

OFFICIAL STATEMENT DATED MAY 23, 2013

NEW ISSUE/RENEWALS

BOND ANTICIPATION NOTES

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

The Notes will NOT be designated as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code.

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

\$10,262,000

BOND ANTICIPATION NOTES, 2013
(the "Notes")

Dated: June 13, 2013

Maturity Date: June 12, 2014

Security and Sources of Payment: The Notes will constitute general obligations of the City and will contain a pledge of its faith and credit for the payment of the principal of and interest on the Notes. Unless paid from other sources, all the taxable real property within the City will be subject to the levy of *ad valorem* taxes, without limitation as to rate or amount, for such purpose (subject to certain statutory limitations imposed by Chapter 97 of the 2011 Laws of New York [the "Tax Levy Limit Law"]; see "REAL PROPERTY TAX INFORMATION – Tax Levy Limit Law," herein).

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

Form and Denomination: The Notes will be issued as registered notes, and at the option of the initial purchaser(s), may be registered to the Depository Trust Company ("DTC" or the "Securities Depository"), or may be registered in the name of the initial purchaser(s).

If the Notes will be issued through DTC, the Notes will be registered in the name of Cede & Co., as nominee of DTC in New York, New York, which will act as Securities Depository for the Notes. Individual purchases will be made in book-entry-only form, in the principal amount of \$5,000 or integral multiples thereof, except for one Note of an odd denomination, as may be determined by such successful bidder(s). Purchasers of the Notes will not receive certificates representing their ownership interest in the Notes. Payments of principal of and interest on the Notes will be made by the City to DTC, which will in turn remit such principal and interest to its Participants for subsequent distribution to the Beneficial Owners of the Notes. See "THE NOTES - Book-Entry Only System," herein.

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

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

The Notes are offered when, as and if issued and received by the initial purchaser(s) and subject to the receipt of the legal opinion as to the validity of the Notes of Hodgson Russ LLP, Bond Counsel, of Buffalo, New York, and certain other conditions. It is anticipated that the Notes will be available for delivery in New York, New York or at such other place as may be agreed with the initial purchaser(s) on or about June 13, 2013.

THE CITY DEEMS THIS OFFICIAL STATEMENT TO BE FINAL FOR PURPOSES OF SECURITIES AND EXCHANGE COMMISSION RULE 15C2-12 (THE "RULE"), EXCEPT FOR CERTAIN INFORMATION THAT HAS BEEN OMITTED HEREFROM IN ACCORDANCE WITH THE RULE AND THAT WILL BE SUPPLIED WHEN THIS OFFICIAL STATEMENT IS UPDATED FOLLOWING THE SALE OF THE NOTES. THIS OFFICIAL STATEMENT WILL BE SO UPDATED UPON REQUEST OF THE SUCCESSFUL BIDDER(S) AS MORE FULLY DESCRIBED IN THE NOTICE OF SALE WITH RESPECT TO THE NOTES. IN ADDITION, THE CITY WILL ENTER INTO AN UNDERTAKING TO PROVIDE NOTICE OF CERTAIN DESIGNATED EVENTS, AS REQUIRED BY THE RULE (SEE "DISCLOSURE UNDERTAKING," HEREIN).

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ERIE COUNTY, NEW YORK**

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* * *

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Common Council
Carleton R. Zeisz, President

1st Ward
Heather D. Little

2nd Ward
Blake R. Boyle

3rd Ward
Richard A. Slisz

4th Ward
Tyler J. Kossow

* * *

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

* * *

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* * *

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

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OFFICIAL STATEMENT

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

\$10,262,000 BOND ANTICIPATION NOTES, 2013 (the "Notes")

This Official Statement, which includes the cover page and appendices hereto, presents certain information relating to the City of Tonawanda, in the County of Erie, in the State of New York (the "City," "County" and "State," respectively) in connection with the sale of the City's \$10,262,000 Bond Anticipation Notes, 2013 (the "Notes") of the City.

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

THE NOTES

Description of the Notes

The Notes will be dated June 13, 2013 and will mature, without the right of prior redemption, on June 12, 2014 with interest payable at maturity at the annual rate(s) specified by the purchaser(s). Interest on the Notes shall be calculated on a 30-day month and a 360-day year basis.

The Notes will be general obligations of the City, and will contain a pledge of the City's faith and credit for the payment of the principal thereof and interest thereon as required by the Constitution and laws of the State of New York (State Constitution, Article VIII, Section 2; Local Finance Law, Section 100.00). Unless paid from other sources, all the taxable real property within the City is subject to the levy of *ad valorem* taxes to pay the Notes and interest thereon, without limitation as to rate or amount, sufficient to pay such principal and interest as the same become due (subject to certain statutory limitations imposed by the Tax Levy Limit Law; see "REAL PROPERTY TAX INFORMATION—Tax Levy Limit Law," herein).

The Notes will be issued in registered form. At the option of the purchaser(s), the Notes may be registered in the name of the purchaser(s), with principal of and interest on the Notes being payable in Federal Funds at such bank or trust company located and authorized to do business in the State of New York as may be selected by the successful bidder(s). In such case, the Notes will be issued in registered form in denominations of \$5,000, or integral multiples thereof, except for one Note of an odd denomination, as may be determined by such successful bidder(s). Alternatively, the Notes may be registered in the name of Cede & Co. as nominee for The Depository Trust Company ("DTC"), New York, New York, with DTC as securities depository for the Notes. See "Book-Entry-Only System" herein. Under the DTC scenario, one fully-registered Note certificate will be issued for all Notes bearing the same rate of interest and CUSIP number, each in the aggregate principal amount of such issue, and purchasers will not receive certificates representing their interest in the Notes. Principal and interest will be paid in lawful money of the United States of America (Federal Funds) by the City directly to DTC for its nominee, Cede & Co.

The financial condition of the City as well as the market for the Notes could be affected by a variety of factors, some of which are beyond the control of the City. See "NOTEHOLDER RISKS," herein.

Optional Redemption

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

Book-Entry-Only System

The following is relevant only if the Notes are issued in book-entry form. DTC will act as securities depository for the Notes. The Notes will be issued as fully-registered Notes registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered note certificate will be issued for all Notes, bearing the same rate of interest and CUSIP number, and will be deposited with DTC.

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

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Notes, except in the event that use of the book-entry system for the Notes is discontinued.

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

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

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

accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with notes held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

Source: The Depository Trust Company

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

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

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

Certificated Notes

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

Authorizations and Purposes of Issue

The Notes are being issued pursuant to the Constitution and Laws of the State of New York, including among others, the Local Finance Law, and various bond resolutions duly adopted by the Common Council of the City. The Notes will provide funds to finance various City-wide improvements as described below:

<u>Date of Authorization</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Amount Outstanding</u>	<u>New Monies This Issue</u>	<u>Total Amount This Issue</u>
3/20/2012	Reconstruction of and construction of improvements to various City sidewalks	\$70,000	\$70,000	\$0	\$70,000
3/20/2012 Amended 4/16/2013	Reconstruction of and construction of improvements to a pedestrian bridge	380,000	280,000	100,000	380,000
3/20/2012 Amended 4/16/2013	Reconstruction of and construction of improvements to a DPW building	180,000	45,000	135,000	180,000
3/20/2012	Acquisition of fire department vehicle	27,000	27,000	0	27,000
3/20/2012	Acquisition of equipment, machinery and apparatus	230,000	230,000	0	230,000
3/20/2012	Acquisition of communication equipment	215,000	215,000	0	215,000
3/20/2012	Reconstruction of and construction of improvements to the library	90,000	90,000	0	90,000
3/20/2012	Acquisition and installation of a back-up generator	50,000	50,000	0	50,000
3/20/2012	Reconstruction of and construction at sewer pumping stations	30,000	30,000	0	30,000
4/5/2011 Amended 3/20/2012	Reconstruction of and construction of improvements to the sewer system	2,400,000	500,000	0	500,000
3/20/2012 Amended 4/16/2013	Planning for capital improvements (Phase III) of the City's sewer system	260,000	180,000	80,000	260,000
3/20/2012	Construction of storm sewer line	90,000	90,000	0	90,000
7/26/2011 Amended 5/15/2012	Construction of a building for use by the City	1,250,000	133,000	217,000	350,000
7/26/2011	Construction of roads at Spaulding Commerce Park	775,000	500,000	275,000	775,000
7/26/2011 Amended 5/15/2012	Capital improvements at the Spaulding Commerce Park	1,380,000	1,000,000	380,000	1,380,000

Authorizations and Purposes of Issue - Continued

<u>Date of Authorization</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Amount Outstanding</u>	<u>New Monies This Issue</u>	<u>Total Amount This Issue</u>
3/20/2012	Capital improvements project (Phase II) of the City's sewer system	\$3,250,000	\$0	\$3,250,000	\$3,250,000
4/16/2013	Reconstruction and construction of improvements to various roads	700,000	0	700,000	700,000
4/16/2013	Reconstruction and construction of improvements to various sidewalks	135,000	0	135,000	135,000
4/16/2013	Acquisition of fire fighting vehicle and apparatus	325,000	0	325,000	325,000
4/16/2013	Police department patrol boat	186,000	0	25,000	25,000
4/16/2013	Acquisition of equipment, machinery and apparatus	190,000	0	190,000	190,000
4/16/2013	Preparation of local waterfront revitalization plan	100,000	0	40,000	40,000
4/16/2013	Reconstruction and construction of improvements to various buildings	620,000	0	620,000	620,000
4/16/2013	Planning for capital improvement project (Phase 4) of sewer system	175,000	0	175,000	175,000
4/16/2013	Planning for capital improvement project (Phase 6) of sewer system	175,000	0	175,000	175,000
Totals			<u>\$3,440,000</u>	<u>\$6,822,000</u>	<u>\$10,262,000</u>

For further information regarding bond authorizations of the City for capital purposes and other matters relating thereto see "INDEBTEDNESS OF THE CITY."

Security and Source of Payment

Each of the Notes, when duly issued and paid for, will constitute a contract between the City and the holder thereof.

The Notes are general obligations of the City and will contain a pledge of the faith and credit of the City for the payment of the principal thereof and the interest thereon. For the payment of such principal and interest, the City has the power and statutory authorization to levy *ad valorem* taxes on all the taxable real property in the City, without limitation as to rate or amount (subject to certain statutory limitations imposed by the Tax Levy Limit Law; see "REAL PROPERTY TAX INFORMATION—Tax Levy Limit Law," herein).

Under the Constitution of the State, the City is required to pledge its faith and credit for the payment of the principal of and interest on the Notes and the State is specifically precluded from restricting the power of the City to levy taxes on real estate therefor. On June 24, 2011, the Tax Levy Limit Law was adopted in the State. The Tax Levy Limit Law establishes certain limitations on the power of local governments and school districts to increase the property tax levy beyond certain prescribed limits (without following certain prescribed procedures). It is not yet certain whether the Tax Levy Limit Law will withstand Constitutional scrutiny now that it has been challenged in court. The Tax Levy Limit

Law had its first application with respect to the City's budget for 2012, which began on January 1, 2012. See "REAL PROPERTY TAX INFORMATION -- Tax Levy Limit Law" herein.

Remedies of Noteholders on Default

Upon default in payment in full of the principal of or interest on the Notes, a holder of such defaulted Note has a contractual right to sue the City for the amount then due thereon. Such holder may obtain a judgment against the City with interest as provided by law from the date of default in such payment or the date of demand therefor, if later. Execution or attachment of City property cannot be obtained to satisfy the judgment. The General Municipal Law of the State provides that if the City fails to pay a final judgment for such principal and/or interest, it shall be the duty of the Common Council of the City to assess, levy and cause to be collected at the same time and in like manner as other moneys for expenses are then next thereafter to be assessed, levied and collected, a sum of money sufficient to pay such judgment with interest thereon. Any moneys so collected shall, from time to time, be paid to the judgment creditors.

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

Special Provisions Affecting Remedies Upon Default

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

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

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

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

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

At the Extraordinary Session of the State Legislature held in November, 1975, legislation was enacted which purported to suspend the right to commence or continue an action in any court to collect or enforce certain short-term obligations of the City of New York. The effect of such act was to create a three-year moratorium on actions to enforce the payment of such obligations. On November 19, 1976, the Court of Appeals, the State's highest court, declared such

act to be invalid on the ground that it violates the provisions of the State Constitution requiring a pledge by such City of its faith and credit for the payment of such obligations.

