning of Year	Current year claims	Claim payments	Liability Balance End of Year
2014	\$ 889,065	\$ 332,443	\$ 378,943	\$ 842,565
2013	806,692	625,538	543,165	889,065

Additionally, the Town purchases insurance for: automobile, general and umbrella liability. Automobile insurance is limited to \$1 million per accident. The general liability insurance is limited to \$1 million per occurrence, and an aggregate \$3 million limit for products-completed operations hazards, errors and omissions liability. The umbrella liability insurance includes a \$10,000 policy retention and is limited to \$6 million per occurrence, and an aggregate \$6 million limit.

8. OTHER POST-EMPLOYMENT BENEFITS (“OPEB”)

Plan Description—In addition to providing pension benefits, the City provides health insurance coverage and/or payment for values of unused sick leave to eligible retired employees. The various collective bargaining agreements stipulate the employees covered and the percentage of contribution. Contributions by the City may vary according to length of service. The cost of providing post-employment benefits is shared between the City and the retired employee. The cost of retiree health care benefits is recognized as an expenditure/payable as claims are paid.

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 on the following page 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.

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Annual required contribution	\$ 1,957,197	\$ 1,957,197
Interest on net OPEB obligation	80,861	80,861
Adjustment to annual required contribution	<u>(83,739)</u>	<u>(83,739)</u>
Annual OPEB cost (expense)	1,954,319	1,954,319
Expected contributions	<u>(1,768,933)</u>	<u>(1,768,933)</u>
Increase in net OPEB obligation	185,386	185,386
Net OPEB obligation—beginning of year	<u>2,206,921</u>	<u>2,021,535</u>
Net OPEB obligation—end of year	<u>\$ 2,392,307</u>	<u>\$ 2,206,921</u>

Funding Status and Funding Progress— As of December 31, 2013, the most recent actuarial valuation date, the plan was not funded. Since there were no assets, the unfunded actuarial 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 healthcare cost 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 City's schedule of contributions for the most recent three years is shown below:

Year Ended December 31,	Annual Required Contribution	Contributions Made	Percentage Contributed
2014	1,954,319	1,768,933	90.5%
2013	1,954,319	1,768,933	90.5%
2012	2,195,952	1,931,796	88.0%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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, 2014 was 23 years.

9. 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, 2014:

Description	Interest Rate	Maturity Date	Balance 1/1/2014	Additions	Reductions	Balance 12/31/2014
Bond anticipation notes	0.69%	6/12/2014	\$ 10,262,000	\$ -	\$ 10,262,000	\$ -
Bond anticipation notes	1.00%	6/11/2015	-	6,241,000	-	6,241,000
			<u>\$ 10,262,000</u>	<u>\$ 6,241,000</u>	<u>\$ 10,262,000</u>	<u>\$ 6,241,000</u>

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

A summary of changes in the City's long-term liabilities at December 31, 2014 follows:

	Balance 1/1/2014	Additions	Reductions	Balance 12/31/2014	Due within one year
Serial bonds	8,265,000	5,492,000	1,340,000	12,417,000	1,577,000
Capital leases	41,078	-	12,637	28,441	13,468
Landfill post-closure costs	380,000	-	20,000	360,000	20,000
Pollution remediation obligation	13,430,000	2,775,000	2,370,000	13,835,000	2,775,000
Compensated absences	2,678,590	309,841	137,011	2,851,420	142,571
Workers' compensation	889,065	332,443	378,943	842,565	42,128
OPEB obligation	2,206,921	1,954,319	1,768,933	2,392,307	-
	<u>\$ 27,890,654</u>	<u>\$ 10,863,603</u>	<u>\$ 6,027,524</u>	<u>\$ 32,726,733</u>	<u>\$ 4,570,167</u>

Serial Bonds—The City issues general obligation bonds to provide funds for the acquisition, construction, and renovation of major capital facilities. General obligation bonds have been issued for governmental activities. 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.

