

**CITY OF TONAWANDA,
NEW YORK**

*Basic Financial Statements and
Required Supplementary Information
for the Year Ended December 31, 2015 and
Independent Auditors' Report*

CITY OF TONAWANDA, NEW YORK
Table of Contents
Year Ended December 31, 2015

	Page
Independent Auditors' Report.....	1
Management's Discussion and Analysis	4
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet—Governmental Funds	15
Reconciliation of the Balance Sheet—Governmental Funds to the Government-wide Statement of Net Position.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)—Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)—Governmental Funds to the Government-wide Statement of Activities	18
Statement of Net Position—Agency Fund.....	19
Notes to the Financial Statements	20
Required Supplementary Information:	
Schedule of Funding Progress—Other Post-employment Benefits Obligation	46
Schedule of City's Proportionate Share of the Net Pension Liability— Police and Fire Retirement System	47
Schedule of City's Contributions—Police and Fire Retirement System.....	48
Schedule of City's Proportionate Share of the Net Pension Liability— Employees' Retirement System.....	49

(continued)

CITY OF TONAWANDA, NEW YORK
Table of Contents
Year Ended December 31, 2015

(concluded)

	Page
Schedule of City's Contributions—Employees' Retirement System	50
Schedule of Revenues, Expenditures and Changes in Fund Balances— Budget and Actual—General Fund.....	51
Schedule of Revenues, Expenditures and Changes in Fund Balances— Budget and Actual—Sewer Fund	52
Schedule of Revenues, Expenditures and Changes in Fund Balances (Deficit)— Budget and Actual—Water Fund	53
Note to the Required Supplementary Information	54

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, 2015, 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. 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, 2015, 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, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended December 31, 2015 the City implemented Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other Required Supplementary Information, as listed in the 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

Drescher & Malecki LLP

June 8, 2016

CITY OF TONAWANDA, NEW YORK
Management's Discussion and Analysis
Year Ended December 31, 2015

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, 2015. 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. This document should be read in conjunction with additional information contained in the City's financial statements, which follow this narrative. For comparative purposes, certain information from the prior year has been reclassified to conform with the current year presentation.

Financial Highlights

- The liabilities and deferred inflows of resources of the City exceeded its assets and deferred outflows of resources at the December 31, 2015 resulting in a deficit *net position* of \$1,834,209. The City recognizes a deficit balance of \$16,345,661 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, \$13,900,000, compensated absences, \$2,690,592 and other post-employment benefits, \$2,859,432.
- The City's net position increased by \$2,216,426 during the year ended December 31, 2015.
- At the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$191,052, a decrease of \$697,598 in comparison with the prior year's fund balance of \$888,650.
- At the end of the current fiscal year, *unassigned fund balance* for the General Fund was \$2,093,767, or approximately 10.2 percent of General Fund expenditures and transfers out. This total amount is available for spending at the City's discretion and constitutes approximately 61.2 percent of the General Fund's total fund balance of \$3,419,599 at December 31, 2015.
- The City's total bonded indebtedness decreased by \$1,577,000 as a result of scheduled principal payments.

Overview of the Financial Statements

The discussion and analysis provided here is 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 City'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).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all, or a significant portion, of their costs through user fees and charges (*business-type activities*). The government-wide statements include the City's governmental activities. The governmental activities include most of the City's basic services including general government support, 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 13-14 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 fund financial statements 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 15-18 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 19 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 20-45.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City’s progress in funding its obligation to provide other post-employment benefits, the City’s net pension liability and the City’s budgetary comparison schedules for each major fund with legally adopted budget. Required Supplementary Information and a related note to the required supplementary information can be found on pages 46-54 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 and deferred inflows of resources of the primary government exceeded assets and deferred outflows of resources by \$1,834,209 at the close of the most recent fiscal year, as compared to \$4,050,653, as restated, 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,	
	2015	2014
		(as restated)
Current assets	\$ 11,307,510	\$ 11,925,000
Capital assets	27,836,253	25,339,167
Total assets	39,143,763	37,264,167
Deferred outflows	1,464,602	1,429,304
Current liabilities	10,222,835	13,281,454
Non-current liabilities	32,069,194	29,462,652
Total liabilities	42,292,029	42,744,106
Deferred inflows	150,545	-
Net position:		
Net investment in capital assets	13,671,627	10,552,281
Restricted	839,825	1,181,178
Unrestricted	(16,345,661)	(15,784,094)
Total net position	\$ (1,834,209)	\$ (4,050,635)

The largest portion of the City's net position, \$13,671,627, reflects its investment in capital assets (e.g. land, buildings, infrastructure, improvements and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, \$839,825, represents resources that are subject to external restrictions for particular purposes.

The remaining component is unrestricted net position, which in the case of the City is a deficit balance of \$16,345,661, 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, 2015 and December 31, 2014.

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

	Governmental Activities	
	Year Ended December 31,	
	2015	2014 (as restated)
Program revenues:		
Charges for services	\$ 3,466,480	\$ 3,204,747
Operating grants and contributions	100,364	151,155
Capital grants and contributions	2,372,301	2,004,156
General revenues	<u>19,100,970</u>	<u>18,457,141</u>
Total revenues	25,040,115	23,817,199
Program expenses	<u>22,823,689</u>	<u>23,295,045</u>
Change in net position	2,216,426	522,154
Net position—beginning	(4,050,635)	(4,696,007)
Restatement	<u>-</u>	<u>123,218</u>
Net position—ending	<u>\$ (1,834,209)</u>	<u>\$ (4,050,635)</u>

Overall revenues of the primary government increased 5.1 percent from the prior year, due primarily to the increases in property taxes, capital grants and departmental income. Total expenses decreased 2.0 percent from the year ended December 31, 2015, which is primarily attributed to the effect the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* had on 2015 activity. During 2015, the City recognized its' proportionate share of the New York State Employee Retirement System and Police and Fire Retirement Systems' net pension liability, which reduced the employee benefit expenses recognized on the government-wide statements.

A summary of sources of revenues for the years ended December 31, 2015 and December 31, 2014 is presented below in Table 3.

Table 3—Summary of Sources of Revenues—Primary Government

	Year Ended December 31,		Increase/(Decrease)	
	2015	2014	Dollars	Percent (%)
Charges for services	\$ 3,466,480	\$ 3,204,747	\$ 261,733	8.2
Operating grants and contributions	100,364	151,155	(50,791)	(33.6)
Capital grants and contributions	2,372,301	2,004,156	368,145	18.4
Property taxes	11,066,593	10,387,745	678,848	6.5
Non-property taxes	5,080,417	5,018,888	61,529	1.2
Mortgage tax	167,357	145,184	22,173	15.3
Use of money and property	3,044	8,563	(5,519)	(64.5)
Sale of property and compensation for loss	39,793	178,299	(138,506)	(77.7)
Miscellaneous	141,662	116,358	25,304	21.7
Unrestricted state aid	2,602,104	2,602,104	-	0.0
Total revenues	<u>\$ 25,040,115</u>	<u>\$ 23,817,199</u>	<u>\$ 1,222,916</u>	5.1

The most significant sources of revenues for the year ended December 31, 2015 were property taxes of \$11,066,593, or 44.2 percent of total revenues, non-property taxes of \$5,080,417, or 20.3 percent of total revenues and charges for services of \$3,466,480, or 13.8 percent of total revenues. Similarly, for the year ended December 31, 2014, the largest sources of revenues were property taxes of \$10,387,745, or 43.6 percent of total revenues, non-property taxes of \$5,018,888, or 21.1 percent of total revenues and charges for services of \$3,204,747, or 13.5 percent of total revenues.