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

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

THE CITY

General Information

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

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

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

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

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

Source: City Officials

Governmental Organization

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

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

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

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

Source: City Officials

Employees

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

<u>Unions</u>	<u>No. of Members</u>	<u>Contract Expiration Date</u>
CTEA (Blue Collar)	46	December 31, 2016
CSEA	16	December 31, 2011*
Police	27	December 31, 2016
Fire	24	December 31, 2016

Source: City Officials

Note: * Currently under negotiations

DEMOGRAPHIC AND STATISTICAL INFORMATION

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

Population

<u>Year</u>	<u>City of Tonawanda</u>	<u>Erie County</u>	<u>New York State</u>	<u>United States</u>
1990	17,284	962,366	17,990,455	249,632,692
2000	16,136	950,265	18,976,457	281,421,906
2010	15,130	919,040	19,378,203	307,006,550

Source: US Census Bureau

Median Household Income

<u>Year</u>	<u>City of Tonawanda</u>	<u>Erie County</u>	<u>New York State</u>	<u>United States</u>
1990	\$29,483	\$28,005	\$32,965	\$30,056
2000	37,523	38,567	43,393	41,994
2010	47,105	46,816	56,951	52,762

Source: US Census Bureau

Per Capita Income

<u>Year</u>	<u>City of Tonawanda</u>	<u>Erie County</u>	<u>New York State</u>	<u>United States</u>
1990	\$12,651	\$13,560	\$16,501	\$14,420
2000	18,789	20,357	23,389	21,587
2010	23,463	25,387	31,796	27,915

Source: US Census Bureau

Unemployment Rate Statistics

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

<u>Annual Averages:</u>	<u>Erie County</u>	<u>New York State</u>	<u>United States</u>
2008	5.7%	5.4%	5.8%
2009	8.2	8.4	9.3
2010	8.3	8.6	9.6
2011	8.0	8.3	8.9
2012	8.3	8.5	8.1
 <u>2013 Monthly Rates:</u>			
January	9.3%	9.3%	8.5%
February	9.0	8.8	8.1
March	8.2	8.1	7.6

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

Selected Listing of Larger Employers

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

Source: City Officials

INDEBTEDNESS OF THE CITY

Constitutional Requirements

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

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

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

There is no constitutional limitation on the amount that may be raised by the City by a tax on real estate in any fiscal year to pay interest and principal on all indebtedness, subject to the statutory limitations imposed by Chapter 97 of the 2011 Laws of New York.

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

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

Statutory Procedure

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

Pursuant to the Local Finance Law, the City authorizes the incurrence of indebtedness, including bonds and bond anticipation notes issued in anticipation of such bonds, by the adoption of a resolution, approved by at least two-thirds of the members of the Common Council, the finance board of the City. Certain of such resolutions may be subject to permissive referendum, or may be submitted to the City voters at the discretion of the Common Council.

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

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

1. (a) Such obligations were authorized for an object or purpose for which the City is not authorized to expend money, or
- (b) If the provisions of the law which should be complied with as of the date of publication of this notice were not substantially complied with,

and an action, suit or proceeding contesting such validity is commenced within twenty days after the date of such publication of this notice; or

2. Such obligations were authorized in violation of the provisions of the Constitution of New York.

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

Each bond resolution also authorizes the issuance of bond anticipation notes prior to the issuance of serial bonds.

Statutory law in New York permits bond anticipation notes to be renewed each year provided annual principal installments are made in reduction of the total amount of such bonds outstanding, commencing no later than two years from the date of the first of such bonds and provided that such renewals do not (generally) extend more than five years beyond the original date of borrowing. However, notes issued in anticipation of the sale of serial bonds for assessable improvements are not subject to such five-year limit and may be renewed subject to annual principal reductions for the

entire period of probable usefulness of the purpose for which such notes were originally issued. (See "Payment and Maturity" under "Constitutional Requirements" herein, and "Details of Short-Term Indebtedness Outstanding," herein).

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

Debt Limit

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

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

Details of Short-Term Indebtedness Outstanding

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

<u>Type</u>	<u>Maturity</u>	<u>Purpose</u>	<u>Amount</u>
Bond Anticipation Notes	06/13/13	Various Projects	\$3,440,000 ¹
		Total	<u>\$3,440,000</u>

Source: Note records of the City

Note: ¹ There are currently outstanding \$3,440,000 bond anticipation notes which will be redeemed and renewed, in full, with a portion of the proceeds of the Notes.

Revenue and Tax Anticipation Notes

In the fiscal years 2005 and 2007 the City conducted cash flow borrowings by using tax anticipation notes in the amount of \$1,990,000 and \$1,780,000, respectively. The City has not found it necessary to borrow in anticipation of taxes and revenues in recent years, nor does it anticipate such borrowing in the near future.

Status of Outstanding Bond Issues

Year of Issue:	1996	2001	2002 A
Amount Issued	\$825,000	\$1,889,500	\$1,233,250
Last Maturity:	12/15/2015	1/15/2015	4/15/2022
Interest Rate/Instrument:	Various - EFC	Various - SB	Various - EFC
Purpose:	Sewer	Various	Sewer
Balance Principal 12-31-12:	\$150,000	\$375,000	\$685,000

Fiscal Year						
Ending December 31:	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$50,000	\$7,775	\$150,000 *	\$13,875	\$60,000 *	\$31,247
2014	50,000	5,200	150,000	7,031	60,000	28,627
2015	50,000	2,600	75,000	1,781	65,000	25,831
2016					65,000	22,859
2017					65,000	19,825
2018					70,000	16,592
2019					70,000	13,171
2020					75,000	9,595
2021					75,000	5,870
2022					80,000	2,001
Totals:	<u>\$150,000</u>	<u>\$15,575</u>	<u>\$375,000</u>	<u>\$22,688</u>	<u>\$685,000</u>	<u>\$175,618</u>

Note: * Principal payment prior to Official Statement dated May 23, 2013.

Year of Issue:	2003 F	2004	2008
Amount Issued:	\$2,394,500	\$1,690,000	\$685,000
Last Maturity:	7/15/2020	6/15/2024	3/1/2013
Interest Rate/Instrument:	EFC SB	Various - SB	2.86% SIB
Purpose:	Landfill	Various	Vehicles
Balance Principal 12-31-12:	\$1,205,000	\$900,000	\$150,000

Fiscal Year						
Ending December 31:	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$140,000	\$45,458	\$75,000	\$39,844	\$150,000 *	\$2,145
2014	145,000	41,020	75,000	36,656		
2015	145,000	36,144	75,000	33,422		
2016	150,000	31,004	75,000	30,094		
2017	150,000	25,436	75,000	26,719		
2018	155,000	19,694	75,000	23,344		
2019	160,000	13,618	75,000	19,969		
2020	160,000	6,904	75,000	16,547		
2021			75,000	13,031		
2022			75,000	9,375		
2023			75,000	5,625		
2024			75,000	1,875		
Totals:	<u>\$1,205,000</u>	<u>\$219,277</u>	<u>\$900,000</u>	<u>\$256,500</u>	<u>\$150,000</u>	<u>\$2,145</u>

Note: * Principal payment prior to Official Statement dated May 23, 2013.

Status of Outstanding Bond Issues

Year of Issue:	2009 ¹		2009		2010	
Amount Issued:	\$2,900,000		\$715,000		\$980,000	
Last Maturity:	4/15/2018		6/15/2016		6/15/2019	
Interest Rate/Instrument:	Various - Ref. SB		3.050% - SIB		Various - SB	
Purpose:	Various		Various		Roads & Equipment	
Balance Principal 12-31-12:	\$1,150,000		\$450,000		\$770,000	
Fiscal Year						
<u>Ending December 31:</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$435,000 *	\$27,156	\$105,000	\$13,725	\$110,000	\$26,400
2014	180,000	19,563	110,000	10,523	110,000	22,550
2015	145,000	14,506	115,000	7,167	110,000	18,700
2016	140,000	10,050	120,000	3,660	110,000	14,850
2017	140,000	5,763			110,000	10,862
2018	110,000	1,788			110,000	6,600
2019					110,000	2,200
Totals:	<u>\$1,150,000</u>	<u>\$78,826</u>	<u>\$450,000</u>	<u>\$35,075</u>	<u>\$770,000</u>	<u>\$102,162</u>

Note: ¹ Economically defeased the 1994, 1997, 1998 and 1999 serial bonds.

* Principal payment prior to Official Statement dated May 23, 2013.

Status of Outstanding Bond Issues

Year of Issue:	2011	2012
Amount Issued:	\$1,938,499	\$2,610,000
Last Maturity:	6/15/2020	6/15/2037
Interest Rate/Instrument:	Various - SB	Various - SB
Purpose:	Various	Various
Balance Principal 12-31-12:	\$1,938,499	\$2,610,000

Fiscal Year	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
<u>Ending December 31:</u>				
2013	\$305,000	\$32,906	\$170,000	\$122,086
2014	285,000	27,006	175,000	78,413
2015	205,000	22,106	155,000	74,288
2016	205,000	17,878	155,000	70,413
2017	140,000	14,125	160,000	66,475
2018	140,000	10,625	115,000	63,038
2019	140,000	6,600	120,000	60,100
2020	150,000	2,250	120,000	57,100
2021			125,000	53,725
2022			75,000	50,725
2023			75,000	48,100
2024			75,000	45,100
2025			75,000	42,100
2026			75,000	39,100
2027			80,000	36,000
2028			80,000	32,800
2029			80,000	29,600
2030			80,000	26,400
2031			85,000	23,100
2032			85,000	19,700
2033			90,000	16,200
2034			90,000	12,600
2035			90,000	9,000
2036			90,000	5,400
2037			90,000	1,800
Totals:	<u>\$1,570,000</u>	<u>\$133,497</u>	<u>\$2,610,000</u>	<u>\$1,083,361</u>

Total Annual Bond Principal and Interest Due

Fiscal Year			Total	
Ending December 31:	Principal	Interest	Debt Service	% Paid
2013	\$1,750,000	\$362,617	\$2,112,617	17.47%
2014	1,340,000	276,589	1,616,589	30.85%
2015	1,140,000	236,544	1,376,544	42.24%
2016	1,020,000	200,807	1,220,807	52.42%
2017	840,000	169,205	1,009,205	60.81%
2018	775,000	141,680	916,680	68.55%
2019	675,000	115,658	790,658	75.29%
2020	580,000	92,396	672,396	81.08%
2021	275,000	72,626	347,626	83.82%
2022	230,000	62,101	292,101	86.12%
2023	150,000	53,725	203,725	87.62%
2024	150,000	46,975	196,975	89.12%
2025	75,000	42,100	117,100	89.87%
2026	75,000	39,100	114,100	90.61%
2027	80,000	36,000	116,000	91.41%
2028	80,000	32,800	112,800	92.21%
2029	80,000	29,600	109,600	93.01%
2030	80,000	26,400	106,400	93.81%
2031	85,000	23,100	108,100	94.66%
2032	85,000	19,700	104,700	95.51%
2033	90,000	16,200	106,200	96.41%
2034	90,000	12,600	102,600	97.30%
2035	90,000	9,000	99,000	98.20%
2036	90,000	5,400	95,400	99.10%
2037	90,000	1,800	91,800	100.00%
Totals:	<u>\$10,015,000</u>	<u>\$2,124,723</u>	<u>\$12,139,723</u>	

Source: City Bond Records

Other Obligations

The City has an outstanding capital lease for the acquisition of certain machinery and equipment. The outstanding principal balance as of December 31, 2012 was \$18,737.

Trend of Outstanding Debt

	2008	2009	2010	2011	2012
Bonds	\$9,260,000	\$8,900,000	\$8,565,000	\$9,038,499	\$10,015,000
Bond Anticipation Notes	1,460,000	2,424,750	2,948,000	2,335,000	3,440,000
Capital Lease Agreements	106,772	65,468	61,631	32,075	18,737
Total Debt Outstanding	<u>\$10,826,772</u>	<u>\$11,390,218</u>	<u>\$11,574,631</u>	<u>\$11,405,574</u>	<u>\$13,473,737</u>

Source: Annual Financial Reports and Records of the City

Computation of Debt Limit and Calculation of Net Indebtedness

(As of May 23, 2013)

<u>Fiscal Year Ended December 31:</u>	<u>Assessed Valuation</u>	<u>State Equalization Rate</u>	<u>Full Valuation</u>
2009	\$597,055,112	100.00%	\$597,055,112
2010	597,412,172	100.00%	597,412,172
2011	600,475,675	100.00%	600,475,675
2012	602,158,715	100.00%	602,158,715
2013	<u>604,588,585</u>	100.00%	<u>604,588,585</u>
Total Full Valuation (2013) ¹	<u><u>\$3,001,690,259</u></u>		<u><u>\$3,001,690,259</u></u>
Five Year Average Full Valuation			\$600,338,052
Debt Limit: 7% of Average Full Valuation			\$42,023,664
Inclusions:			
Bonds			\$9,220,000
Bond Anticipation Notes			<u>3,440,000</u>
Total Inclusions			<u><u>\$12,660,000</u></u>
Exclusions:			
Water ²			\$402,402
Budgeted Appropriations ²			<u>955,000</u>
Total Exclusions			<u><u>\$1,357,402</u></u>
Total Net Indebtedness Before Giving Effect to This Issue			\$11,302,598
New Monies This Issue			6,822,000
New Monies Excluded This Issue			<u>0</u>
Total Net Indebtedness After Giving Effect to This Issue ³			<u><u>\$18,124,598</u></u>
Net Debt-Contracting Margin			\$23,899,066

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

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

³ Represents 43.13% of the City's Debt Limit.