A summary of serial bond additions and reductions, for the year ended December 31, 2014 follows:

Description	Issue/ Maturity	Original Issue	Interest Rate (%)	Balance 1/1/2014	Additions	Reductions	Balance 12/31/2014
General Fund:							
Recreation & Water Line	2001-2015	\$ 1,620,000	4.38-4.75	\$ 205,000	\$ -	\$ 130,000	\$ 75,000
Energy Performance	2001-2014	269,500	4.30-4.75	20,000	-	20,000	-
Wales Ave Landfill Closure	2003-2020	2,394,500	4.38-4.75	1,065,000	-	145,000	920,000
Public Improvement	2004-2024	1,690,000	4.25-5.00	825,000	-	75,000	750,000
Fire Headquarters Roof	2009-2016	115,000	3.05	55,000	-	15,000	40,000
Street Improve. (Refunding)	2009-2018	1,280,000	2.00-3.25	76,000	-	16,000	60,000
Roads & Equipment	2010-2019	980,000	3.50-4.00	660,000	-	110,000	550,000
Various Purpose	2011-2020	1,728,499	2.00-2.75	1,195,000	-	215,000	980,000
Public Improvement	2012-2022	710,000	2.50-4.00	602,500	-	115,000	487,500
Public Improvement	2014-2033	5,382,000	2.00-3.25	-	5,382,000	-	5,382,000
Total General		<u>16,169,499</u>		<u>4,703,500</u>	<u>5,382,000</u>	<u>841,000</u>	<u>9,244,500</u>
Water Fund:							
Recon. Water Plan (Refunding)	2009-2018	1,567,710	2.00-3.25	629,000	-	154,000	475,000
Total Water		<u>1,567,710</u>		<u>629,000</u>	<u>-</u>	<u>154,000</u>	<u>475,000</u>
Sewer Fund:							
Pump Station - EFC	1996-2015	825,000	2.95-5.20	100,000	-	50,000	50,000
Sewer Improvement	2002-2022	1,233,250	1.50-5.00	625,000	-	60,000	565,000
Sewer Pump and Improve.	2009-2016	600,000	3.05	290,000	-	95,000	195,000
Sewer Improve. (Refunding)	2009-2014	52,290	2.00-3.25	10,000	-	10,000	-
Sewer System Evaluation	2011-2014	210,000	2.00-2.75	70,000	-	70,000	-
Public Improvement	2012-2037	1,900,000	2.50-4.00	1,837,500	-	60,000	1,777,500
Public Improvement	2014-2031	110,000	2.00-3.25	-	110,000	-	110,000
Total Sewer		<u>\$ 4,930,540</u>		<u>\$ 2,932,500</u>	<u>\$ 110,000</u>	<u>\$ 345,000</u>	<u>\$ 2,697,500</u>
Total governmental funds		<u>\$ 22,667,749</u>		<u>\$ 8,265,000</u>	<u>\$ 5,492,000</u>	<u>\$ 1,340,000</u>	<u>\$ 12,417,000</u>

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, 2014 are as follows:

Year ending December 31,	Governmental Activities
2015	\$ 15,319
2016	8,219
2017	<u>8,218</u>
Total minimum lease payment	31,756
Less: amount representing interest	<u>(3,315)</u>
Present value of minimum lease payments	<u>\$ 28,441</u>

Landfill post-closure 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 \$360,000 reported as the accrued landfill post-closure care liability at December 31, 2014 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 2014.

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, 2014, to address the violation is \$13,835,000. This estimated liability is recorded in the City’s government-wide financial statements.

Compensated absences—As described in Note 1, the City records the value of compensated absences. The annual budgets of the operating funds provide funding for these benefits as they become payable. The liability for compensated absences at December 31, 2014 amounts to \$2,851,420, of which \$142,571 has been included as due within one year. Since payment of compensated absences is dependent upon many factors, the timing of future payments is not readily determinable.

Workers’ compensation—As explained in Note 7, the estimated liability related to workers’ compensation claims amounted to \$842,565 at December 31, 2014.

OPEB obligation—As explained in Note 8, 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 \$2,392,307 as of December 31, 2014.

The following is a maturity schedule of the City's indebtedness:

Year ending December 31,	Serial Bonds	Capital Leases	Landfill Postclosure Costs	Pollution Remediation Obligation	Compensated Absences	Workers' Compensation	OPEB Obligation	Total
2015	\$ 1,577,000	\$ 13,468	\$ 20,000	\$ 2,775,000	\$ 142,571	\$ 42,128	\$ -	\$ 4,570,167
2016	1,455,000	7,253	20,000	2,775,000	-	-	-	4,257,253
2017	1,270,000	7,720	20,000	2,775,000	-	-	-	4,072,720
2018	1,140,000	-	20,000	2,755,000	-	-	-	3,915,000
2019	1,030,000	-	20,000	2,755,000	-	-	-	3,805,000
2020-2024	3,080,000	-	100,000	-	-	-	-	3,180,000
2025-2029	1,680,000	-	100,000	-	-	-	-	1,780,000
2030-2034	915,000	-	60,000	-	-	-	-	975,000
2035 and thereafter	270,000	-	-	-	2,708,849	800,437	2,392,307	6,171,593
	<u>\$ 12,417,000</u>	<u>\$ 28,441</u>	<u>\$ 360,000</u>	<u>\$ 13,835,000</u>	<u>\$ 2,851,420</u>	<u>\$ 842,565</u>	<u>\$ 2,392,307</u>	<u>\$ 32,726,733</u>

Annual interest requirements on serial bonds outstanding as of December 31, 2014 are as follows:

Year ending December 31,	Bond Interest
2015	\$ 421,870
2016	316,809
2017	276,557
2018	241,081
2019	207,858
2020-2024	682,112
2025-2029	336,113
2030-2034	127,575
2035 and thereafter	16,200
	<u>\$ 2,626,175</u>

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

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. A reconciliation of the City's governmental activities net investment in capital assets is presented on the following page.

Capital assets, net of accumulated depreciation		\$ 25,339,167
Less:		
Serial bonds	\$ (12,417,000)	
Bond anticipation notes	(6,241,000)	
Capital leases	(28,441)	
Add: debt issued, which is not associated with 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	<u>2,205,555</u>	<u>(14,786,886)</u>
Net investment in capital assets		<u>\$ 10,552,281</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.

In the fund financial statements, nonspendable amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance maintained by the City at December 31, 2014 includes:

- **Prepaid items**—Represents amounts prepaid to the retirement system that are applicable to future accounting periods. The General and Sewer Funds reported amounts of \$473,210 and \$3,125, respectively, at December 31, 2014.

In the fund financial statements, restricted fund balances are amounts constrained to specific purposes (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation. At December 31, 2014, the City reported the following restricted fund balance:

	General Fund	Other Governmental Funds	Total
Tax stabilization reserve	\$ 200,000	\$ -	\$ 200,000
Workers' compensation reserve	842,565	-	842,565
Insurance reserve	137,613	-	137,613
Historical restoration reserve	-	1,000	1,000
Total restricted fund balance	<u>\$ 1,180,178</u>	<u>\$ 1,000</u>	<u>\$ 1,181,178</u>

In the fund financial statements, commitments are amounts that are subject to a purpose constraint imposed by a formal action of the City's highest level of decision-making authority. As of December 31, 2014, the City of Tonawanda Common Council has not committed any fund balance to a specific purpose.

In the fund financial statements, assignments are not legally required segregations but are segregated for a specific purpose by the City. At December 31, 2014, the City reported the following fund balance assignments:

	General Fund	Sewer Fund	Other Governmental Funds	Total
Assigned for:				
Subsequent years' expenditures	\$ 100,000	\$ -	\$ -	\$ 100,000
Self-insurance	100,000	-	-	100,000
Specific use	-	387,345	253,731	641,076
Total assigned fund balance	<u>\$ 200,000</u>	<u>\$ 387,345</u>	<u>\$ 253,731</u>	<u>\$ 841,076</u>

- *Assigned to subsequent year's expenditures*—Represents available fund balance being appropriated to meet expenditure requirements in the 2015 fiscal year.
- *Assigned to self-insurance*—Represents funds set aside for future insurance claims.
- *Assigned to specific Use*—Represents fund balance within the special revenue funds that is assigned for a specific purpose. The assignment's purpose relates to each fund's operations and represents amounts within funds that are not restricted or committed.

If the City must use funds for emergency expenditures the City Council shall authorize the Treasurer to expend funds first from funds classified under GASB as nonspendable (if funds become available) then restricted funds. The use of committed and assigned funds as classified by GASB will occur after the exhaustion of available restricted funds. Finally, if no other fund balances are available, the City will use unassigned fund balance.

12. INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables are short-term in nature and exist because of temporary advances or payments made on behalf of other funds. The composition of interfund balances as of December 31, 2014 is as follows:

Fund	Interfund	
	Receivables	Payables
Governmental Funds:		
General Fund	\$ 1,813,033	\$ 635,378
Sewer Fund	291,145	198,828
Water Fund	114,286	1,325,165
Capital Projects Fund	394,358	85,000
Other Governmental Funds	2,433	2,433
Total governmental funds	2,615,255	2,246,804
Fiduciary Fund	-	368,451
Total	<u>\$ 2,615,255</u>	<u>\$ 2,615,255</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.