During the year ended December 31, 2015, property tax revenue increased \$678,848 primarily due to an increase in the City's tax levy. Capital grants and contributions increased by \$368,145 primarily due to an increase in project activity during 2015.

A summary of program expenses for the years ended December 31, 2015 and December 31, 2014 is presented below in Table 4:

Table 4—Summary of Program Expenses—Primary Government

	Year Ended December 31,		Increase/(decrease)	
	2015	2014	Dollars	Percent (%)
General government support	\$ 3,306,606	\$ 3,242,612	\$ 63,994	2.0
Public safety	8,927,832	9,292,908	(365,076)	(3.9)
Transportation	4,312,762	4,145,800	166,962	4.0
Economic assistance and opportunity	-	52,535	(52,535)	(100.0)
Culture and recreation	1,595,767	1,304,561	291,206	22.3
Home and community services	4,210,845	4,913,365	(702,520)	(14.3)
Interest and other fiscal charges	469,877	343,264	126,613	36.9
Total program expenses	<u>\$ 22,823,689</u>	<u>\$ 23,295,045</u>	<u>\$ (471,356)</u>	(2.0)

The most significant expense items for the year ended December 31, 2015 were public safety of \$8,927,832, or 39.1 percent of total expenses, transportation of \$4,312,762, or 18.9 percent of total expense and home and community services of \$4,210,845, or 18.4 percent of total expenses. Similarly, for the year ended December 31, 2014, the most significant expense items were public safety of \$9,292,908, or 39.9 percent of total expenses, home and community services of \$4,913,365, or 21.1 percent of total expenses and transportation of \$4,145,800, or 17.8 percent of total expenses.

During the year ended December 31, 2015, home and community services decreased due to a decrease in pollution remediation costs as compared with the prior year.

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, 2015, the City’s governmental funds reported combined ending fund balance of \$191,052, a decrease of \$697,598 from the prior year fund balance of \$888,650. The *unassigned fund balance* at December 31, 2015 is in a deficit position totaling \$1,846,005 which is the result of short-term financing within the Capital Projects Fund and a deficit fund balance in the Water Fund. The remainder of fund balance is either *nonspendable*, *restricted* or *assigned* to indicate that it is: (1) not in spendable form, \$390,757, (2) restricted for particular purposes, \$839,825, or (3) assigned for particular purposes, \$806,475.

The *General Fund* is the chief operating fund of the City. At December 31, 2015, the unassigned fund balance of the General Fund was \$2,093,767, while the total fund balance was \$3,419,599. 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 10.2 percent of total General Fund expenditures, while total fund balance represents 16.7 percent of that same amount.

The total fund balance of the City’s General Fund decreased by \$176,070 during the current fiscal year. During the annual budget process, the City anticipated utilizing \$100,000 of fund balance. Largely, as a result of spending more than anticipated on employee benefits, the City’s General Fund balance ended \$76,070 lower than anticipated.

The City’s Sewer Fund ending fund balance was \$477,759. Approximately 99.2 percent, \$474,009 of this amount is reported as fund balance assigned for specific (Sewer Fund) use. During the year ended December 31, 2015, the Sewer Fund balance increased \$87,289 primarily due to an increase in sewer rents.

The City’s Water Fund ending fund balance was in a deficit position of \$39,680. During the year ended December 31, 2015, the Water Fund balance increased \$87,761 primarily due to a decrease in operating costs.

The City’s Capital Projects Fund ending fund balance was in a deficit position of \$3,900,092. During the year ended December 31, 2015, the Capital Projects Fund balance decreased \$675,313 primarily due to capital outlay financed primarily with bond anticipation notes.

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, 2015 is presented below in Table 5.

Table 5—Summary of General Fund Results of Operations

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
Revenues and other financing sources	\$ 20,240,538	\$ 20,261,873	\$ 20,282,660	\$ 20,787
Expenditures	20,340,538	20,361,873	20,458,730	(96,857)
Excess (deficiency) of revenues over expenditures and other financing uses	\$ (100,000)	\$ (100,000)	\$ (176,070)	\$ (76,070)

Original budget compared to final budget—No significant variances were noted between the original budget and final budget for the year ended December 31, 2015.

Final budget compared to actual results—A review of actual revenues and expenditures compared to the estimated revenues and appropriations in the final budget yield some unfavorable variances. The most significant variance of \$230,340 occurred in the employee benefits function due to unanticipated workers compensation settlements incurred during the year.

Capital Asset and Debt Administration

Capital Assets—The City's investment in capital assets for its governmental activities as of December 31, 2015, amounted to \$27,836,253 (net of accumulated depreciation). This investment in capital assets includes land, buildings and building improvements, machinery and equipment and infrastructure. 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, 2015 and December 31, 2014 are presented in Table 6 on the following page.

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

	December 31,	
	2015	2014
Land	\$ 328,850	\$ 328,850
Buildings and improvements	4,165,982	4,181,835
Machinery and equipment	3,063,301	3,167,027
Infrastructure	20,278,120	17,661,455
Total	<u>\$ 27,836,253</u>	<u>\$ 25,339,167</u>

Additional information on the City’s capital assets can be found in Note 5 to the financial statements.

Long-term Liabilities—At December 31, 2015, the City’s long-term liabilities consisted of serial bonds, capital leases, landfill post-closure costs, pollution remediation obligation, compensated absences, workers’ compensation, net pension liability and other postemployment benefits, which changed as follows:

Table 7—Long-Term Liabilities

	December 31,		
	2015	2014	Change
		(as restated)	
Serial bonds	\$ 10,840,000	\$ 12,417,000	\$ (1,577,000)
Capital leases	14,973	28,441	(13,468)
Landfill post-closure costs	340,000	360,000	(20,000)
Pollution remediation obligation	13,900,000	13,835,000	65,000
Compensated absences	2,690,592	2,851,420	(160,828)
Workers' compensation	501,212	842,565	(341,353)
Net pension liability	922,985	1,306,086	(383,101)
OPEB obligation	2,859,432	2,392,307	467,125
	<u>\$ 32,069,194</u>	<u>\$ 34,032,819</u>	<u>\$ (1,963,625)</u>

Additional information on long-term debt can be found in Note 11 to the financial statements.

Economic Factors and Next Year’s Budget

The unemployment rate, not seasonally adjusted, for the Buffalo-Niagara region during December 2015 was 5.1 percent. This is comparable to New York State’s unemployment rate of 4.7 and the national unemployment rate of 5.0 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.

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.