⁴ Lease Purchase Agreements, while not debt, do count towards a municipality's debt limit. The principal amount of the City's outstanding lease purchase agreement has not been included in this debt limit computation table in order to be consistent with the New York State Comptroller's official debt statement filing instructions. For a summary of outstanding principal see "Other Obligations," herein.

Authorized and Unissued Indebtedness

As of the date of this Official Statement, the City has the following authorized and unissued indebtedness:

<u>Date of Authorization</u>	<u>Purpose</u>	<u>Amount of Authorization</u>	<u>Amount Unissued</u>
02/02/10	Demolition of certain City-owned buildings	\$475,000	\$75,000
04/20/10	Acquisition of an emergency generator for use at the fire department headquarters	90,000	30,000
07/26/11	Construction of a building for use by the City	1,250,000	900,000
07/26/11	Improvements of the utilities systems at the Spaulding Commerce Park	250,000	250,000
07/26/11	Landscaping improvements at the Spaulding Commerce Park	95,000	95,000
04/16/13	Police Department patrol boat	186,000	161,000
04/16/13	Preparation of local waterfront revitalization plan	100,000	60,000

Source: Adopted bond resolutions of the City.

The City expects to borrow on the improvements of the utilities systems at the Spaulding Commerce Park as well as the landscaping improvements at the Spaulding Commerce Park. They do not anticipate further borrowings on any of the other authorized and unissued indebtedness.

Capital Project Plans and Anticipated Future Borrowings

The City is generally responsible for providing services as required by the citizens on a City-wide basis. The City maintains a road system necessitating road resurfacing and improvements and the acquisition of machinery and, from time to time, equipment. Additionally, although not a capital expense, such road system requires annual expenditures for snow removal as well as regular general operating maintenance expenses. In addition, the City owns, operates, maintains and improves recreation facilities. As has been noted, the City generally has provided for the financing of sanitary sewer facilities located within the City limits. Since 2004, the City has contracted with the Erie County Water Authority for water service. Future capital improvements made to the water system will be undertaken by the Authority.

The City and the County have recently installed access roads and basic infrastructure for future use by potential businesses at an estimated cost of \$1,100,000, with funding to be supplied by both the County and the City.

Direct and Overlapping Indebtedness

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

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

Calculation of Estimated Overlapping and Underlying Indebtedness

Overlapping Units	Date of Report	Applicable Total Indebtedness	Exclusions ¹	Applicable Net Indebtedness	Full Value of City in Municipality	Total Full Value of Municipality	% Within City	Estimated Applicable Overlapping Debt
County:								
Erie	2012	\$562,441,553	\$95,881,596	\$466,559,957	\$604,588,585	\$46,759,758,193	1.29%	\$6,032,470
School District:								
Tonawanda City	2013	31,235,000	1,460,000	29,775,000	604,588,585	629,981,386	95.97%	28,574,852
Total Net Overlapping Debt:								\$34,607,322
Total Net Direct Debt:								18,124,598
Net Direct and Overlapping Debt:								<u>\$52,731,920</u>

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

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

Debt Ratios

The following table presents certain debt ratios relating to the City’s net direct and overlapping indebtedness as of May 23, 2013:

	Amount	Debt Per Capita ¹	Debt Full Value ²
Net Direct Debt	\$18,124,598	\$1,197.92	3.00%
Total Direct & Applicable Total Overlapping Debt	52,731,920	3,485.26	8.72%

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

² The full valuation of real property located in the City for the 2011 fiscal year is \$604,588,585.

FINANCES OF THE CITY

Financial Statements and Accounting Procedures

The City maintains its financial records in accordance with the Uniform System of Accounts for Cities prescribed by the State Comptroller. The financial records of the City are audited by independent accountants. The last such audit made available for public inspection covers the fiscal year ended December 31, 2012. A copy of the report is attached hereto as APPENDIX B. In addition, the financial affairs of the City are subject to periodic compliance review by the Office of the State Comptroller to ascertain whether the City has complied with the requirements of various State and federal statutes.

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

The Statements of Revenues, Expenditures and Changes in Fund Balances presented in APPENDIX A of this Official Statement are based on the audited financial reports of the City for the 2008-2012 fiscal years.

Fund Structure and Accounts

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

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

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

Basis of Accounting

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

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

Investment Policy

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

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

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

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

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

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

All other City officials receiving money in their official capacity must turn over such funds to the chief fiscal officer of the City.

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

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

Budgetary Procedures

The City operates on a fiscal year beginning January 1 and ending December 31. The Mayor prepares a proposed budget to be submitted to the Common Council by October 1st of each year. The budget is reviewed by the Common Council and it must hold a public hearing on the budget by November 15th. The budget must be adopted by the Common Council by December 15th. The budget of the City is not subject to voter approval.

Financial Operations

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

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

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

Revenues

The City receives most of its revenues from real property taxes, and assessments and State aid.

A summary of such revenues and other financing sources for the last five completed fiscal years ending December 31, 2012 and the budget for the fiscal year ending December 31, 2013 may be found in APPENDIX A – Financial Information.

Real Property Taxes

See “REAL PROPERTY TAX INFORMATION,” herein.

State Aid and Sales Tax

The City is dependent to some degree on financial assistance from the State. There can be no assurance that the State appropriation for State aid to municipalities and school districts will not be reduced or delayed in future fiscal years, as the State is not constitutionally obligated to main or continue State aid to the City. The availability of such monies and the timeliness of such payment could be affected by a delay in the adoption of the State budget. In any event, State aid appropriated and apportioned to the City can be paid only if the State has such monies available therefor.

The City cannot predict at this time whether there will be reductions and/or delays in State aid in future fiscal years. The City believes that it will mitigate the impact of any delays or proposed reductions in State aid by reducing expenditures, increasing revenues, appropriating other available funds on hand, reducing staffing levels, and/or by any combination of the foregoing.

In addition, the City is dependent to a modest degree on the portion of Sales tax revenues received by the City from the County.

A summary of State aid and sales tax payments received by the City for the last five fiscal years and the amount budgeted for fiscal year 2013 are as follows:

<u>Fiscal Year</u> <u>Ending December 31:</u>	<u>Total General</u> <u>Fund State Aid</u>	<u>Total General</u> <u>Fund Sales Tax</u>	<u>Total General</u> <u>Fund Revenues</u>	<u>Percentage</u> <u>of Total</u> <u>Revenues</u> <u>Consisting of</u> <u>State Aid</u>	<u>Percentage</u> <u>of Total</u> <u>Revenues</u> <u>Consisting of</u> <u>Sales Tax</u>
2008	\$3,195,815	4,174,641	\$18,033,676	17.72%	23.15%
2009	3,120,638	4,052,897	17,768,601	17.56%	22.81%
2010	3,064,175	4,115,184	18,291,830	16.75%	22.50%
2011	2,840,113	4,369,739	18,712,332	15.18%	23.35%
2012	2,879,186	4,440,792	19,172,009	15.02%	23.16%
2013 (Budgeted)	2,811,404	4,577,000	19,762,660	14.23%	23.16%

Source: Financial Reports and Budgets of the City.

Expenditures

The major categories of expenditure for the City are General Government Support, Public Safety, Transportation, Home and Community Services, Employee Benefits and Debt Service. A summary of the expenditures for the five most recently completed fiscal years ending December 31, 2012 and the estimated expenditures for the 2013 fiscal year may be found in APPENDIX A – Financial Information.

Employee Pension System

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

Generally, all employees, except certain part-time employees, participate in the Retirement System. The Retirement System is non-contributory with respect to members hired prior to July 27, 1976. All members of the ERS hired on or after July 27, 1976 through, and including December 31, 2009, must contribute 3% of gross annual salary, for the first ten years of service, toward the cost of retirement programs.

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

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

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

On March 16, 2012, Governor Cuomo signed into law Chapter 18 of the Laws of 2012, which provides for a new Tier VI for employees hired on or after April 1, 2012. The Division of the Budget estimates the new tier will save the State and local governments outside of New York City \$80 billion over the next 30 years. The new pension tier has progressive contribution rates between 3% and 6%; it increases the retirement age for new employees from 62 to 63 and includes provisions allowing early retirement with penalties. Under Tier VI, the pension multiplier is 1.75% for the first 20 years of service and 2% thereafter; vesting will occur after 10 years; the time period for calculation of final average salary is increased from three years to five years; and the amount of overtime used to determine an employee's pension is capped at \$15,000, indexed for inflation, for civilian and non-uniform employees and at 15% of base pay for uniformed employees outside of New York City. It also includes a voluntary, portable, defined contribution plan option for new non-union employees with salaries of \$75,000 or more.

The following schedule reflects the City's contribution to the ERS and PFRS for the last five completed fiscal years and the amount budgeted for fiscal year 2013:

<u>Fiscal Year December 31:</u>	<u>ERS</u>	<u>PFRS</u>
Budgeted 2013	\$673,576	\$1,258,693
2012	558,578	1,058,041
2011	546,566	945,463
2010	380,931	671,948
2009	258,857	687,904
2008	268,053	592,317

The City is current with all its pension obligations and prepays its payments in December of each year to take advantage of the discounted payment amount offered by the System for paying pension obligations in advance of the February 1 due date.

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

Due to significant capital market declines in the recent past, the State's Retirement System portfolio experienced negative investment performance and severe downward trends in market earnings for several years. As a result of the foregoing, New York State Comptroller Thomas DiNapoli has announced that the employer contribution rate for the State's Retirement System in 2012 year and subsequent years will be higher than the minimum contribution rate established by Chapter 49. For fiscal year 2013-14, the average contribution rate for the ERS will increase from 18.9% to 20.9% of salaries and from 25.8% to 28.9% for PFRS.

Chapter 57 of the Laws of 2010 (Part TT) amended the Retirement and Social Security Law to authorize participating local government employers, if they so elect, to amortize an eligible portion of their annual required contributions to both ERS and PFRS, when employer contribution rates rise above certain levels. The option to amortize the eligible portion began with the annual contribution due February 1, 2011. The amortizable portion of an annual required contribution is based on a “graded” rate by the State Comptroller in accordance with installments over a ten-year period, but may be prepaid at any time. Interest is to be charged on the unpaid amortized portion at a rate to be determined by State Comptroller, which approximates a market rate of return on taxable fixed rate securities of a comparable duration issued by comparable issuers. The interest rate is established annually for that year’s amortized amount and then applies to the entire ten years of the amortization cycle of that amount. When in any fiscal year, the participating employer’s graded payment eliminates all balances owed on prior amortized amounts, any remaining graded payments are to be paid into an employer contribution reserve fund established by the State Comptroller for the employer, to the extent that amortizing employer has no currently unpaid prior amortized amount, for future use. The City has not chosen to amortize its pension contributions.

The enacted 2013-14 State Budget establishes an Alternative Contribution Stabilization Program (ACSP) which allows local governments and school districts to lessen the cash impact of current increases in pension contributions, while repaying the deferrals with interest as well as contributing to a reserve account to dampen future rate increases. Eligible participating employers have the opportunity to make a one-time election in the 2013-14 fiscal year to the ACSP. Interest rates charged on deferrals to participants in the ACSP program will be charged a rate comparable to a 10-year treasury bond adjusted to a 12-year duration plus one percent. Once a participating employer elects into the program deferred contributions can be amortized over a period of up to 12 years using the ACSP. A participant cannot withdraw from the program, however a participant does not have to amortize for the full 12-year term of the program. There is no penalty for prepayment of amortized amounts. The plan would reduce pension contributions for local governments and school districts in the near future, but would require higher payments later on. However, those higher payments that would be required in later years could be offset, at least in part, by savings from the new pension tier, Tier VI.