The City made the following transfers during the year ended December 31, 2014

Fund	Transfers out:	
	Sewer Fund	Total
Transfers in:		
General	\$ 161,400	\$ 161,400
	<u>\$ 161,400</u>	<u>\$ 161,400</u>

13. AGENCY FUND

An agency fund exists for employee withholding and temporary deposit funds. A summary of changes in the assets and liabilities for the year ended December 31, 2014 is presented below:

	Balance 1/1/2014	Additions	Deletions	Balance 12/31/2014
ASSETS				
Cash and cash equivalents	\$ 766,638	\$ 2,544,341	\$ 2,571,443	\$ 739,536
Total assets	<u>766,638</u>	<u>2,544,341</u>	<u>2,571,443</u>	<u>739,536</u>
LIABILITIES				
Agency liabilities	388,054	1,097,048	1,114,126	370,976
Accounts payable	497	1,078,842	1,079,230	109
Due to other funds	<u>378,087</u>	<u>368,451</u>	<u>378,087</u>	<u>368,451</u>
Total liabilities	<u>\$ 766,638</u>	<u>\$ 2,544,341</u>	<u>\$ 2,571,443</u>	<u>\$ 739,536</u>

14. LABOR CONTRACTS

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. All bargaining units have contracts with the City negotiated through December 31, 2016.

15. COMMITMENTS

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 expended in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

The City considers encumbrances to be significant for amounts that are encumbered in excess of \$50,000. As of December 31, 2014, the City reported no encumbrances.

16. CONTINGENCIES

Litigation—The City is involved in litigation in the ordinary course of its operations. Various legal actions are pending against the City. The outcome of these matters is not presently determinable, but in the opinion of management, the ultimate liability will not have a material adverse effect on the financial condition or results of operation of the City.

Assessments—The City is a defendant in 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 various factors including market values and appraised amounts. No potential amount or potential range of loss is determinable. However, management believes that 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. The disbursement of funds received under these programs generally requires compliance with terms and conditions that are specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed expenditures resulting from such audits could become a liability of the City. While the amount of expenditures, if any, 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, 2014, the NYSDEC has required that the City commit an estimated \$13,835,000 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, 2014, the City completed expenditures related to this project and is in the process of applying for reimbursement.

17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 19, 2015, 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
Schedule of Funding Progress—Other Post-employment Benefits Obligation
Year Ended December 31, 2014

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
12/31/2014	12/31/2013	-	43,538,616	43,538,616	0.0%	N/A	N/A
12/31/2013	12/31/2013	-	43,538,616	43,538,616	0.0%	N/A	N/A
12/31/2012	5/1/2012	-	47,731,182	47,731,182	0.0%	N/A	N/A

CITY OF TONAWANDA, NEW YORK
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual—General Fund
Year Ended December 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>with Final</u>
REVENUES				<u>Budget</u>
Real property taxes	\$ 10,040,766	\$ 10,040,766	\$ 9,693,718	\$ (347,048)
Other tax items	562,500	562,500	671,571	109,071
Non property tax items	4,972,000	4,972,000	5,018,888	46,888
Departmental income	215,100	215,100	188,390	(26,710)
Intergovernmental charges	75,000	75,000	79,629	4,629
Use of money and property	13,800	13,800	5,044	(8,756)
Licenses and permits	162,000	162,000	131,338	(30,662)
Fines and forfeitures	527,000	527,000	527,032	32
Sale of property and compensation for loss	172,000	172,000	178,299	6,299
Miscellaneous local sources	22,500	22,500	34,721	12,221
State aid	2,810,904	2,812,902	2,842,609	29,707
Federal aid	-	40,078	55,834	15,756
Total revenues	<u>19,573,570</u>	<u>19,615,646</u>	<u>19,427,073</u>	<u>(188,573)</u>
EXPENDITURES				
Current:				
General government support	2,104,973	1,999,878	2,041,494	(41,616)
Public safety	5,755,815	5,864,505	5,891,501	(26,996)
Transportation	1,949,956	1,988,466	2,019,364	(30,898)
Economic assistance and opportunity	33,833	33,968	33,966	2
Culture and recreation	960,983	955,408	935,316	20,092
Home and community services	1,123,448	1,117,093	1,099,745	17,348
Employee benefits	6,587,829	6,599,595	6,853,505	(253,910)
Debt service:				
Principal	1,066,000	1,066,000	841,000	225,000
Interest	202,133	202,133	208,127	(5,994)
Total expenditures	<u>19,784,970</u>	<u>19,827,046</u>	<u>19,924,018</u>	<u>(96,972)</u>
Excess (deficiency) of revenues over expenditures	<u>(211,400)</u>	<u>(211,400)</u>	<u>(496,945)</u>	<u>(285,545)</u>
OTHER FINANCING SOURCES				
Transfers in	<u>161,400</u>	<u>161,400</u>	<u>161,400</u>	<u>-</u>
Total other financing sources	<u>161,400</u>	<u>161,400</u>	<u>161,400</u>	<u>-</u>
Net change in fund balance*	(50,000)	(50,000)	(335,545)	(285,545)
Fund balance—beginning	<u>3,931,214</u>	<u>3,931,214</u>	<u>3,931,214</u>	<u>-</u>
Fund balance—ending	<u>\$ 3,881,214</u>	<u>\$ 3,881,214</u>	<u>\$ 3,595,669</u>	<u>\$ (285,545)</u>