**** THIS PAGE INTENTIONALLY LEFT BLANK ****

BASIC FINANCIAL STATEMENTS

**** THIS PAGE INTENTIONALLY LEFT BLANK ****

CITY OF TONAWANDA, NEW YORK
Statement of Net Position
December 31, 2015

	<u>Primary Government Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,423,980
Restricted cash and cash equivalents	4,353,374
Taxes receivable	2,055,354
Receivables	632,638
Intergovernmental receivables	2,450,522
Prepaid items	390,757
Due from Agency Fund	885
Capital assets not being depreciated	328,850
Capital assets, net of accumulated depreciation	<u>27,507,403</u>
Total assets	<u>39,143,763</u>
DEFERRED OUTFLOW OF RESOURCES	
Deferred outflows—Relating to pensions	<u>1,464,602</u>
Total deferred outflow of resources	<u>1,464,602</u>
LIABILITIES	
Accounts payable	821,451
Accrued liabilities	444,716
Intergovernmental payables	1,200,186
Bond anticipation notes	7,756,482
Non-current liabilities:	
Due within one year	4,696,844
Due in more than one year	<u>27,372,350</u>
Total liabilities	<u>42,292,029</u>
DEFERRED INFLOW OF RESOURCES	
Deferred inflows—Relating to pensions	<u>150,545</u>
Total deferred inflow of resources	<u>150,545</u>
NET POSITION	
Net investment in capital assets	13,671,627
Restricted	839,825
Unrestricted	<u>(16,345,661)</u>
Total net position	<u>\$ (1,834,209)</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, 2015

<u>Function/Program</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and Changes</u>
			<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Primary</u>
					<u>Governmental</u>
					<u>Activities</u>
Primary government:					
Governmental activities:					
General government support	\$ 3,306,606	\$ 100,058	\$ 15,886	\$ -	\$ (3,190,662)
Public safety	8,927,832	676,913	64,464	-	(8,186,455)
Transportation	4,312,762	47,001	10,922	1,529,929	(2,724,910)
Economic assistance and opportunity	-	-	-	302,850	302,850
Culture and recreation	1,595,767	137,640	-	410,379	(1,047,748)
Home and community services	4,210,845	2,504,868	9,092	129,143	(1,567,742)
Interest and other fiscal charges	469,877	-	-	-	(469,877)
Total primary government	<u>\$ 22,823,689</u>	<u>\$ 3,466,480</u>	<u>\$ 100,364</u>	<u>\$ 2,372,301</u>	(16,884,544)
General revenues:					
					11,066,593
					5,080,417
					167,357
					3,044
					39,793
					141,662
					<u>2,602,104</u>
					19,100,970
					2,216,426
					<u>(4,050,635)</u>
					<u>\$ (1,834,209)</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, 2015

	<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	\$ 399,602	\$ 180,908	\$ 593,270	\$ -	\$ 250,200	\$ 1,423,980
Restricted cash and cash equivalents	838,825	-	-	3,513,549	1,000	4,353,374
Taxes receivable	2,055,354	-	-	-	-	2,055,354
Receivables	36,430	554,778	32,838	-	8,592	632,638
Intergovernmental receivables	1,788,324	-	-	662,198	-	2,450,522
Due from other funds	695,119	-	-	268,140	2,433	965,692
Prepaid items	387,007	3,750	-	-	-	390,757
Total assets	<u>6,200,661</u>	<u>739,436</u>	<u>626,108</u>	<u>4,443,887</u>	<u>262,225</u>	<u>12,272,317</u>
LIABILITIES						
Accounts payable	\$ 187,127	\$ 48,285	\$ -	\$ 583,606	\$ 2,433	\$ 821,451
Accrued liabilities	377,916	2,048	-	-	1,892	381,856
Intergovernmental payables	999,988	186,789	-	-	13,409	1,200,186
Due to other funds	268,140	24,555	665,788	3,891	2,433	964,807
Bond anticipation notes payable	-	-	-	7,756,482	-	7,756,482
Total liabilities	<u>1,833,171</u>	<u>261,677</u>	<u>665,788</u>	<u>8,343,979</u>	<u>20,167</u>	<u>11,124,782</u>
DEFERRED INFLOWS OF RESOURCES						
Property taxes	947,891	-	-	-	-	947,891
Loans receivable	-	-	-	-	8,592	8,592
Total deferred inflows of resources	<u>947,891</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,592</u>	<u>956,483</u>
FUND BALANCES (DEFICITS)						
Nonspendable	387,007	3,750	-	-	-	390,757
Restricted	838,825	-	-	-	1,000	839,825
Assigned	100,000	474,009	-	-	232,466	806,475
Unassigned	2,093,767	-	(39,680)	(3,900,092)	-	(1,846,005)
Total fund balances (deficits)	<u>3,419,599</u>	<u>477,759</u>	<u>(39,680)</u>	<u>(3,900,092)</u>	<u>233,466</u>	<u>191,052</u>
Total liabilities, deferred inflows of resources and fund balances (deficits)	<u>\$ 6,200,661</u>	<u>\$ 739,436</u>	<u>\$ 626,108</u>	<u>\$ 4,443,887</u>	<u>\$ 262,225</u>	<u>\$ 12,272,317</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, 2015

Amounts reported for governmental activities in the statement of net position (page 13) are different because:

Total fund balances (deficits)—governmental funds (page 15)	\$	191,052
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$57,942,937 and the accumulated depreciation is \$30,106,684.		27,836,253
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:		
Deferred outflows related to employer contributions	\$ 1,172,270	
Deferred outflows related to experience and investment	292,332	
Deferred inflows related to pension plans	<u>(150,545)</u>	1,314,057
Recognition of certain items which are deferred on the modified accrual basis, but should be recognized on the accrual basis.		
Real property taxes	\$ 947,891	
Loans receivable	<u>8,592</u>	956,483
Net accrued interest expense for serial bonds is not reported in the funds.		(62,860)
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	\$ (10,840,000)	
Capital leases	(14,973)	
Landfill postclosure costs	(340,000)	
Pollution remediation obligation	(13,900,000)	
Compensated absences	(2,690,592)	
Workers' compensation	(501,212)	
Net pension liability	(922,985)	
Other post-employment benefits	<u>(2,859,432)</u>	<u>(32,069,194)</u>
Net position of governmental activities	\$	<u><u>(1,834,209)</u></u>

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

CITY OF TONAWANDA, NEW YORK
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)—Governmental Funds
Year Ended December 31, 2015

	<u>General</u> <u>Fund</u>	<u>Sewer</u> <u>Fund</u>	<u>Water</u> <u>Fund</u>	<u>Capital</u> <u>Projects</u> <u>Fund</u>	<u>Total</u> <u>Nonmajor</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
REVENUES						
Real property taxes	\$ 10,260,838	\$ -	\$ -	\$ -	\$ -	\$ 10,260,838
Other tax items	747,444	-	-	-	-	747,444
Non property tax items	5,080,417	-	-	-	-	5,080,417
Departmental income	183,707	2,264,639	229,633	364,150	37,729	3,079,858
Intergovernmental charges	108,100	-	-	-	-	108,100
Use of money and property	2,019	196	-	729	100	3,044
Licenses and permits	110,593	-	-	-	-	110,593
Fines and forfeitures	532,079	-	-	-	-	532,079
Sale of property and compensation for loss	39,793	-	-	-	-	39,793
Miscellaneous	21,170	-	-	267,492	-	288,662
State aid	2,835,631	-	-	2,490,613	-	5,326,244
Federal aid	34,194	-	-	-	-	34,194
Total revenues	<u>19,955,985</u>	<u>2,264,835</u>	<u>229,633</u>	<u>3,122,984</u>	<u>37,829</u>	<u>25,611,266</u>
EXPENDITURES						
Current:						
General government support	2,148,358	-	-	-	-	2,148,358
Public safety	5,834,389	-	-	-	25,002	5,859,391
Transportation	2,020,944	-	-	-	-	2,020,944
Economic assistance and opportunity	-	-	-	-	-	-
Culture and recreation	988,412	-	-	-	24,360	1,012,772
Home and community services	1,125,261	1,079,808	-	-	9,732	2,214,801
Employee benefits	6,872,551	67,899	-	-	-	6,940,450
Debt service:						
Principal	1,163,000	285,000	129,000	-	-	1,577,000
Interest	305,815	139,839	12,872	-	-	458,526
Capital outlay	-	-	-	4,076,622	-	4,076,622
Total expenditures	<u>20,458,730</u>	<u>1,572,546</u>	<u>141,872</u>	<u>4,076,622</u>	<u>59,094</u>	<u>26,308,864</u>
Excess (deficiency) of revenues over expenditures	<u>(502,745)</u>	<u>692,289</u>	<u>87,761</u>	<u>(953,638)</u>	<u>(21,265)</u>	<u>(697,598)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	326,675	-	-	310,000	-	636,675
Transfers out	-	(605,000)	-	(31,675)	-	(636,675)
Total other financing sources and (uses)	<u>326,675</u>	<u>(605,000)</u>	<u>-</u>	<u>278,325</u>	<u>-</u>	<u>-</u>
Net change in fund balances (deficits)	(176,070)	87,289	87,761	(675,313)	(21,265)	(697,598)
Fund balances (deficits)—beginning	<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>
Fund balances (deficits)—ending	<u>\$ 3,419,599</u>	<u>\$ 477,759</u>	<u>\$ (39,680)</u>	<u>\$ (3,900,092)</u>	<u>\$ 233,466</u>	<u>\$ 191,052</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, 2015