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

Other Post-Employment Benefits

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

OPEB refers to “other post-employment benefits,” and refers to benefits other than pension benefits. OPEB consists primarily of health care benefits, and may include other benefits such as disability benefits and life insurance. Before GASB 45, OPEB costs were generally accounted for and managed on a pay-as-you-go basis and had not been reported a liability on the government’s financial statements.

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

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

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

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

The City’s annual required contribution, the percentage of costs contributed and the net OPEB obligation for the past four fiscal years are as follows:

<u>Fiscal Year Ending December 31:</u>	<u>Annual Required Obligation</u>	<u>Percentage of Annual OPEB Costs Contributed</u>	<u>Net OPEB Obligation</u>
2009	\$1,821,255	44.3%	\$807,298
2010	1,856,852	96.7%	1,794,944
2011	1,856,852	77.5%	1,439,494
2012	2,195,952	88.0%	1,931,796

As of December 31, 2012, the actuarial accrued liability for future benefits was \$47,732,182, all of which is unfunded.

Actuarial valuation will be required every two years for OPEB plans with more than 200 members and every three years if there are less than 200 members.

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

REAL PROPERTY TAX INFORMATION

Real Property Taxes

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

	Tax Collection Record				
	Fiscal Year Ending December 31:				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Taxes on Roll/Net Tax Levy	\$9,544,363	\$9,765,074	\$10,066,599	\$10,248,711	\$10,520,890
Amount Collected	<u>9,463,699</u>	<u>9,650,276</u>	<u>9,901,533</u>	<u>9,953,269</u>	<u>10,043,937</u> *
Uncollected	\$80,664	\$114,798	\$165,066	\$295,442	\$476,953 *
Percentage Collected	99.15%	98.82%	98.36%	97.12%	95.47% *

Source: City Officials

Note: * As of May 9, 2013

Tax Collection Procedure

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

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

Source: City Officials

Tax Levy Limit Law

On June 24, 2011, Governor Andrew Cuomo signed (as Chapter 97 of the 2011 Laws of the State), significant and complex legislation relating to real property tax levies, rent regulation, exemption from local taxation and mandate relief (the “Legislation”). Part A of the Legislation amends the General Municipal Law and the Education Law in order to impose a limit upon real property tax levies by local governments (excluding the City of New York and the counties contained therein) and almost all school districts in the State (the “Tax Levy Limit Law”).

The City is subject to the new Legislation, with the Tax Levy Limit Law first applying to the City’s budget for its 2012 fiscal year. The Tax Levy Limit Law restricts, among other things, the amount of real property taxes that may be levied by or on behalf of the City in a particular year (unless certain prescribed special procedures are followed). Under the Legislation, the tax levy of the City may not increase by more than the lesser of (i) two percent (2%) or (ii) the annual increase in a designated measure of the consumer price index (“CPI”) over the amount of the City’s prior year’s tax levy. The exceptions for a tax levy above two percent or the CPI increase are (i) funds needed to pay judgments arising out of tort actions that exceed 5% of the total tax levied by the City in the prior fiscal year and (ii) required pension payments (but only that portion of such payments attributable to the average actuarial contribution rate exceeding two percentage points).

The Tax Levy Limit Law also allows for growth in the City’s tax levy due to physical and quantitative changes in the City. If the City does not levy an amount up to the cap in any one year, it would be allowed to carry over unused tax levy capacity into future years. However, this carryover levy capacity may not be used to increase its tax levy by more than an additional 1.5 percent above the cap in any single year. If the City’s actual tax levy exceeds its authorized levy due to clerical or technical errors, the erroneous excess levy must be placed in reserve to offset the levy for the next budget year.

The City may adopt a budget that requires a tax levy that exceeds the tax levy limit for a given fiscal year, but only if the City’s Common Council first adopts, by a vote of 60% of the total voting power of such body, a local law to override such limit for that particular fiscal year only.

The Legislation has recently come under legal challenge alleging that the Legislation violates several provisions of Article VIII of the New York State Constitution. Although the Constitution recognizes the power of the State Legislature to restrict local government taxation of property, it also expressly states that “the legislature shall not, however, restrict the power to levy taxes on real estate for the payment of interest on or principal of indebtedness theretofore contracted.” Although New York courts (including the State’s highest court—the Court of Appeals) have traditionally been very protective of the rights of the holders of municipal debt obligations, the outcome of any such legal challenge cannot be predicted.

Prospective investors in the Notes are encouraged to consult with their own legal and tax advisors and review the provisions of the Tax Levy Limit Law in its entirety.

Assessed and Full Valuations

	Fiscal Year Ended December 31:				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Assessed Valuation: ¹	\$597,055,112	\$597,412,172	\$600,475,675	\$602,158,175	\$604,588,585
NYS Equalization Rate: ¹	100.00%	100.00%	100.00%	100.00%	100.00%
Full Valuation:	\$597,055,112	\$597,412,172	\$600,475,675	\$602,158,175	\$604,588,585
Tax Rate / \$1,000					
Assessed Valuation:	\$15.11	\$15.46	\$15.76	\$16.43	\$16.61

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

Constitutional Tax Limit

The Constitution limits the amount that may be raised by the City *ad valorem* tax levy on real estate in any fiscal year to two per centum (2%) of the five-year average full valuation of taxable real estate of the City plus (1) the amounts required for principal and interest on all capital indebtedness, and (2) current appropriations for certain capital purposes. The tax limit for the City for the 2013 fiscal year is as follows:

Five Year Average Full Valuation	\$600,338,052
Constitutional Tax Limit: (2%)	12,006,761
Tax Levy General City Purposes	10,044,556
Less: Exclusions for Debt and Capital Purposes	1,936,193
Tax Levy Subject to Debt Limit	8,108,363
Percentage of Tax Limit Exhausted	67.53%
<u>Constitutional Tax Margin</u>	<u>\$3,898,398</u>

Source: Constitutional Tax Limit Worksheet 2013 as submitted to the NYS
Comptroller's Office by the City.

Ten Largest Taxpayers

2012 Assessment Roll for 2013 Taxes

<u>Name</u>	<u>Type</u>	<u>Estimated Assessed Valuation¹</u>
Cole/CoTops- Youngmann NY LLC	Commercial/Retail	\$15,548,900
Niagara Mohawk	Utility	10,551,655
National Fuel Gas - Distribution Corp.	Utility	8,436,357
Cole/CoTops- Tona NY LLC (Niagara St.)	Commercial/Retail	7,140,000
Benderson Development	Commercial/Retail/Distribution	4,606,700
CSX Transportation	Railroad	4,060,812
Washington Mills Tonawanda Inc.	Manufacturing/Distribution	3,950,000
Con-Way Transportation Services	Commercial/Truck Terminal	3,536,850
Hunt & Associates LLC	Commercial/Apartments	2,750,000
Sovran Acquisition Ltd. Partnership	Commercial/Self Storage	2,430,000
Total		<u><u>\$63,011,274</u></u>

Source: City Officials

Note: ¹ The above ten taxpayers represent 10.42% of the City's 2013 assessed valuation of \$604,588,585.

LITIGATION

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

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

NOTEHOLDER RISKS

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

There are a number of factors which could have a detrimental effect on the ability of the City to continue to generate revenues, particularly its property taxes. For instance, the termination of a major commercial enterprise or an unexpected increase in certiorari proceedings could result in a large reduction in the assessed valuation of taxable real property in the City. In addition, to the extent that the City is dependent on State aid, there can be no assurance that such aid will be continued in the future (see "FINANCES OF THE CITY," herein). Unforeseen developments could also result in substantial increases in City expenditures, thus placing considerable strain on the City's financial condition.

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

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

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

Amendments to U.S. Internal Revenue Code of 1986, as amended (the "Code") could reduce or eliminate the favorable tax treatment granted to municipal debt, including the Notes and other debt issued by the City. Any such future legislation would have an adverse effect on the market value of the Notes (See "TAX EXEMPTION," herein).

TAX EXEMPTION

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

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

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

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

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

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

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

tax at ordinary income rates with respect to interest on the Notes owned by "S Corporations" in certain cases.

- (5) In addition, the Notes will NOT constitute "qualified tax-exempt obligations" within the meaning of the Code, and if the Notes are held by a financial institution, a portion of the interest expense allocable to the Notes will be deductible for federal income tax purposes.

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

As noted under "NOTEHOLDER RISKS," amendments to the Code could reduce or eliminate the favorable tax treatment granted to municipal debt, including the Notes and other debt issued by the City. Any such future legislation would have an adverse effect on the market value of the Notes.

The recently-enacted American Taxpayer Relief Act of 2012 (responding to the so-called "fiscal cliff" situation) did not include any restrictions on the tax exemption for interest on municipal debt. However, the agreement sets up additional rounds of negotiations focused on deficit reduction, spending and the debt limit. President Obama stated on December 31, 2012 that deficit reduction would not be accomplished solely by spending cuts but would include taxes. Therefore, these additional rounds of negotiations continue the risk to the tax-exempt status of municipal interest. It is impossible to predict at this time the actual outcome of the complex and ongoing negotiations at the federal level with respect to the federal government's taxation and spending policies. The treatment, at least prospectively, of interest on municipal debt could be affected by the outcome of such negotiations.

In early April of 2013, President Obama released his budget proposals. The President included a number of bond-related proposals in his budget, most of which have been proposed (but not adopted) in previous budgets. As expected, the President included in his budget the so-called "28 percent cap" on the benefit of certain tax preferences, including tax-exempt interest on municipal bonds and notes. If approved, the measure would mean that investors in tax brackets higher than 28% would have to pay income taxes on municipal bond interest at a marginal rate equal to their tax bracket minus 28%. For an investor in the 35% federal tax bracket, this means that municipal bond interest would be taxed at an effective rate of 7%. The 28% cap proposal was originally introduced in September of 2011 as part of the President's proposed American Jobs Act. While that bill failed to advance in Congress, it put on the table the possibility that municipal interest could be a target for administration budget writers. The proposed cap would apply to single taxpayers with income greater than \$200,000 and joint filers with income greater than \$250,000. As before, the proposal would apply to interest paid on all bonds and notes, even those issued before the effective date of the provision. State and local governments and their supporters in Congress have recently stepped up their efforts to defend the exemption. The next pressure point in Washington's continuing series of fiscal disputes will when the country bumps up against the debt ceiling. The country is now in a period where the debt ceiling has been reinstated at the then-current level of debt. In other words, the country is at the debt ceiling and the Treasury Department has begun using its usual "extraordinary measures" to avoid default. One of those measures will be to close the SLGS window. The implementation of those extraordinary measures will allow the Treasury to avoid default until sometime in late July, when the debt limit will have to be raised or the country will default on at least some of its obligations.

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

DOCUMENTS ACCOMPANYING DELIVERY OF THE NOTES

Absence of Litigation

Upon delivery of the Notes, the City will furnish a certificate, dated the date of delivery of the Notes, to the effect that there is no controversy or litigation of any nature pending or threatened to restrain or enjoin the issuance, sale, execution, or delivery of the Notes, or in any way contesting or affecting the validity of the Notes or any of the proceedings taken with respect to the issuance and sale thereof or the application of moneys to the payment of the Notes. An additional certificate will state that there is no controversy or litigation of any nature now pending or threatened by or against the City wherein an adverse judgment or ruling could have a material adverse impact on the financial condition of

the City or adversely affect the power of the City to levy, collect, and enforce the collection of taxes or other revenues for the payment of the Notes, which has not been disclosed in this Official Statement.

Legal Matters

The legality of the authorization and issuance of the Notes will be covered by the legal opinion of Hodgson Russ LLP, Bond Counsel, of Buffalo, New York. Such legal opinion will state that in the opinion of Bond Counsel (i) the Notes have been authorized and issued in accordance with the Constitution and statutes of the State of New York and constitute valid and legally binding general obligations of the City, are payable as to principal and interest from *ad valorem* taxes levied upon all the taxable real property within the City, without limitation as to rate or amount (subject to certain statutory limitations imposed by Chapter 97 of the 2011 laws of New York); provided, however, that the enforceability (but not the validity) of the Notes may be limited or otherwise affected by (a) any applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or similar statute, rule, regulation or other law affecting the enforcement of creditors' rights and remedies heretofore or hereafter enacted or (b) by the unavailability of equitable remedies or the application thereto of equitable principles, (ii) assuming that the City complies with certain requirements of the Code, interest on the Notes (a) is excluded from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and (iii) assuming that the City complies with certain requirements of the Code, interest on the Notes is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, including The City of New York. Bond Counsel will express no opinion regarding other federal income tax consequences arising with respect to the Notes.