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

The note to the required supplementary information is an integral part of this schedule.

CITY OF TONAWANDA, NEW YORK
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual—Sewer Fund
Year Ended December 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Departmental income	\$ 2,052,396	\$ 2,052,396	\$ 1,987,473	\$ (64,923)
Use of money and property	1,000	1,000	497	(503)
Total revenues	<u>2,053,396</u>	<u>2,053,396</u>	<u>1,987,970</u>	<u>(65,426)</u>
EXPENDITURES				
Current:				
Home and community services	1,260,047	1,259,947	1,130,340	129,607
Employee benefits	63,207	63,307	63,396	(89)
Debt service:				
Principal	420,000	420,000	345,000	75,000
Interest	<u>148,742</u>	<u>148,742</u>	<u>141,229</u>	<u>7,513</u>
Total expenditures	<u>1,891,996</u>	<u>1,891,996</u>	<u>1,679,965</u>	<u>212,031</u>
Excess (deficiency) of revenues over expenditures	<u>161,400</u>	<u>161,400</u>	<u>308,005</u>	<u>146,605</u>
OTHER FINANCING USES				
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	-	-	146,605	146,605
Fund balance—beginning	<u>243,865</u>	<u>243,865</u>	<u>243,865</u>	<u>-</u>
Fund balance—ending	<u>\$ 243,865</u>	<u>\$ 243,865</u>	<u>\$ 390,470</u>	<u>\$ 146,605</u>

The note to the required supplementary information is an integral part of this schedule.

CITY OF TONAWANDA, NEW YORK
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual—Water Fund
Year Ended December 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Departmental income	\$ 171,279	\$ 171,279	\$ 210,375	\$ 39,096
Total revenues	<u>171,279</u>	<u>171,279</u>	<u>210,375</u>	<u>39,096</u>
EXPENDITURES				
Debt service				
Principal	154,000	154,000	154,000	-
Interest	<u>17,279</u>	<u>17,279</u>	<u>17,279</u>	<u>-</u>
Total expenditures	<u>171,279</u>	<u>171,279</u>	<u>171,279</u>	<u>-</u>
Net change in fund balance	-	-	39,096	39,096
Fund balance (deficit)—beginning	<u>(166,537)</u>	<u>(166,537)</u>	<u>(166,537)</u>	<u>-</u>
Fund balance (deficit)—ending	<u><u>\$ (166,537)</u></u>	<u><u>\$ (166,537)</u></u>	<u><u>\$ (127,441)</u></u>	<u><u>\$ 39,096</u></u>

The note to the required supplementary information is an integral part of this schedule.

CITY OF TONAWANDA, NEW YORK
Note to the Required Supplementary Information
Year Ended December 31, 2014

1. 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.

Actual results of operations presented in accordance with GAAP and the City's accounting policies do not recognize encumbrances and restricted fund balance as expenditures until the period in which the actual goods or services are received and a liability is incurred. Encumbrances are only reported on the balance sheet of the governmental funds included within restricted, committed or assigned fund balance. Significant encumbrances are disclosed in the notes to the financial statements.