Amounts reported for governmental activities in the statement of activities (page 13) are different because:

Net change in fund balances (deficits)—total governmental funds (page 17) \$ (697,598)

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	\$ 4,636,058	
Net disposition of capital assets	(116,474)	
Depreciation expense	<u>(2,022,498)</u>	2,497,086

Net differences between pension contributions recognized on the fund financial statements and the government-wide financial statements are as follows:

City pension contributions	\$ 1,172,270	
Cost of benefits earned net of employee contributions	<u>(904,416)</u>	267,854

In the statement of activities, interest expense is recognized as it accrues, regardless of when it is paid. (11,351)

The issuance of long-term debt 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. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Additionally, in the statement of activities, certain operating expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The net effect of these differences in the treatment of long-term debt and the related items is as follows:

Repayment of serial bonds	\$ 1,577,000	
Repayment of capital leases	13,468	
Landfill postclosure costs	20,000	
Pollution remediation obligation	(65,000)	
Compensated absences	160,828	
Workers' compensation	341,353	
Other postemployment benefits	<u>(467,125)</u>	1,580,524

Revenues in the statement of activities that do not provide current financial resources are reported as deferred inflows in the funds. (1,420,089)

Change in net position of governmental activities \$ 2,216,426

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, 2015

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 391,475
Total assets	<u>\$ 391,475</u>
LIABILITIES	
Agency liabilities	\$ 390,280
Accounts payable	310
Due to other funds	<u>885</u>
Total liabilities	<u>\$ 391,475</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, 2015

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. 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. The City reports no business-type activities.

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, construction or renovation of major capital facilities or equipment.

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. Balances between the funds included in governmental activities are eliminated 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, 2015; however, when the City does have investments they are recorded at fair value based on quoted market value.

Restricted Cash and Cash Equivalents—Represents 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

The *capital outlays* 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 (for example, the purchase of a new highway vehicle included as part of *expenditures—transportation*). At times, amounts reported as *capital outlays* in the Capital Projects Fund will also include non-capitalized, project-related costs (for example, furnishings).

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, 2015, the City has one item that qualifies for reporting in this category. The City recorded \$1,464,602 related to pensions on the government-wide financial statements. This represents the effect of the net change in the City's proportion of the collective net pension liability, the difference during the measurement period between the City's contributions and its proportionate share of the total contribution to the pension systems not included in the pension expense, and any contributions to the pension systems made subsequent to the measurement date.

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. At December 31, 2015, the City has one item, \$150,545, which qualifies for reporting in this category. This represents the effect of the net change in the City's proportion of the collective net pension liability and the difference during the measurement periods between the City's contributions and its proportionate share of total contributions to the pension systems not included in pension expense and is reported on the government-wide statements. Additionally, the City has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and 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—The City is mandated by New York State law to participate in the New York State Local Employees' Retirement System ("ERS") and the New York State Police and Fire Retirement System ("PFRS"). For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the

fiduciary net position of the defined benefit pension plan, and changes thereof, have been determined on the same basis as they are reported by the respective defined benefit pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. More information regarding pensions is included in Note 7.

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, 2015, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*; and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—and amendment of GASB Statement No. 68*. GASB Statements No. 68 and 71 improve accounting and recognizing liabilities/(assets), deferred outflows of resources, deferred inflows of resources and expenses related to pensions.

Future Impacts of Accounting Pronouncements—The City has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 72, *Fair Value Measurement and Application*; No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*; No. 77, *Tax Abatement Disclosures*; No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Plans*; and No. 79, *Certain External Investment Pool and Pool Participants*, effective for the fiscal year ending December 31, 2016; No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*; No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*; No. 80, *Blending Requirements for Certain Component Units an Amendment of GASB Statement No. 14*; No. 81, *Irrevocable Split-Interest Agreements*, and No. 82, *Pension Issues; an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for the fiscal year ending December 31, 2017; and No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for the fiscal year ending December 31, 2018. The City is, therefore, unable to disclose the impact that adopting GASB Statements No. 72, 73, 74, 75, 76, 77, 78, 79, 80, 81 and 82 will have on its financial position and results of operations when such statements are adopted.

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.

Deficit Fund Equity—The Capital Projects Fund had a deficit fund balance of \$3,900,092 at December 31, 2015. 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 \$39,680 is expected to be remedied in future periods by increased operating revenues and decreasing debt service obligations.

2. RESTATEMENT OF NET POSITION

For the year ended December 31, 2015, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The implementation of GASB Statements No. 68 and No. 71 resulted in the reporting of deferred outflows of resources, a liability and a deferred inflow of resources related to the City's participation in the New York State Employees' and Police and Fire Retirement Systems.

The City's net position has been restated as follows:

Net position—December 31, 2014, as previously stated	\$ (4,173,853)
GASB Statements No. 68 and No. 71 implementation:	
Beginning system liability—Employees' Retirement System	(687,695)
Beginning deferred outflow of resources for contributions subsequent to the measurement date:	
Employees' Retirement System	512,921
Beginning system liability—Police and Fire Retirement System	(618,391)
Beginning deferred outflow of resources for contributions subsequent to the measurement date:	
Police and Fire Retirement System	<u>916,383</u>
Net position—December 31, 2014, as restated	<u>\$ (4,050,635)</u>

3. 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, 2015, are as follows:

	Governmental Funds	Fiduciary Fund	Total
Petty Cash (uncollateralized)	\$ 1,450	\$ -	\$ 1,450
Deposits	<u>5,775,904</u>	<u>391,475</u>	<u>6,167,379</u>
Total	<u>\$ 5,777,354</u>	<u>\$ 391,475</u>	<u>\$ 6,168,829</u>

Deposits—All deposits are carried at fair value and are classified by custodial credit risk at December 31, 2015 as follows:

	Bank Balance	Carrying Amount
FDIC Insured	\$ 752,267	\$ 752,267
Uninsured:		
Collateral held by pledging bank's agent in the City's name	<u>5,814,538</u>	<u>5,415,112</u>
Total	<u>\$ 6,566,805</u>	<u>\$ 6,167,379</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, 2015, 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, 2015, the City reported \$4,353,374 of restricted cash and cash equivalents within its governmental activities.

Investments—The City had no investments at December 31, 2015.