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

DISCLOSURE UNDERTAKING

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

- (a) principal and interest payment delinquencies
- (b) non-payment related defaults, if material
- (c) unscheduled draws on debt service reserves reflecting financial difficulties

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

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

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

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

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

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

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

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

RATINGS

The City has not applied for a rating on the Notes. Standard & Poor's currently rates the outstanding long-term debt of the City "A+/Stable". Moody's Rating Services ("Moody's") currently rates the outstanding long-term debt of the City "A1". Moody's recalibrated its rating for all New York State local municipalities and school districts. According to Moody's, this action was a "recalibration of the ratings to a different rating scale" from a municipal ratings scale to a global ratings scale. This recalibration does not reflect an improvement in credit quality or a change in Moody's credit opinion for rated municipal debt issuers. Such ratings will reflect only the view of such rating agencies and any desired explanation of the significance of such ratings should be obtained from such rating agencies. Generally, rating agencies base their ratings on rating investigation, studies and assumptions they have made in addition to the information and materials provided by the issuer. There is no assurance that a particular rating will apply for any given period of time or that it will be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. Any downward revision or withdrawal of such ratings could have an adverse effect on the market price of the Notes. Such ratings should not be taken as a recommendation to buy or hold the Notes.

FINANCIAL ADVISOR

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

ADDITIONAL INFORMATION

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

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

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

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

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

Further, Municipal Solutions, Inc., and the City disclaim any duty or obligation either to update or to maintain that information or any responsibility or liability for any damages caused by viruses in the electronic files on the website. Municipal Solutions, Inc. and the City also assume no liability or responsibility for any errors or omissions or for any updates to dated website information.

Hodgson Russ LLP, of Buffalo, New York, Bond Counsel to the City, expresses no opinion as to the accuracy or completeness of information in any documents prepared by or on behalf of the City for use in connection with the offer and sale of the Notes, including but not limited to, the financial or statistical information in this Official Statement.

CITY OF TONAWANDA

May 23, 2013
Tonawanda, New York

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

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

APPENDIX A

FINANCIAL INFORMATION

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

	Fiscal Year Ending December 31:				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Revenues:					
Real Property Taxes	\$8,719,765	\$8,914,981	\$9,202,917	\$9,462,351	\$9,559,242
Real Property Tax Items	666,697	405,792	545,641	460,516	479,818
Non-Property Tax Items	4,569,320	4,428,476	4,509,550	4,786,165	4,830,921
Departmental Income	161,666	191,273	159,034	194,232	194,174
Intergovernmental Charges	180,735	132,119	185,982	294,308	215,083
Use of Money and Property	68,150	19,175	13,857	15,886	10,187
Licenses & Permits	111,379	126,020	143,355	149,161	132,941
Fines & Forfeitures	265,314	272,944	325,984	361,562	430,139
Sale of Prop. & Comp. For Loss	65,116	56,229	76,874	54,985	48,290
Miscellaneous	29,719	46,531	20,865	24,824	189,982
State Aid	3,195,815	3,120,638	3,064,175	2,840,113	2,879,186
Federal Aid	0	54,423	43,596	68,229	202,046
Total Revenues	<u>\$18,033,676</u>	<u>\$17,768,601</u>	<u>\$18,291,830</u>	<u>\$18,712,332</u>	<u>\$19,172,009</u>
Expenditures:					
General Governmental Support	\$2,185,460	\$1,742,106	\$1,925,730	\$1,866,475	\$1,986,226
Public Safety	4,886,622	5,027,691	5,204,133	5,457,083	5,761,284
Transportation	2,348,872	2,174,179	1,947,842	2,061,495	1,928,039
Economic and Assistance	29,668	30,089	30,841	32,656	33,256
Culture & Recreation	934,315	987,845	949,601	970,716	877,482
Home & Community Service	1,039,106	1,063,157	1,083,151	1,129,720	1,145,568
Employee Benefits	5,170,104	5,326,413	5,665,372	5,842,963	6,048,389
Debt Service	1,266,180	1,224,153	1,228,695	1,306,924	1,370,133
Interfund Transfers	75,000	200,969	60,000	15,833	0
Total Expenditures	<u>\$17,935,327</u>	<u>\$17,776,602</u>	<u>\$18,095,365</u>	<u>\$18,683,865</u>	<u>\$19,150,377</u>
Excess (Deficit) Revenues					
Over Expenditures	\$98,349	(\$8,001)	\$196,465	\$28,467	\$21,632
Other Sources (Uses):					
Interfund Transfers	\$0	\$0	\$0	\$0	\$156,400
Total Other Sources (Uses):	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$156,400</u>
Fund Balance Beg. of Fiscal Year	<u>4,130,540</u>	<u>4,228,889</u>	<u>4,220,888</u>	<u>4,417,353</u>	<u>4,445,820</u>
Fund Balance End of Fiscal Year	<u>\$4,228,889</u>	<u>\$4,220,888</u>	<u>\$4,417,353</u>	<u>\$4,445,820</u>	<u>\$4,623,852</u>

Source: Audited Annual Financial Reports of the City

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

	Fiscal Year Ending December 31:				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Revenues:					
Departmental Income	\$225,097	\$227,491	\$213,561	\$215,040	\$219,523
Use of Money & Property	172	0	0	0	0
Total Revenues	<u>\$225,269</u>	<u>\$227,491</u>	<u>\$213,561</u>	<u>\$215,040</u>	<u>\$219,523</u>
Expenditures:					
Debt Service	<u>\$192,553</u>	<u>\$155,650</u>	<u>\$146,672</u>	<u>\$223,819</u>	<u>\$257,041</u>
Subtotal: Expenditures	<u>\$192,553</u>	<u>\$155,650</u>	<u>\$146,672</u>	<u>\$223,819</u>	<u>\$257,041</u>
Excess (Deficit) Revenues Over Expenditures	\$32,716	\$71,841	\$66,889	(\$8,779)	(\$37,518)
Fund Balance Beg. of Fiscal Year	<u>(72,760)</u>	<u>(40,044)</u>	<u>31,797</u>	<u>98,686</u>	<u>89,907</u>
Fund Balance End of Fiscal Year	<u>(\$40,044)</u>	<u>\$31,797</u>	<u>\$98,686</u>	<u>\$89,907</u>	<u>\$52,389</u>

Source: Audited Annual Financial Reports of the City.

Note: This table NOT audited

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

	Fiscal Year Ending December 31:				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Revenues:					
Departmental Income	\$1,490,349	\$1,486,099	\$1,539,883	\$1,598,736	\$1,843,907
Use of Money & Property	6,084	2,319	1,384	1,180	1,067
Miscellaneous	<u>0</u>	<u>20</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Revenues	<u>\$1,496,433</u>	<u>\$1,488,438</u>	<u>\$1,541,267</u>	<u>\$1,599,916</u>	<u>\$1,844,974</u>
Expenditures:					
Home and Community Services	\$1,278,315	\$1,275,561	\$1,180,065	\$1,176,041	\$1,079,797
Employee Benefits	63,312	59,582	52,983	53,600	56,360
Debt Service	<u>189,938</u>	<u>145,716</u>	<u>239,047</u>	<u>227,252</u>	<u>343,725</u>
Subtotal: Expenditures	<u>\$1,531,565</u>	<u>\$1,480,859</u>	<u>\$1,472,095</u>	<u>\$1,456,893</u>	<u>\$1,479,882</u>
Excess (Deficit) Revenues					
Over Expenditures	(\$35,132)	\$7,579	\$69,172	\$143,023	\$365,092
Other Sources (Uses):					
Interfund Transfers	\$0	\$0	\$0	\$0	\$0
Operating Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(156,400)</u>
Total Other Sources (Uses):	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$156,400)</u>
Fund Balance Beg. of Fiscal Year	<u>(\$213,419)</u>	<u>(\$248,551)</u>	<u>(\$240,972)</u>	<u>(\$171,800)</u>	<u>(\$28,777)</u>
Fund Balance End of Fiscal Year	<u>(\$248,551)</u>	<u>(\$240,972)</u>	<u>(\$171,800)</u>	<u>(\$28,777)</u>	<u>\$179,915</u>

Source: Audited Annual Financial Reports of the City

Note: This table NOT audited

Balance Sheet
General Fund - City of Tonawanda

	Fiscal Year Ending December 31:			
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Assets:				
Cash and Cash Equivalents	\$3,255,517	\$2,953,835	\$2,348,174	\$3,069,055
Taxes Receivable	1,217,020	1,202,274	1,393,288	1,567,048
Accounts Receivable	4,004	19,228	70,853	29,102
Due from Other Governments	1,815,914	1,541,857	1,669,990	1,812,303
Due from Other Funds	853,437	1,544,017	561,615	1,164,603
Prepaid Expenses	242,817	0	370,507	574,300
Total Assets:	<u>\$7,388,709</u>	<u>\$7,261,211</u>	<u>\$6,414,427</u>	<u>\$8,216,411</u>
Liabilities:				
Accounts Payable	\$301,681	\$425,058	\$219,798	\$205,051
Accrued Liabilities	201,662	1,062,760	446,230	557,609
Due to Other Governments	559,909	572,262	606,032	646,971
Due to Other Funds	1,475,013	170,341	0	1,304,216
Deferred Revenue	629,556	613,437	696,547	878,712
Total Liabilities:	<u>\$3,167,821</u>	<u>\$2,843,858</u>	<u>\$1,968,607</u>	<u>\$3,592,559</u>
Fund Balances:				
Nonspendable	\$242,817	\$0	\$370,507	\$574,300
Restricted	1,766,635	1,481,222	1,481,222	1,444,376
Assigned	281,717	283,016	375,000	500,000
Unassigned	1,929,719	2,653,115	2,219,091	2,105,176
Total Fund Balance:	<u>\$4,220,888</u>	<u>\$4,417,353</u>	<u>\$4,445,820</u>	<u>\$4,623,852</u>
Total Liabilities and Fund Balance:	<u>\$7,388,709</u>	<u>\$7,261,211</u>	<u>\$6,414,427</u>	<u>\$8,216,411</u>

Source: Audited Annual Financial Reports of the City

Note: This table NOT audited

Balance Sheet
Water Fund - City of Tonawanda

	Fiscal Year Ending December 31:			
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Assets:				
Cash and Cash Equivalents	\$488,719	\$546,952	\$445,695	\$660,352
Accounts Receivable	55,025	51,939	53,882	58,153
Due From Other Funds	89,012	246,357	59,930	59,930
Total Assets:	<u>\$632,756</u>	<u>\$845,248</u>	<u>\$559,507</u>	<u>\$778,435</u>
Liabilities:				
Due to Other Funds	\$600,959	\$746,562	\$469,600	\$726,046
Total Liabilities:	<u>\$600,959</u>	<u>\$746,562</u>	<u>\$469,600</u>	<u>\$726,046</u>
Fund Balances:				
Undesignated	\$31,797	\$98,686	\$0	\$0
Assigned	0	0	89,907	52,389
Unassigned	0	0	0	0
Total Fund Balance:	<u>\$31,797</u>	<u>\$98,686</u>	<u>\$89,907</u>	<u>\$52,389</u>
Total Liabilities and Fund Balance:	<u>\$632,756</u>	<u>\$845,248</u>	<u>\$559,507</u>	<u>\$778,435</u>

Source: Audited Annual Financial Reports of the City

Note: This table NOT audited

Balance Sheet
Sewer Fund - City of Tonawanda

	Fiscal Year Ending December 31:			
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Assets:				
Cash and Cash Equivalents	\$0	\$0	\$0	\$237,568
Accounts Receivable	316,654	337,686	362,624	435,756
Due From Other Funds	0	0	0	64,220
Prepaid Expenses	1,938	0	2,500	2,500
Total Assets:	<u><u>\$318,592</u></u>	<u><u>\$337,686</u></u>	<u><u>\$365,124</u></u>	<u><u>\$740,044</u></u>
Liabilities:				
Accounts Payable	\$75,450	\$77,214	\$147,481	\$142,225
Accrued Liabilities	4,351	4,864	5,353	5,112
Due to Other Funds	295,657	263,225	66,945	251,220
Due to Other Governments	184,106	164,183	174,122	161,572
Total Liabilities:	<u><u>\$559,564</u></u>	<u><u>\$509,486</u></u>	<u><u>\$393,901</u></u>	<u><u>\$560,129</u></u>
Fund Balances:				
Nonspendable	\$0	\$0	\$0	\$2,500
Assigned	0	0	0	177,415
Restricted	0	0	2,500	0
Undesignated/Unassigned	(240,972)	(171,800)	(31,277)	0
Total Fund Balance:	<u><u>(\$240,972)</u></u>	<u><u>(\$171,800)</u></u>	<u><u>(\$28,777)</u></u>	<u><u>\$179,915</u></u>
Total Liabilities and Fund Balance:	<u><u>\$318,592</u></u>	<u><u>\$337,686</u></u>	<u><u>\$365,124</u></u>	<u><u>\$740,044</u></u>