Exceeding Authorized Appropriations—The City's General Fund appropriations for the year ended December 31, 2014 exceeded the adjusted budget as follows:

- Expenditures within the general government support function exceeded the adjusted budget by \$41,616.
- Expenditures within the public safety function exceeded the adjusted budget by \$26,996.
- Expenditures within the transportation function exceeded the adjusted budget by \$30,898.
- Expenditures within the employee benefits function exceeded the budget by \$253,910.
- Expenditures within the interest function exceeded the budget by \$5,994.

These variances are the result greater than anticipated costs within these functions.

Additionally, the City's Sewer Fund appropriations for the year ended December 31, 2014 exceeded the adjusted budget within the employee benefits function by \$89.

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Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable City Council
City of Tonawanda, New York

We have audited, 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 19, 2015. 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.

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 deficiency described in the accompanying Schedule of Findings as item 2014-001 to be a 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 2014-002, 2014-003, 2014-004 and 2014-005 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

May 19, 2015

CITY OF TONAWANDA, NEW YORK
Schedule of Findings
Year Ended December 31, 2014

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

Finding 2014-001—Financial Activities of Tonawanda Housing Authority

Criteria—GASB Statement No. 61, The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34 applies to the reporting entity and to the separately issued financial statements of governmental component units. In addition, this Statement should be applied to governmental and nongovernmental component units when they are included in a governmental financial reporting entity.

Condition—All component units should be reported on the City’s financial statements.

Context—During the audit it was noted that the City does not include the financial activities of Tonawanda Housing Authority, a component unit of the City of Tonawanda, New York in the City’s basic financial statements.

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

Effect or Potential Effect—As a result, the independent auditors’ report is modified for such exclusion.

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 efficient to recognize the component unit and that not reporting the discretely presented component does not materially affect the fund financial statements.

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

Finding 2014-002—Financial Accounting System

Criteria—For proper segregation of duties, no employees with the ability to post financial data should have administrator rights to the financial software. Further, the City should have adequate procedures and documentation for adding, modifying and deleting user accounts.

Condition—We noted that an employee with the ability to edit financial data currently has administrator rights. In addition, the City does not have procedures in place to ensure user accounts are added, modified or removed in a timely and efficient manner.

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.

Cause—The City does not have a formal policy or procedures to periodically assess user rights or adequately document and track user changes.

Effect—Employees who have the ability to edit financial data should not have administrator’s rights to the financial software, as an administrator has the ability to create and delete users. Unauthorized users may have access to modifying financial data.

Recommendation—We recommend that the City’s Information Technology department have the rights to create and delete users, but should not be given full administrators rights, as this would allow them to edit financial data. Additionally, we recommend the City review its procedures to add, modify or delete user accounts to reduce the risks or unauthorized access.

Management’s Response—Management will consider restricting administrators rights to the IT Department. The City intends to determine the feasibility and practicality of implementing these procedures.

Finding 2014-003—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 practical under economic circumstances. Segregation of duties will continue to be evaluated in future years. Other mitigating controls have been put in place by management.

Finding 2014-004—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.

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

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 will consider developing these policies and determine if the benefits will exceed the costs of implementation.

Finding 2014-005—Expenditures Exceeding the Authorized Budget

Condition—We found that during the year ended December 31, 2014; various line item expenditures exceeded their authorized budget within the General Fund.

Criteria—Generally, no officer, board, department or commission shall during any fiscal year expend or contract to be expended any money or incur any liability or enter into any contract which by its terms involves the expenditure of money for any purpose, unless provision therefore shall have been made in the annual budget.

Context—During our review of final budget to actual balances for each governmental function, we noted several lines which had exceeded their authorized appropriations.

Cause—This condition resulted primarily as cash disbursements were made without reviewing budgets to determine that the expenditure line supported the disbursement.

Effect—Insufficient internal controls create the opportunity for line item expenditures to exceed the budgeted amount and could lead to unapproved or inappropriate budgetary transfers.

Recommendation—We recommend that the City formalize its policy for departments to identify budgetary variances, to ensure that amounts are not expended in excess of the authorized budget. Department heads should request budget adjustments from the Council prior to exceeding their respective budgets. Documentation of such approval should be sent to the accounting department, who can then enter budgetary transfers. Additionally, the City should ensure that controls are in place to prevent the unauthorized overspending of budgeted line items.

Management's response—Management intends to make an initiative to better monitor budget to actual and year to date activity in the future.