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.

4. RECEIVABLES

Major revenues accrued by the City funds at December 31, 2015, 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.

Rehabilitation loans receivable—Rehabilitation loans receivable at December 31, 2015 consist of the individual home improvement revolving loans ranging in amount from \$417 to \$6,142 with an interest rate of 4% and repayment terms, secured by second mortgages on the individual properties. At December 31, 2015, outstanding balances totaled \$8,592 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, 2015 are presented on the following page.

General Fund:			
Due from New York State	\$	9,890	
Due from local municipalities		24,305	
Due from Erie County		<u>1,754,129</u>	\$ 1,788,324
Capital Projects Fund:			
Due from New York State		<u>662,198</u>	
Total governmental funds	\$		<u><u>2,450,522</u></u>

5. CAPITAL ASSETS

Capital asset activity for the City's governmental activities for the year ended December 31, 2015 was as follows:

	<u>Balance</u> <u>1/1/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2015</u>
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	9,297,160	271,375	-	9,568,535
Machinery and equipment	7,213,483	537,043	341,554	7,408,972
Infrastructure	<u>36,808,940</u>	<u>3,827,640</u>	<u>-</u>	<u>40,636,580</u>
Total capital assets, being depreciated	<u>53,319,583</u>	<u>4,636,058</u>	<u>341,554</u>	<u>57,614,087</u>
Less accumulated depreciation for:				
Buildings and building improvements	5,115,325	287,228	-	5,402,553
Machinery and equipment	4,046,456	524,295	225,080	4,345,671
Infrastructure	<u>19,147,485</u>	<u>1,210,975</u>	<u>-</u>	<u>20,358,460</u>
Total accumulated depreciation	<u>28,309,266</u>	<u>2,022,498</u>	<u>225,080</u>	<u>30,106,684</u>
Total capital assets, being depreciated, net	<u>25,010,317</u>	<u>2,613,560</u>	<u>(116,474)</u>	<u>27,507,403</u>
Governmental activities capital assets, net	<u>\$ 25,339,167</u>	<u>\$ 2,613,560</u>	<u>\$ (116,474)</u>	<u>\$ 27,836,253</u>

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

General government support	\$ 82,655
Public safety	251,218
Transportation	1,079,421
Culture and recreation	193,161
Home and community services	<u>416,043</u>
	<u>\$ 2,022,498</u>

6. ACCRUED LIABILITIES

Accrued liabilities reported by governmental funds of the City as of December 31, 2015, were as follows:

	General	Sewer	Nonmajor	Total
	Fund	Fund	Funds	Governmental
				Funds
Salary and employee benefits	\$ 62,031	\$ 2,048	\$ -	\$ 64,079
Judgments and claims - current	315,885	-	-	315,885
Other liabilities	-	-	1,892	1,892
Total	<u>\$ 377,916</u>	<u>\$ 2,048</u>	<u>\$ 1,892</u>	<u>\$ 381,856</u>

7. PENSION PLANS

Plan Descriptions and Benefits Provided

Police and Fire Retirement System (“PFRS”) and Employees’ Retirement System (“ERS”)—The City participates in the New York State and Local Police and Fire Retirement System (“PFRS”) and the New York State and Local Employees’ Retirement System (“ERS”). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund (the “Fund”), which was established to hold all assets and record changes in fiduciary net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. System benefits are established under the provisions of the NYSRSSL. Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The City also participates in the Public Employees’ Group Life Insurance Plan (“GLIP”), which provides death benefits in the form of life insurance. The System is included in the State’s financial report as a pension trust fund. That report, including information with regards to benefits provided, may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

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) or January 9, 2010 (PFRS), who generally contribute three percent (3%) to three and one half percent (3.5%) of their salary for their entire length of service. In addition, employee contribution rates under ERS Tier VI vary based on a sliding salary scale. The Comptroller annually certifies the actuarially determined rates expressly used in computing the employers’ contributions based on salaries paid during the System’s fiscal year ending March 31.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Inflows of Resources Related to Pensions—At December 31, 2015, the City reported the following liabilities for its proportionate share of the net pension liabilities for PFRS and ERS. The net pension liabilities were measured as of March 31, 2015. The total pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of April 1, 2014, with update procedures used to roll forward the total net pension liabilities to the measurement date. The City’s proportion of the net

pension liabilities were based on projections of the City's long-term share of contributions to the System relative to the projected contributions of all participating members, actuarially determined. This information was provided by the System in reports provided to the City.

	PFRS	ERS
Measurement date	March 31, 2015	March 31, 2015
Net pension liability	\$ 408,873	\$ 514,112
City's portion of the Plan's total net pension liability	0.1485410%	0.0152183%

For the year ended December 31, 2015, the City recognized pension expenses of \$927,718 and \$453,133, respectively, for PFRS and ERS. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	PFRS	ERS	PFRS	ERS
Differences between expected and actual experiences	\$ 49,308	\$ 16,457	\$ -	\$ -
Changes of assumptions	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	137,272	89,295	-	-
Changes in proportion and differences between the City's contributions and proportionate share of contributions	-	-	101,972	48,573
City contributions subsequent to the measurement date	<u>422,175</u>	<u>750,095</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 608,755</u>	<u>\$ 855,847</u>	<u>\$ 101,972</u>	<u>\$ 48,573</u>

The City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	PFRS	ERS
2016	\$ 23,785	\$ 14,295
2017	23,785	14,295
2018	23,785	14,295
2019	13,253	14,294

Actuarial Assumptions—The total pension liabilities as of the measurement date were determined by using actuarial valuations as noted in the table below, with update procedures used to roll forward the total pension liabilities to the measurement date. The actuarial valuations used the actuarial assumptions presented on the following page.

	PFRS	ERS
Measurement date	March 31, 2015	March 31, 2015
Actuarial valuation date	April 1, 2014	April 1, 2014
Interest rate	7.50%	7.50%
Salary scale	6.00%	4.90%
Decrement tables	April 1, 2005- March 31, 2010	April 1, 2005- March 31, 2010
Inflation rate	2.7%	2.7%

Annuitant mortality rates are based on April 1, 2005 – March 31, 2010 System’s experience with adjustments for mortality improvements based on Society of Actuaries’ Scale MP-2014.

The actuarial assumptions used in the April 1, 2014 valuation are based on the results of an actuarial experience study for the period April 1, 2005 – March 31, 2010.

The long-term rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by each the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation are summarized below.

	PFRS and ERS	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
	March 31, 2015	
Measurement date		
Asset class:		
Domestic equities	38.0 %	7.3 %
International equities	13.0	8.6
Private equity	10.0	11.0
Real estate	8.0	8.3
Absolute return strategies	3.0	6.8
Opportunistic portfolio	3.0	8.6
Real assets	3.0	8.7
Bonds and mortgages	18.0	4.0
Cash	2.0	2.3
Inflation-indexed bonds	<u>2.0</u>	4.0
Total	<u>100.0 %</u>	

Discount Rate—The discount rate used to calculate the total pension liabilities was 7.5%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan

members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption—The chart below presents the City’s proportionate share of the net pension liabilities calculated using the discount rate of 7.5%, as well as what the City’s proportionate share of the net pension liabilities would be if they were calculated using a discount rate that is one percentage-point lower (6.5%) or one percentage-point higher (8.5%) than the current assumption.