Source: Audited Annual Financial Reports of the City

Note: This table NOT audited

Budget Summaries
Combined Funds - City of Tonawanda
Fiscal Year Ending December 31, 2013

	<u>General</u>	<u>Water</u>	<u>Sewer</u>
Revenues:			
Real Property Taxes	\$10,044,556	\$0	\$0
Real Property Tax Items	573,000	0	0
Non-Property Tax Items	4,992,000	0	0
Departmental Income	186,800	251,165	1,945,161
Intergovernmental Charges	202,700	0	0
Use of Money & Property	21,800	0	1,000
Licenses and Permits	181,000	0	0
Fines and Forfeitures	450,000	0	0
Sale of Prop. & Comp. for Loss	65,000	0	0
Miscellaneous Items	23,000	0	0
State Aid	2,811,404	0	0
Interfund Transfers	161,400	0	0
Fund Balance	350,000	0	0
Total Revenues:	<u>\$20,062,660</u>	<u>\$251,165</u>	<u>\$1,946,161</u>
Expenditures:			
General Government Support	\$2,244,273	\$0	\$282,584
Public Safety	5,224,676	0	0
Transportation	2,304,424	0	0
Economic Assistance and Opportunity	31,491	0	0
Culture and Recreation	978,160	0	0
Home and Community Services	1,072,804	0	975,000
Employee Benefits	6,481,084	0	62,636
Debt Service	1,425,748	251,165	464,541
Interfund Transfers	0	0	161,400
Deficiency Tax	300,000	0	0
Total Expenditures:	<u>\$20,062,660</u>	<u>\$251,165</u>	<u>\$1,946,161</u>

Source: Adopted Budgets of the City

Note: This table NOT audited

APPENDIX B

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

**AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012**

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

**CITY OF TONAWANDA,
NEW YORK**

*Basic Financial Statements, Required
Supplementary Information and Federal and
New York State Department of Transportation
Financial Assistance Schedules for the
Year Ended December 31, 2012 and
Independent Auditors' Reports*

CITY OF TONAWANDA, NEW YORK
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INDEPENDENT AUDITOR'S 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on Discretely Presented Component Unit

Management has not included the City's legally separate component unit in the City's financial statements. Accounting principles generally accepted in the United States of America require the financial data for that component unit to be reported as a discretely presented component unit. The amounts by which this departure would affect the assets, liabilities, net position, revenues, and expenses of the discretely presented component unit have not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter described in the “Basis for Adverse Opinion on Discretely Presented Component Unit” paragraph, the financial statements referred to previously do not present fairly, the financial position of the discretely presented component unit of the City, as of December 31, 2012, or the changes in financial position thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City as of December 31, 2012, and the respective changes in financial position and the respective budgetary comparisons for the General, Sewer and Water Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2013 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City’s internal control over financial reporting and compliance.

March 20, 2013

MANAGEMENT DISCUSSION AND ANALYSIS

CITY OF TONAWANDA, NEW YORK
Management's Discussion and Analysis
Year Ended December 31, 2012

As management of the City of Tonawanda, New York (the "City"), we offer readers of the financial statements of the City's primary government this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2012. The financial statements referred to above include only the primary government of the City, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, the Tonawanda Housing Authority, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. We encourage readers to consider the information presented here in conjunction with other information contained in the City's financial statements, which follow this narrative.

Financial Highlights

- The liabilities of the City exceeded its assets at the December 31, 2012, resulting in a *net deficit* of \$3,032,419. This net deficit includes an *unrestricted net deficit* of \$15,193,934. This significant unrestricted net 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 (\$11.9 million), compensated absences (\$2.8 million) and other post-employment benefits (\$2.0 million).
- During the year ended December 31, 2012, the City's net deficit improved by \$1,209,717 as a result of operating activities for the year.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,433,800, a decrease of \$1,081,869 in comparison with the prior year.
- The General Fund reported an unrestricted, unassigned fund balance of \$2,105,176 at December 31, 2012. This represents approximately 11.0% of the annual expenditures in the General Fund.

Overview of the Financial Statements

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

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

The *statement of net 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 assets may serve as a useful indicator of whether the financial position of the City's primary government is improving or deteriorating.

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

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

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

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

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

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

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

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

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

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

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

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

Government-wide financial analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the City, liabilities exceeded assets by \$3,029,050 at the close of the 2012 fiscal year.

TABLE 1 — CONDENSED STATEMENT OF NET POSITION

	<u>2012</u>	<u>2011</u>
Current assets	\$ 10,243,426	\$ 9,365,921
Capital assets	<u>20,670,824</u>	<u>16,277,372</u>
Total assets	<u>30,914,250</u>	<u>25,643,293</u>
Current liabilities	5,984,493	4,185,538
Non-current liabilities	<u>27,962,176</u>	<u>25,699,891</u>
Total liabilities	<u>33,946,669</u>	<u>29,885,429</u>
Net position (deficit):		
Net investment in capital assets	10,624,151	9,576,539
Restricted	1,537,364	1,482,222
Unrestricted	<u>(15,193,934)</u>	<u>(15,300,897)</u>
Total net position (deficit)	<u>\$ (3,032,419)</u>	<u>\$ (4,242,136)</u>

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

The City also has certain portions of net position that are restricted for particular purpose. These restrictions increased slightly from 2011 to 2012, from \$1,482,222 to \$1,537,364.

The remaining component is unrestricted net position, which in the case of the City is a deficit balance of \$15,193,934, caused primarily by certain long-term obligations which are not required to be funded until due (i.e. compensated absences, indebtedness, pollution remediation obligations, other postemployment benefits etc.). This demonstrates that future funding will be necessary to liquidate long-term obligations.

The City’s total net position increased \$1,209,717 for the year ended December 31, 2012, as compared to a decrease of \$328,792 for the year ended December 31, 2011. The 2012 increase was the result of the City’s investment in infrastructure; whereas, the 2011 decrease was the result of operating activities.

A comparison of current assets to current liabilities for the government-wide activities as of December 31, 2012 and 2011 is provided in Table 2 below. The City had favorable current ratios of 1.71 and 2.24 which indicate that the City has sufficient assets to cover its current liabilities that will come due within a year.

TABLE 2 — CURRENT ASSETS AND LIABILITIES

	<u>2012</u>	<u>2011</u>
Current assets	\$ 10,243,426	\$ 9,365,921
Current liabilities	5,984,493	4,185,538
Ratio of current assets to liabilities	1.71	2.24

Governmental Activities. Table 3, as presented below, shows the changes in net position for the years ended December 31, 2012 and 2011:

TABLE 3 — CONDENSED STATEMENT OF ACTIVITIES

	<u>2012</u>	<u>2011</u>
Program revenues:		
Charges for services	\$ 3,069,116	\$ 2,847,629
Operating grants and contributions	295,293	186,512
Capital grants and contributions	2,606,558	1,513,215
General revenues	<u>18,063,459</u>	<u>17,723,363</u>
Total revenues	24,034,426	22,270,719
Program expenses	<u>22,824,709</u>	<u>22,599,511</u>
Change in net assets	1,209,717	(328,792)
Net position (deficit)—beginning	<u>(4,242,136)</u>	<u>(3,913,344)</u>
Net position (deficit)—ending	<u>\$ (3,032,419)</u>	<u>\$ (4,242,136)</u>

A summary of sources of revenues for the years ended December 31, 2012 and 2011 is presented below in Table 4:

TABLE 4 — REVENUES BY TYPE

	2012	2011	Increase/(decrease)	
			Dollars	Percent
Charges for services	\$ 3,069,116	\$ 2,847,629	\$ 221,487	7.8
Operating grants and contributions	295,293	186,512	108,781	58.3
Capital grants and contributions	2,606,558	1,513,215	1,093,343	72.3
Property taxes and tax items	10,192,543	10,003,951	188,592	1.9
Non-property tax items	4,830,921	4,786,165	44,756	0.9
Mortgage tax	161,551	119,726	41,825	34.9
Use of money and property	15,386	22,019	(6,633)	(30.1)
Sale of property and compensation for loss	48,290	54,985	(6,695)	(12.2)
Miscellaneous	212,664	134,413	78,251	58.2
Unrestricted state aid	2,602,104	2,602,104	-	0.0
Total program revenues	<u>\$ 24,034,426</u>	<u>\$ 22,270,719</u>	<u>\$ 1,763,707</u>	7.9

Overall revenues increased 7.9% from the 2011 fiscal year. Key elements of this increase are as follows:

- *Capital grants and contributions* — Increased \$1,093,343, or 72.3%, from the prior year. This increase is the result of the City’s receipt of funding from Erie County and the Federal government for the conclusion of the demolition and cleanup of the Spaulding Plant in 2012, as well as funds received from New York State for the Pavillion project.
- *Operating grants and contributions* — Increased \$108,781, or 58.3%, from 2011. This increase is mainly due to Federal grants received in 2012 for port security and fire equipment.
- *Miscellaneous* — Increased \$78,251, or 58.2%, from the prior year. This increase is largely the result of a one-time refund of prior years’ expense from insurance paid.
- *Other* — The City saw modest increases in property taxes and tax items (\$188,592), non-property tax items (\$44,756) and charges for services (\$221,487). These increases were the result of an increase in the real property tax rate, an increase in sales within the County and increase in a wide variety of charges to service users, respectively.

A summary of program expenses for the years ended December 31, 2012 and 2011 is presented on the following page in Table 5.

TABLE 5 — PROGRAM EXPENSES BY TYPE

	2012	2011	Increase/(decrease)	
			Dollars	Percent
General government support	\$ 2,668,352	\$ 2,640,871	\$ 27,481	1.0
Public safety	7,825,378	7,788,091	37,287	0.5
Transportation	5,156,115	4,615,023	541,092	11.7
Economic assistance and opportunity	32,450	46,348	(13,898)	(30.0)
Culture and recreation	1,713,907	1,691,092	22,815	1.3
Home and community services	5,086,194	5,531,790	(445,596)	(8.1)
Interest on debt	342,313	286,296	56,017	19.6
Total program expenses	<u>\$ 22,824,709</u>	<u>\$ 22,599,511</u>	<u>\$ 225,198</u>	1.0

Overall program expenses increased \$225,198, or 1.0% from the 2011 fiscal year. Key elements of this change are as follows:

- *Transportation* — Increased \$541,092 or 11.7% from the prior year. The most significant portion of this increase was due to development and maintenance at the Spaulding Commerce Park.
- *Home and Community Services* — decreased \$445,596 or 8.1% from the prior year. The decrease in 2012 was related to a larger increase in the estimate of the City’s pollution remediation obligation in the prior year.

Financial Analysis of the City’s Funds

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

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

At December 31, 2012, the City’s governmental funds reported combined ending fund balance of \$3,343,800, a decrease of \$1,081,869 from the prior year. Approximately 38.4%, or \$1,319,636, of the total combined fund balance constitutes *unassigned fund balance or assigned for a specific use*, which is available for spending at the City’s discretion. Fund balance of \$500,000 is *assigned fund balance* for subsequent year’s expenditures and self-insurance. Fund balance of \$1,537,364 is *restricted* to indicate that it is not available for new spending because it has already been committed to (1) workers’ compensation, (2) general liability insurance, (3) tax stabilization and (4) to restore historical property. In addition, the City has \$576,800 of *nonspendable fund balance*, which is an offset of prepaid expenditures.

The *General Fund* is the chief operating fund of the City. At December 31, 2012, the unassigned fund balance of the General Fund was \$2,108,545, while the total fund balance was \$4,627,221. 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 11.0% of total General Fund expenditures, while total fund balance represents 24.2% of that same amount.

The General Fund fund balance increased by \$178,032 during the 2012 fiscal year. This amount is favorable compared to the adopted 2012 budget, which anticipated using \$275,000 of General Fund fund balance.

Other major funds are the Sewer, Water and Capital Project Funds, which realized changes in fund balances of \$208,692, (\$37,518) and (\$1,422,324), respectively. The significant decrease in the Capital Projects Fund is mainly the result of capital project expenditures made in anticipation of the issuance of long-term debt.

General Fund Budgetary Highlights

During the year there was a \$206,100 increase in appropriations between the original and final amended budget in the General Fund. The increase in appropriations was mainly due to police and fire department equipment and personal services expenditures. The increase in appropriations was mainly funded by increases in estimated federal aid revenues.

Original Budget Compared to Final Budget—During the year the City amended the General Fund budget to increase revenues and appropriations by \$205,992 and \$206,100, respectively. Additionally, there was a need to make amendments to reallocate appropriations among departments as actual expenditures became defined during the year.

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

	Final Budget	Actual	Variance
Total revenues	\$ 19,326,042	\$ 19,172,009	\$ (154,033)
Total expenditures	19,507,550	19,150,377	357,173
Other financing sources	<u>156,400</u>	<u>156,400</u>	<u>-</u>
Budgeted and actual (use) or increase to fund balance	<u>\$ (25,108)</u>	<u>\$ 178,032</u>	<u>\$ 203,140</u>

When comparing appropriations to actual expenditures, positive variances occurred in every category, with the largest in transportation. This category produced positive variances in many areas such as highway commodities such as salt and electricity, which were not fully utilized during the year due to the mild winter.

Overall, the budget anticipated a use of fund balance of \$25,000. However, actual results showed that General Fund fund balance increased by \$178,032. Thus, an overall positive variance from the budget of \$203,140.

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

Capital Asset and Debt Administration

Capital Assets. The City’s investment in capital assets for its governmental activities as of December 31, 2012, amounted to \$20,670,824 (net of accumulated depreciation). This investment in capital assets includes land, buildings and building improvements, infrastructure, vehicles and equipment.

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

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

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

TABLE 6 — CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)

	<u>2012</u>	<u>2011</u>
Land	\$ 328,850	\$ 328,850
Buildings and improvements	3,246,771	2,416,247
Equipment	2,955,847	2,671,093
Infrastructure	<u>14,139,356</u>	<u>10,861,182</u>
Total	<u>\$ 20,670,824</u>	<u>\$ 16,277,372</u>

Long-term Obligations. At December 31, 2012, the City’s long-term obligations consisted of bonds payable, compensated absences payable, capital leases, workers’ compensation claims, landfill post-closure costs payable, pollution remediation obligations and other postemployment benefits, which changed as included on the next page.

TABLE 7 — LONG-TERM OBLIGATIONS

	<u>Balance 2012</u>	<u>Balance 2011</u>	<u>Change</u>
Compensated absences	\$ 2,800,212	\$ 2,636,267	\$ 163,945
Landfill post-closure costs payable	400,000	420,000	(20,000)
Pollution remediation obligations	11,900,000	10,950,000	950,000
Other postemployment benefits	2,021,535	1,757,379	264,156
Bonds payable	10,015,000	9,038,499	976,501
Capital leases	18,737	32,075	(13,338)
Workers' compensation claims	<u>806,692</u>	<u>865,671</u>	<u>(58,979)</u>
	<u>\$ 27,962,176</u>	<u>\$ 25,699,891</u>	<u>\$ 2,262,285</u>

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

Economic Factors and Next Year’s Budget

Located in the Western New York region, the City has struggled with the trying times that have become a characteristic of the area. The unemployment rate for the Buffalo-Niagara statistical area was 8.4% in December 2012, which is an increase from a rate of 8.0% a year ago. This rate is consistent with the New York State average of 8.2% but is unfavorable in comparison with the national average of 7.8%.

Although recent inflationary trends in the region, particularly in the real estate sector compared favorably to national indices, over the past two decades the region has experienced a steady decline in population and business. Despite the economic hardships, the City’s overall financial position remained relatively stable during the fiscal year ended December 31, 2012.

The City assigned \$375,000 of the General Fund’s fund balance at December 31, 2012 for support of 2013 budgetary appropriations.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CITY OF TONAWANDA, NEW YORK

Statement of Net Position

December 31, 2012

	<u>Primary Government Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 2,795,794
Restricted cash and cash equivalents	2,868,678
Taxes receivable	1,567,048
Other receivables	534,860
Due from other governments	1,900,246
Prepaid items	576,800
Capital assets not being depreciated	328,850
Capital assets net of accumulated depreciation	<u>20,341,974</u>
Total assets	<u>30,914,250</u>
LIABILITIES	
Accounts payable	1,090,524
Accrued liabilities	630,041
Due to other governments	823,928
Bond anticipation notes	3,440,000
Non-current liabilities:	
Due within one year	3,376,301
Due within more than one year	<u>24,585,875</u>
Total liabilities	<u>33,946,669</u>
NET POSITION	
Net investment in capital assets	10,624,151
Restricted for:	
Tax stabilization	200,000
Workers' compensation insurance	1,114,722
Health insurance	129,654
Capital projects	91,988
Historical restoration	1,000
Unrestricted (deficit)	<u>(15,193,934)</u>
Total net position	<u>\$ (3,032,419)</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, 2012

Function/Program	Expense	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities
Primary Government:					
Governmental activities:					
General government support	\$ 2,668,352	\$ 94,583	\$ 13,254	\$ -	\$ (2,560,515)
Public safety	7,825,378	587,990	217,894	1,304,936	(5,714,558)
Transportation	5,156,115	181,774	5,461	429,292	(4,539,588)
Economic assistance and opportunity	32,450	33,824	-	-	1,374
Culture and recreation	1,713,907	104,079	30,694	718,670	(860,464)
Home and community services	5,086,194	2,066,866	27,990	153,660	(2,837,678)
Interest on debt	342,313	-	-	-	(342,313)
Total primary government	<u>\$ 22,824,709</u>	<u>\$ 3,069,116</u>	<u>\$ 295,293</u>	<u>\$ 2,606,558</u>	<u>(16,853,742)</u>
General revenues:					
					10,192,543
					4,830,921
					161,551
					15,386
					48,290
					212,664
					2,602,104
					<u>18,063,459</u>
					1,209,717
					<u>(4,242,136)</u>
					<u>\$ (3,032,419)</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, 2012

	General	Sewer Fund	Water Fund	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 1,624,679	\$ 237,568	\$ 660,352	\$ -	\$ 273,195	\$ 2,795,794
Restricted cash and cash equivalents	1,444,376	-	-	1,423,302	1,000	2,868,678
Taxes receivable	1,567,048	-	-	-	-	1,567,048
Accounts receivables	29,102	435,756	58,153	-	11,849	534,860
Due from other funds	1,164,603	64,220	59,930	1,297,728	-	2,586,481
Due from other governments	1,812,303	-	-	87,943	-	1,900,246
Prepaid expenditures	574,300	2,500	-	-	-	576,800
Total assets	<u>8,216,411</u>	<u>740,044</u>	<u>778,435</u>	<u>2,808,973</u>	<u>286,044</u>	<u>12,829,907</u>
LIABILITIES						
Accounts payable	\$ 205,051	\$ 142,225	\$ -	\$ 743,248	\$ -	\$ 1,090,524
Accrued liabilities	557,609	5,112	-	-	1,892	564,613
Due to other funds	1,304,216	251,220	726,046	304,999	-	2,586,481
Due to other governments	646,971	161,572	-	-	15,385	823,928
Unearned revenue	-	-	-	-	11,849	11,849
Bond anticipation notes	-	-	-	3,440,000	-	3,440,000
Total liabilities	<u>2,713,847</u>	<u>560,129</u>	<u>726,046</u>	<u>4,488,247</u>	<u>29,126</u>	<u>8,517,395</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue—property taxes	878,712	-	-	-	-	878,712
Total deferred inflows of resources	<u>878,712</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>878,712</u>
FUND BALANCES (DEFICIT)						
Nonspendable	574,300	2,500	-	-	-	576,800
Restricted	1,444,376	-	-	91,988	1,000	1,537,364
Assigned	500,000	177,415	52,389	-	255,918	985,722
Unassigned	2,105,176	-	-	(1,771,262)	-	333,914
Total fund balances (deficit)	<u>4,623,852</u>	<u>179,915</u>	<u>52,389</u>	<u>(1,679,274)</u>	<u>256,918</u>	<u>3,433,800</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 8,216,411</u>	<u>\$ 740,044</u>	<u>\$ 778,435</u>	<u>\$ 2,808,973</u>	<u>\$ 286,044</u>	<u>\$ 12,829,907</u>

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

CITY OF TONAWANDA, NEW YORK
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
December 31, 2012

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

Total fund balances (deficit)—governmental funds (page 13)	\$	3,433,800
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$45,897,805 and the accumulated depreciation is \$25,226,981.		20,670,824
Recognition of certain items which are deferred on the modified accrual basis, but should be recognized on the accrual basis.		
Real property taxes	\$ 878,712	
Loans receivable	<u>11,849</u>	890,561
To recognize interest accrual on long term debt (serial bonds), which are not recognized in the funds until paid.		(65,428)
Long-term liabilities that are not due and payable in the current period and therefore are not reported within the funds:		
Bonds payable	\$ (10,015,000)	
Landfill postclosure care costs	(400,000)	
Pollution remediation obligation	(11,900,000)	
Capital leases	(18,737)	
Other postemployment benefits	(2,021,535)	
Compensated absences	(2,800,212)	
Workers' compensation	<u>(806,692)</u>	<u>(27,962,176)</u>
Total net position—governmental activities	\$	<u>(3,032,419)</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, 2012

	General	Sewer Fund	Water Fund	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES						
Real property taxes	\$ 9,559,242	\$ -	\$ -	\$ -	\$ -	\$ 9,559,242
Other tax items	479,818	-	-	-	-	479,818
Non property tax items	4,830,921	-	-	-	-	4,830,921
Departmental income	194,174	1,843,907	219,523	2,905	30,444	2,290,953
Intergovernmental charges	215,083	-	-	-	-	215,083
Use of money and property	10,187	1,067	-	3,601	531	15,386
Licenses and permits	132,941	-	-	-	-	132,941
Fines and forfeitures	430,139	-	-	-	-	430,139
Sale of property and compensation for loss	48,290	-	-	-	-	48,290
Miscellaneous	189,982	-	-	1,858,924	-	2,048,906
State aid	2,879,186	-	-	341,349	3,660	3,224,195
Federal aid	202,046	-	-	403,023	-	605,069
Total revenues	<u>19,172,009</u>	<u>1,844,974</u>	<u>219,523</u>	<u>2,609,802</u>	<u>34,635</u>	<u>23,880,943</u>
EXPENDITURES						
Current:						
General government support	1,986,226	-	-	3,500	-	1,989,726
Public safety	5,761,284	-	-	244,335	3,331	6,008,950
Transportation	1,928,039	-	-	3,447,084	-	5,375,123
Economic assistance and opportunity	33,256	-	-	-	-	33,256
Culture and recreation	877,482	-	-	1,056,855	23,807	1,958,144
Home and community services	1,145,568	1,079,797	-	1,890,352	16,248	4,131,965
Employee benefits	6,048,389	56,360	-	-	-	6,104,749
Debt service	1,370,133	343,725	257,041	-	-	1,970,899
Total expenditures	<u>19,150,377</u>	<u>1,479,882</u>	<u>257,041</u>	<u>6,642,126</u>	<u>43,386</u>	<u>27,572,812</u>
Excess (deficiency) of revenues over expenditures	<u>21,632</u>	<u>365,092</u>	<u>(37,518)</u>	<u>(4,032,324)</u>	<u>(8,751)</u>	<u>(3,691,869)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	156,400	-	-	-	-	156,400
Transfers out	-	(156,400)	-	-	-	(156,400)
Proceeds from long-term debt issuance	-	-	-	2,610,000	-	2,610,000
Total other financing sources and uses	<u>156,400</u>	<u>(156,400)</u>	<u>-</u>	<u>2,610,000</u>	<u>-</u>	<u>2,610,000</u>
Net change in fund balances (deficits)	178,032	208,692	(37,518)	(1,422,324)	(8,751)	(1,081,869)
Fund balances (deficits)—beginning	<u>4,445,820</u>	<u>(28,777)</u>	<u>89,907</u>	<u>(256,950)</u>	<u>265,669</u>	<u>4,515,669</u>
Fund balances (deficit)—ending	<u>\$ 4,623,852</u>	<u>\$ 179,915</u>	<u>\$ 52,389</u>	<u>\$ (1,679,274)</u>	<u>\$ 256,918</u>	<u>\$ 3,433,800</u>

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

CITY OF TONAWANDA, NEW YORK
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances (Deficits) of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2012

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

Net change in fund balances (deficit)—total governmental funds (page 15) \$ (1,081,869)

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

Capital asset additions	\$ 5,988,125	
Capital asset deletions	(179,693)	
Depreciation expense	<u>(1,414,980)</u>	4,393,452

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

Issuance of serial bonds	\$ (2,610,000)	
Repayment of serial bonds	1,633,499	
Decrease in accrued interest expense	(4,913)	
Repayment of capital leases	<u>13,338</u>	(968,076)