	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
Employer's proportionate share of the net pension liability—PFRS	\$ 5,443,935	\$ 408,873	\$ (3,810,812)
Employer's proportionate share of the net pension liability—ERS	3,426,781	514,112	(1,944,902)

Pension Plan Fiduciary Net Position—The components of the current-year net pension liabilities of the employers as of the valuation dates, were as follows:

	(Dollars in Thousands)		
	PFRS	ERS	Total
Valuation date	March 31, 2015	March 31, 2015	
Employers' total pension liability	\$ 28,474,417	\$ 164,591,504	\$ 193,065,921
Plan fiduciary net position	<u>28,199,157</u>	<u>161,213,259</u>	<u>189,412,416</u>
Employers' net pension liability	<u>\$ 275,260</u>	<u>\$ 3,378,245</u>	<u>\$ 3,653,505</u>
System fiduciary net position as a percentage of total pension liability	99.0%	97.9%	98.1%

8. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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 \$614,502 were recorded in the General Fund for the year ended December 31, 2015.

At December 31, 2015 the amount of long-term liabilities relating to workers’ compensation was \$501,212. This liability is the City’s best estimate based on available information.

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
2015	\$ 842,565	273,149	\$ 614,502	\$ 501,212
2014	889,065	332,443	378,943	842,565

Additionally, the City 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 \$1 million per occurrence, and an aggregate \$6 million limit.

9. 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>Year Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Annual required contribution ("ARC")	\$ 2,449,840	\$ 1,957,197
Interest on net OPEB obligation	95,692	80,861
Adjustment to ARC	<u>(103,342)</u>	<u>(83,739)</u>
Annual OPEB cost (expense)	2,442,190	1,954,319
Expected contributions	<u>(1,975,065)</u>	<u>(1,768,933)</u>
Increase in net OPEB obligation	467,125	185,386
Net OPEB obligation—beginning of year	<u>2,392,307</u>	<u>2,206,921</u>
Net OPEB obligation—end of year	<u>\$ 2,859,432</u>	<u>\$ 2,392,307</u>

Funding Status and Funding Progress— As of December 31, 2015, 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 \$52,374,699.

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:

<u>Year Ended December 31,</u>	<u>Annual Required Contribution</u>	<u>Contributions Made</u>	<u>Percentage Contributed</u>
2015	\$ 2,449,840	\$ 1,975,065	80.6%
2014	1,957,197	1,768,933	90.4%
2013	1,954,319	1,768,933	90.5%

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, 2015 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, 2015. The expected interest rate, salary scale,

and inflation rate was 4.0%, 3.0%, and 2.2%, respectively. The RP-2014 projected to 2015, 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, 2015 was 22 years.

10. SHORT-TERM DEBT

Liabilities for bond anticipation notes (“BANs”) are generally accounted for in the Capital Projects Fund. Principal payments on BANs must be made annually. State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. However, BANs issued for accessible improvement projects may be renewed for periods equivalent to the life of permanent financing, provided that 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, 2015:

Description	Interest Rate	Maturity Date	Balance 1/1/2015	Issues	Redemptions	Balance 12/31/2015
Capital Projects Fund:						
Bond anticipation notes	1.00%	6/11/2015	\$ 6,241,000	\$ -	\$ 6,241,000	\$ -
Bond anticipation notes	1.13%	6/9/2016	-	7,756,482	-	7,756,482
			<u>\$ 6,241,000</u>	<u>\$ 7,756,482</u>	<u>\$ 6,241,000</u>	<u>\$ 7,756,482</u>

11. LONG-TERM LIABILITIES

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 postclosure costs, pollution remediation obligation, compensated absences, workers’ compensation, net pension liability 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.

The changes in the City’s long-term liabilities at December 31, 2015 are summarized on the following page.

	Balance			Balance	Due within
	1/1/2015			12/31/2015	one year
	(as restated)	Additions	Reductions		
Serial bonds	12,417,000	-	1,577,000	10,840,000	1,455,000
Capital leases	28,441	-	13,468	14,973	7,253
Landfill post-closure costs	360,000	-	20,000	340,000	20,000
Pollution remediation obligation	13,835,000	2,840,000	2,775,000	13,900,000	3,055,000
Compensated absences	2,851,420	270,165	430,993	2,690,592	134,530
Workers' compensation	842,565	273,149	614,502	501,212	25,061
Net pension liability*	1,306,086	-	383,101	922,985	-
OPEB obligation	2,392,307	2,442,190	1,975,065	2,859,432	-
	<u>\$ 34,032,819</u>	<u>\$ 5,825,504</u>	<u>\$ 7,789,129</u>	<u>\$ 32,069,194</u>	<u>\$ 4,696,844</u>

(*reductions to the net pension liability are shown net of additions)

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, 2015 follows:

Description	Issue/ Maturity	Original Issue	Interest Rate (%)	Balance 1/1/2015	Additions	Reductions	Balance 12/31/2015
General Fund:							
Recreation and water line	2001-2015	\$ 1,620,000	4.75%	\$ 75,000	\$ -	\$ 75,000	\$ -
Wales avenue landfill closure	2003-2020	2,394,500	3.55%	920,000	-	145,000	775,000
Public improvement	2004-2024	1,690,000	4.38%	750,000	-	75,000	675,000
Fire headquarters roof	2009-2016	115,000	3.05%	40,000	-	20,000	20,000
Street improvement (refunding)	2009-2018	1,280,000	3.25%	60,000	-	16,000	44,000
Roads and equipment	2010-2019	980,000	3.50%	550,000	-	110,000	440,000
Various purpose	2011-2020	1,728,499	2.00%	980,000	-	205,000	775,000
Public improvement	2012-2022	710,000	2.50%	487,500	-	90,000	397,500
Public improvement	2014-2033	5,382,000	2.00%	5,382,000	-	427,000	4,955,000
Total General Fund		<u>15,899,999</u>		<u>9,244,500</u>	<u>-</u>	<u>1,163,000</u>	<u>8,081,500</u>
Water Fund:							
Reconstruction water plan (refunding)	2009-2018	1,567,710	3.25%	475,000	-	129,000	346,000
Total Water Fund		<u>1,567,710</u>		<u>475,000</u>	<u>-</u>	<u>129,000</u>	<u>346,000</u>
Sewer Fund:							
Pump station - EFC	1996-2015	825,000	2.60%	50,000	-	50,000	-
Sewer Improvement	2002-2022	1,233,250	4.52%	565,000	-	65,000	500,000
Sewer pump and improvement	2009-2016	600,000	3.05%	195,000	-	95,000	100,000
Public improvement	2012-2037	1,900,000	2.50%	1,777,500	-	65,000	1,712,500
Public improvement	2014-2031	110,000	2.00%	110,000	-	10,000	100,000
Total Sewer Fund		<u>\$ 4,668,250</u>		<u>\$ 2,697,500</u>	<u>\$ -</u>	<u>\$ 285,000</u>	<u>\$ 2,412,500</u>
Total governmental funds		<u>\$ 22,135,959</u>		<u>\$ 12,417,000</u>	<u>\$ -</u>	<u>\$ 1,577,000</u>	<u>\$ 10,840,000</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, 2015 are as follows:

Year ending December 31,	Governmental Activities
2016	\$ 8,219
2017	8,218
Total minimum lease payment	16,437
Less: amount representing interest	(1,464)
Present value of minimum lease payments	<u>\$ 14,973</u>

Landfill Postclosure 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 \$340,000 reported as the accrued landfill post-closure care liability at December 31, 2015 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 2015.

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, 2015, to address the violation is \$13,900,000. 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, 2015 amounts to \$2,690,592, of which \$134,530 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 8, the estimated liability related to workers’ compensation claims amounted to \$501,212 at December 31, 2015.

Net Pension Liability—The City reports a liability for its proportionate share of the net pension liability for the Employee Retirement System and Police and Fire Retirement System. The net pension liability is estimated to be \$922,985 in the governmental activities. Refer to Note 7 for additional information related to the City’s net pension liability.

Other Post-employment Benefits Obligation—As explained in Note 9, the City provides health insurance coverage for retirees. The City’s annual postemployment benefit (“OPEB”) cost is calculated based on the annual required contribution of the employer, an amount actuarially

determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The estimated long-term OPEB liability is \$2,859,432 as of December 31, 2015.

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	Net Pension Liability	OPEB Obligation	Total
2016	\$ 1,455,000	\$ 7,253	\$ 20,000	\$ 3,055,000	\$ 134,530	\$ 25,061	\$ -	\$ -	\$ 4,696,844
2017	1,270,000	7,720	20,000	2,755,000	-	-	-	-	4,052,720
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	935,000	-	20,000	2,580,000	-	-	-	-	3,535,000
2021-2025	2,535,000	-	100,000	-	-	-	-	-	2,635,000
2026-2030	1,500,000	-	100,000	-	-	-	-	-	1,600,000
2031-2035	795,000	-	40,000	-	-	-	-	-	835,000
2036 and thereafter	180,000	-	-	-	2,556,062	476,151	922,985	2,859,432	6,994,630
	<u>\$ 10,840,000</u>	<u>\$ 14,973</u>	<u>\$ 340,000</u>	<u>\$ 13,900,000</u>	<u>\$ 2,690,592</u>	<u>\$ 501,212</u>	<u>\$ 922,985</u>	<u>\$ 2,859,432</u>	<u>\$ 32,069,194</u>

Annual interest requirements on serial bonds outstanding as of December 31, 2015 are as follows:

Year ending December 31,	Bond Interest
2016	\$ 316,809
2017	276,557
2018	241,081
2019	207,858
2020	177,496
2021-2025	594,760
2026-2030	285,694
2031-2035	96,850
2033 and thereafter	7,200
	<u>\$ 2,204,304</u>

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

12. 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			\$ 27,836,253
Less:			
Serial bonds	\$ (10,840,000)		
Bond anticipation notes	(7,756,482)		
Capital leases	(14,973)		
Add: debt issued, which was not used for capital assets included in capital asset inventory and unspent debt proceeds used for capital projects:			
Bonds issued for landfill remediation	775,000		
Bonds issued for water system	346,000		
Unspent debt proceeds	<u>3,325,829</u>	<u>(14,164,626)</u>	
Net investment in capital assets			<u>\$ 13,671,627</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. Restricted net position as December 31, 2015 is equal to restricted fund balance as detailed below.
- **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, 2015 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 \$387,007 and \$3,750, respectively, at December 31, 2015.

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, 2015, the City reported the following restricted fund balance:

	General Fund	Other Governmental Funds	Total
Tax stabilization reserve	\$ 200,000	\$ -	\$ 200,000
Workers' compensation reserve	501,212	-	501,212
Insurance reserve	137,613	-	137,613
Historical restoration reserve	-	1,000	1,000
Total restricted fund balance	<u>\$ 838,825</u>	<u>\$ 1,000</u>	<u>\$ 839,825</u>

- **Restricted for Tax Stabilization**—Represents funds accumulated and utilized to minimize future tax increases in the General Fund.

- **Restricted for Workers' Compensation**—Represents funds accumulated to be utilized towards future workers compensation claims.
- **Restricted for Insurance**— Represents funds established within the General Fund which will be used to pay claims, actions or judgments against the City that results from personal injuries or property damage.
- **Restricted for Historical Restoration**—Represents funds reserved within the Community Development Fund to be utilized towards historical restoration.

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, 2015, 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, 2015, the City reported the following fund balance assignments:

	General Fund	Sewer Fund	Other Governmental Funds	Total
Assigned for:				
Self-insurance	\$ 100,000	\$ -	\$ -	\$ 100,000
Specific use	<u>-</u>	<u>474,009</u>	<u>232,466</u>	<u>706,475</u>
Total assigned fund balance	<u>\$ 100,000</u>	<u>\$ 474,009</u>	<u>\$ 232,466</u>	<u>\$ 806,475</u>

- **Assigned to Self-insurance**—Represents funds set aside for future insurance claims.
- **Assigned to Specific Use**—Represents fund balance of special revenue funds to be used for each fund's specific purpose.

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.

13. 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, 2015 is as follows:

Fund	Interfund	
	Receivables	Payables
Governmental Funds:		
General Fund	\$ 695,119	\$ 268,140
Sewer Fund	-	24,555
Water Fund	-	665,788
Capital Projects Fund	268,140	3,891
Other Governmental Funds	<u>2,433</u>	<u>2,433</u>
Total governmental funds	965,692	964,807
Agency Fund	<u>-</u>	<u>885</u>
Total	<u>\$ 965,692</u>	<u>\$ 965,692</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, 2015:

Fund	Transfers out:		
	Sewer Fund	Capital Projects	Total
Transfers in:			
General	\$ 295,000	\$ 31,675	\$ 326,675
Capital Projects	<u>310,000</u>	<u>-</u>	<u>310,000</u>
	<u>\$ 605,000</u>	<u>\$ 31,675</u>	<u>\$ 636,675</u>

Transfers are used primarily to support capital projects and to chargeback allocations per the budget.

14. 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, 2015 is presented below:

	Balance 1/1/2015	Additions	Deletions	Balance 12/31/2015
ASSETS				
Cash and cash equivalents	\$ 739,536	\$ 6,967,491	\$ 7,315,552	\$ 391,475
Total assets	<u>739,536</u>	<u>6,967,491</u>	<u>7,315,552</u>	<u>391,475</u>
LIABILITIES				
Agency liabilities	370,976	5,757,369	5,738,065	390,280
Accounts payable	109	1,209,237	1,209,036	310
Due to other funds	<u>368,451</u>	<u>885</u>	<u>368,451</u>	<u>885</u>
Total liabilities	<u>\$ 739,536</u>	<u>\$ 6,967,491</u>	<u>\$ 7,315,552</u>	<u>\$ 391,475</u>

15. 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.

16. 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, 2015, the City reported no encumbrances.

17. 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, 2015, the NYSDEC has required that the City commit an estimated \$13,900,000 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.

18. SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 8, 2016, 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.

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

**** THIS PAGE INTENTIONALLY LEFT BLANK ****

CITY OF TONAWANDA, NEW YORK
Schedule of Funding Progress—Other Post-employment Benefits Obligation
Year Ended December 31, 2015

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2015	12/31/2015	\$ -	\$ 52,374,699	\$ 52,374,699	0.0%	\$ 7,200,224	727.4%
12/31/2013	12/31/2013	-	43,538,616	43,538,616	0.0%	N/A	N/A
12/31/2011	12/31/2011	-	47,731,182	47,731,182	0.0%	N/A	N/A

CITY OF TONAWANDA, NEW YORK
Schedule of City's Proportionate Share of the
Net Pension Liability—Police and Fire Retirement System
Last Two Years

	<u>Year Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Measurement date	March 31, 2015	March 31, 2014
City's proportion of the net pension liability	0.148541%	0.148541%
City's proportionate share of the net pension liability	<u>\$ 408,873</u>	<u>\$ 618,391</u>
City's covered-employee payroll	\$ 4,505,415	\$ 4,358,890
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	9.08%	14.19%
Plan fiduciary net position as a percentage of the total pension liability	99.0%	98.5%

CITY OF TONAWANDA, NEW YORK
Schedule of City's Contributions—
Police and Fire Retirement System
Last Two Years

	Year Ended December 31,	
	2015	2014
Contractually required contribution	\$ 1,221,844	\$ 1,093,187
Contributions in relation to the contractually required contribution	(1,221,844)	(1,093,187)
Contribution deficiency (excess)	\$ -	\$ -
City's covered-employee payroll	\$ 4,505,415	\$ 4,358,890
Contributions as a percentage of covered-employee payroll	27.1%	25.1%

CITY OF TONAWANDA, NEW YORK
Schedule of City's Proportionate Share of the
Net Pension Liability—Employees' Retirement System
Last Two Years

	<u>Year Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Measurement date	March 31, 2015	March 31, 2014
City's proportion of the net pension liability	0.0152183%	0.0152183%
City's proportionate share of the net pension liability	<u>\$ 514,112</u>	<u>\$ 687,695</u>
City's covered-employee payroll	\$ 3,831,824	\$ 3,715,498
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	13.42%	18.51%
Plan fiduciary net position as a percentage of the total pension liability	97.9%	97.2%

CITY OF TONAWANDA, NEW YORK
Schedule of City's Contributions—
Employees' Retirement System
Last Two Years

	Year Ended December 31,	
	2015	2014
Contractually required contribution	\$ 683,895	\$ 706,927
Contributions in relation to the contractually required contribution	(683,895)	(706,927)
Contribution deficiency (excess)	\$ -	\$ -
City's covered-employee payroll	\$ 3,831,824	\$ 3,715,498
Contributions as a percentage of covered-employee payroll	17.8%	19.0%

CITY OF TONAWANDA, NEW YORK
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual—General Fund
Year Ended December 31, 2015

REVENUES	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Real property taxes	\$ 10,286,584	\$ 10,286,584	\$ 10,260,838	\$ (25,746)
Other tax items	671,500	671,500	747,444	75,944
Non property tax items	5,128,000	5,128,000	5,080,417	(47,583)
Departmental income	197,250	197,250	183,707	(13,543)
Intergovernmental charges	75,000	75,000	108,100	33,100
Use of money and property	9,800	9,800	2,019	(7,781)
Licenses and permits	128,000	128,000	110,593	(17,407)
Fines and forfeitures	545,000	545,000	532,079	(12,921)
Sale of property and compensation for loss	84,000	84,000	39,793	(44,207)
Miscellaneous local sources	22,500	22,500	21,170	(1,330)
State aid	2,797,904	2,797,904	2,835,631	37,727
Federal aid	-	21,335	34,194	12,859
Total revenues	<u>19,945,538</u>	<u>19,966,873</u>	<u>19,955,985</u>	<u>(10,888)</u>
EXPENDITURES				
Current:				
General government support	2,330,023	2,286,142	2,148,358	137,784
Public safety	5,674,988	5,792,048	5,834,389	(42,341)
Transportation	2,132,829	2,061,529	2,020,944	40,585
Culture and recreation	999,906	1,008,481	988,412	20,069
Home and community services	1,086,472	1,133,772	1,125,261	8,511
Employee benefits	6,678,630	6,642,211	6,872,551	(230,340)
Debt service:				
Principal	1,143,000	1,143,000	1,163,000	(20,000)
Interest	294,690	294,690	305,815	(11,125)
Total expenditures	<u>20,340,538</u>	<u>20,361,873</u>	<u>20,458,730</u>	<u>(96,857)</u>
Excess (deficiency) of revenues over expenditures	<u>(395,000)</u>	<u>(395,000)</u>	<u>(502,745)</u>	<u>(107,745)</u>
OTHER FINANCING SOURCES				
Transfers in	<u>295,000</u>	<u>295,000</u>	<u>326,675</u>	<u>31,675</u>
Total other financing sources	<u>295,000</u>	<u>295,000</u>	<u>326,675</u>	<u>31,675</u>
Net change in fund balance*	(100,000)	(100,000)	(176,070)	(76,070)
Fund balance—beginning	<u>3,595,669</u>	<u>3,595,669</u>	<u>3,595,669</u>	-
Fund balance—ending	<u>\$ 3,495,669</u>	<u>\$ 3,495,669</u>	<u>\$ 3,419,599</u>	<u>\$ (76,070)</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, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance</u> <u>with Final</u> <u>Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Departmental income	\$ 2,052,396	\$ 2,052,396	\$ 2,264,639	\$ 212,243
Use of money and property	1,000	1,000	196	(804)
Total revenues	<u>2,053,396</u>	<u>2,053,396</u>	<u>2,264,835</u>	<u>211,439</u>
EXPENDITURES				
Current:				
Home and community services	1,238,230	1,238,230	1,079,808	158,422
Employee benefits	69,205	69,205	67,899	1,306
Debt service:				
Principal	595,000	595,000	285,000	310,000
Interest	152,901	152,901	139,839	13,062
Total expenditures	<u>2,055,336</u>	<u>2,055,336</u>	<u>1,572,546</u>	<u>482,790</u>
Excess (deficiency) of revenues over expenditures	<u>(1,940)</u>	<u>(1,940)</u>	<u>692,289</u>	<u>694,229</u>
OTHER FINANCING USES				
Transfers out	<u>(295,000)</u>	<u>(295,000)</u>	<u>(605,000)</u>	<u>(310,000)</u>
Total other financing uses	<u>(295,000)</u>	<u>(295,000)</u>	<u>(605,000)</u>	<u>(310,000)</u>
Net change in fund balance	(296,940)	(296,940)	87,289	384,229
Fund balance—beginning	<u>390,470</u>	<u>390,470</u>	<u>390,470</u>	<u>-</u>
Fund balance—ending	<u>\$ 93,530</u>	<u>\$ 93,530</u>	<u>\$ 477,759</u>	<u>\$ 384,229</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—Water Fund
Year Ended December 31, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Departmental income	\$ 141,873	\$ 141,873	\$ 229,633	\$ 87,760
Total revenues	<u>141,873</u>	<u>141,873</u>	<u>229,633</u>	<u>87,760</u>
EXPENDITURES				
Debt service				
Principal	129,000	129,000	129,000	-
Interest	<u>12,873</u>	<u>12,873</u>	<u>12,872</u>	<u>1</u>
Total expenditures	<u>141,873</u>	<u>141,873</u>	<u>141,872</u>	<u>1</u>
Net change in fund balance	-	-	87,761	87,759
Fund balance (deficit)—beginning	<u>(127,441)</u>	<u>(127,441)</u>	<u>(127,441)</u>	<u>-</u>
Fund balance (deficit)—ending	<u>\$ (127,441)</u>	<u>\$ (127,441)</u>	<u>\$ (39,680)</u>	<u>\$ 87,759</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, 2015

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, 2015 exceeded the adjusted budget as follows:

- Expenditures within the public safety function exceeded the adjusted budget by \$42,341.
- Expenditures within the employee benefits function exceeded the budget by \$230,340.
- Expenditures within the principal function exceeded the budget by \$20,000.
- Expenditures within the interest function exceeded the budget by \$11,125.

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, 2015 exceeded the adjusted budget within the transfers out function by \$310,000; this is offset by a favorable variance within the Debt service—principal function.