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

Compensated absences	\$ (163,945)	
Workers' compensation	58,979	
Other postemployment benefits	(264,156)	
Landfill postclosure care costs	20,000	
Pollution remediation obligation	<u>(950,000)</u>	(1,299,122)

Revenues in the statement of activities that do not provide current financial resources are reported as deferred inflows in the funds. 165,332

Change in net position of governmental activities \$ 1,209,717

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

CITY OF TONAWANDA, NEW YORK
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual—General Fund
Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Real property taxes	\$ 9,895,996	\$ 9,895,996	\$ 9,559,242	\$ (336,754)
Other tax items	554,000	554,000	479,818	(74,182)
Non property tax items	4,840,000	4,840,000	4,830,921	(9,079)
Departmental income	204,850	207,650	194,174	(13,476)
Intergovernmental charges	196,200	196,200	215,083	18,883
Use of money and property	21,800	21,800	10,187	(11,613)
Licenses and permits	151,000	151,000	132,941	(18,059)
Fines and forfeitures	355,000	355,000	430,139	75,139
Sale of property and compensation for loss	59,000	59,000	48,290	(10,710)
Miscellaneous local sources	29,000	29,000	189,982	160,982
State aid	2,813,204	2,815,543	2,879,186	63,643
Federal aid	-	200,853	202,046	1,193
Total revenues	<u>19,120,050</u>	<u>19,326,042</u>	<u>19,172,009</u>	<u>(154,033)</u>
EXPENDITURES				
Current:				
General government support	2,107,096	1,989,344	1,986,226	3,118
Public safety	5,316,031	5,798,623	5,761,284	37,339
Transportation	2,114,052	2,059,177	1,928,039	131,138
Economic assistance and opportunity	32,856	33,256	33,256	-
Culture and recreation	971,571	921,871	877,482	44,389
Home and community services	1,156,274	1,174,124	1,145,568	28,556
Employee benefits	6,239,171	6,160,956	6,048,389	112,567
Debt service	<u>1,364,399</u>	<u>1,370,199</u>	<u>1,370,133</u>	<u>66</u>
Total expenditures	<u>19,301,450</u>	<u>19,507,550</u>	<u>19,150,377</u>	<u>357,173</u>
Excess (deficiency) of revenues over expenditures	<u>(181,400)</u>	<u>(181,508)</u>	<u>21,632</u>	<u>203,140</u>
OTHER FINANCING SOURCES				
Transfers in	<u>156,400</u>	<u>156,400</u>	<u>156,400</u>	<u>-</u>
Total other financing sources	<u>156,400</u>	<u>156,400</u>	<u>156,400</u>	<u>-</u>
Net change in fund balance*	(25,000)	(25,108)	178,032	203,140
Fund balance—beginning	<u>4,445,820</u>	<u>4,445,820</u>	<u>4,445,820</u>	<u>-</u>
Fund balance—ending	<u>\$ 4,420,820</u>	<u>\$ 4,420,712</u>	<u>\$ 4,623,852</u>	<u>\$ 203,140</u>

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

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

CITY OF TONAWANDA, NEW YORK
Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit)
Budget and Actual—Sewer Fund
Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Departmental income	\$ 1,852,534	\$ 1,852,534	\$ 1,843,907	\$ (8,627)
Use of money and property	1,000	1,000	1,067	67
Miscellaneous local sources	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>(1,000)</u>
Total revenues	<u>1,854,534</u>	<u>1,854,534</u>	<u>1,844,974</u>	<u>(9,560)</u>
EXPENDITURES				
Current:				
Home and community services	1,295,084	1,295,409	1,079,797	215,612
Employee benefits	58,841	58,841	56,360	2,481
Debt service	<u>344,209</u>	<u>343,884</u>	<u>343,725</u>	<u>159</u>
Total expenditures	<u>1,698,134</u>	<u>1,698,134</u>	<u>1,479,882</u>	<u>218,252</u>
Excess (deficiency) of revenues over expenditures	<u>156,400</u>	<u>156,400</u>	<u>365,092</u>	<u>208,692</u>
OTHER FINANCING USES				
Transfers out	<u>(156,400)</u>	<u>(156,400)</u>	<u>(156,400)</u>	<u>-</u>
Total other financing uses	<u>(156,400)</u>	<u>(156,400)</u>	<u>(156,400)</u>	<u>-</u>
Net change in fund balance*	-	-	208,692	208,692
Fund balance (deficit)—beginning	<u>(28,777)</u>	<u>(28,777)</u>	<u>(28,777)</u>	<u>-</u>
Fund balance—ending	<u>\$ (28,777)</u>	<u>\$ (28,777)</u>	<u>\$ 179,915</u>	<u>\$ 208,692</u>

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

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

CITY OF TONAWANDA, NEW YORK
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual—Water Fund
Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Departmental income	\$ 257,041	\$ 257,041	\$ 219,523	\$ (37,518)
Total revenues	<u>257,041</u>	<u>257,041</u>	<u>219,523</u>	<u>(37,518)</u>
EXPENDITURES				
Debt service	<u>257,041</u>	<u>257,041</u>	<u>257,041</u>	<u>-</u>
Total expenditures	<u>257,041</u>	<u>257,041</u>	<u>257,041</u>	<u>-</u>
Net change in fund balance*	-	-	(37,518)	(37,518)
Fund balance—beginning	<u>89,907</u>	<u>89,907</u>	<u>89,907</u>	<u>-</u>
Fund balance—ending	<u>\$ 89,907</u>	<u>\$ 89,907</u>	<u>\$ 52,389</u>	<u>\$ (37,518)</u>

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

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

CITY OF TONAWANDA, NEW YORK
Statement of Fiduciary Net Position
Agency Fund
December 31, 2012

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 406,551
Total assets	<u>\$ 406,551</u>
LIABILITIES	
Agency liabilities	\$ 405,221
Accounts payable	<u>1,330</u>
Total liabilities	<u>\$ 406,551</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, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Departure from Generally Accepted Accounting Principles

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

Financial Reporting Entity

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

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

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

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

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

Description of Government-Wide Financial Statements

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

Basis of Presentation—Government-wide Financial Statements

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

Basis of Presentation—Fund Financial Statements

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

The City considers the following governmental funds as major funds:

- ◆ *General Fund*—is the City's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.
- ◆ *Sewer Fund*—This fund is used to record all revenues and expenditures related to the transportation and treatment of City sewage.
- ◆ *Water Fund*—This fund is used to record all revenues and expenditures related to operation and maintenance of the City's water system.
- ◆ *Capital Projects Fund*—This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Additionally, the City reports the following fiduciary fund type that is used to account for assets held by the City in a custodial capacity:

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

During the course of operations the government 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.

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

Measurement Focus and Basis of Accounting

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service and compensated absences are recorded only when payment is due. General capital asset acquisitions have not been reported as expenditures in governmental funds.

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

Budgets and Budgetary Accounting—Annual budgets for all governmental funds, except the Special Grant Fund, Special Purpose Fund and the Capital Projects Fund, are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except that encumbrances are treated as budgeted expenditures in the year of incurrence of the commitment to purchase. All unencumbered appropriations lapse at the end of the fiscal year. On January 1, encumbrance assignments outstanding at year-end are reappropriated to the ensuing year's original budget. Budgetary comparisons presented in this report are on the budgetary basis and represent the budget as modified.

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

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to set aside that portion of the applicable appropriation, is employed as an extension of budgetary control in all governmental funds.

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

Cash, Cash Equivalents and Investments—Cash and cash equivalents include cash on hand, demand deposits, time deposits and short-term, highly liquid investments which are readily convertible to known amounts of cash and have a maturity date within 90 days of the City’s original acquisition. The City had no investments at December 31, 2012, however, when the City does have investments they are recorded at fair value based on quoted market value.

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

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

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

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

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

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

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

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

Deferred Outflows of Resources—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its acquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred Inflows of Resources—In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting, that 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 special assessments. 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 government 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 government’s policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

Fund Balance Flow Assumptions—Sometimes the government 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 has by resolution authorized the City Treasurer to assign fund balance. The City Council may also 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

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—The City Treasurer prepares the levy for real property taxes in late December of each year. Unpaid tax levies become deferred inflows of resources as of fiscal year-end.

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

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

Payment of sick leave and compensatory time is dependent upon many factors; therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payments of sick leave and compensatory time when such payment becomes due.

Other

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

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

Other Postemployment Benefits—In addition to providing pension benefits, the City provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the City's employees may become eligible for these benefits if they reach normal retirement age while working for the City, as discussed in Note 7.

Adoption of New Accounting Pronouncements—During the year ended December 31, 2012, the City implemented GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement amends the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Town also elected to early implement the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources, certain items that were previously reported as assets and liabilities. GASB Statements No. 63 and 65 did not have a material impact on the City's financial position or results from operations.

Additionally, during the year ended December 31, 2012, the City completed the process of evaluating the impact that will result from adopting GASB Statements No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*; No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and No. 64, *Derivative Employer Plans; Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*. GASB Statements No. 57, 60, 62 and 64 did not have a material impact on the City's financial position or results from operations.

Future Impacts of Accounting Pronouncements—The City has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 15 and No. 34*; and No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*, effective for the year ending December 31, 2013; No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*; and No. 69, *Government Combinations and Disposals of Government Operations*, effective for the year ending December 31, 2014; and No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, effective for the year ending December 31, 2015. The City is therefore unable to disclose the impact that adopting GASB Statements No. 61, 66, 67, 68 and 69 will have on its financial position and results of operations.

Stewardship, Compliance and Accountability

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

- ◆ Prior to August 1, all City boards and departments are required to submit budget estimates, including appropriations and estimated revenues, for the following fiscal year to commence on January 1.
- ◆ Following various meetings between the Budget Committee, a public hearing is held to obtain taxpayer comments and discuss revisions.
- ◆ The Common Council then adopts formal budgets for the General, Water and Sewer Funds no later than the third Tuesday of November. All adopted budgets are for the fiscal year beginning the previous January 1.
- ◆ Capital Project funds are subject to project budgets determined primarily by the bonding authorizations used to fund a particular project rather than annual budgetary appropriations, these budgets do not lapse at year end, rather, they lapse upon termination of the project.
- ◆ The annual operating budgets for the Public Library Fund are proposed and adopted by the Board of Trustees of the Erie County Public Libraries.
- ◆ Budgets for the Special Grant Fund are established upon City Common Council acceptance of grants for Community Development activities.
- ◆ During the fiscal year, the Common Council and/or City Treasurer can legally amend the operating budgets and is empowered to implement supplemental appropriations. Budget amendments are required for departmental budgetary control.

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

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

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

Deficit Fund Equity—The Capital Projects Fund had a deficit fund balance of \$1,679,274 at December 31, 2012. This deficit is temporary in nature and expected to be remedied when the City converts its short-term financing into long-term bonds.

2. CASH AND CASH EQUIVALENTS

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

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

Total cash and cash equivalents reported by the City at December 31, 2012 are as follows:

Governmental funds	\$ 5,664,472
Fiduciary fund	<u>406,551</u>
Total	<u>\$ 6,071,023</u>

Cash and cash equivalents consisted of:

Deposits	\$ 6,069,573
Petty cash (uncollateralized, uninsured)	<u>1,450</u>
Total	<u>\$ 6,071,023</u>

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

	Bank Balance	Carrying Amount
Insured (FDIC)	\$ 929,768	\$ 929,768
Uninsured but collateralized - collateral held by bank’s trust department in City’s name	<u>5,430,769</u>	<u>5,139,805</u>
Total deposits	<u>\$ 6,360,537</u>	<u>\$ 6,069,573</u>

Custodial Credit Risk—Deposits—Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. As noted above, by State statute all deposits in excess of FDIC insurance coverage must be collateralized. As of December 31, 2012, the City’s deposits were FDIC insured or collateralized.

Restricted Cash and Cash Equivalents—The City reports unspent proceeds from debt and amounts to support restricted fund balances as restricted cash and cash equivalents. At December 31, 2012, the City reported \$2,868,678 of restricted cash and cash equivalents within its governmental activities.

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

3. RECEIVABLES

Major revenues accrued by the City funds at December 31, 2012, include:

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

Due from other governments—represents amounts due from other units of government, such as Federal, New York State, County of Erie or other local governments. Amounts due to the City at December 31, 2012 are presented below:

General Fund:		
Erie County—Sales Tax	\$	1,653,236
NYS 8th Judicial District		109,783
Due from Federal—Fire Grant		38,484
Miscellaneous		<u>10,800</u>
	\$	<u>1,812,303</u>
Capital Projects Fund:		
Erie County—CDBG Streets	\$	<u>87,943</u>

Rehabilitation loans receivable—Rehabilitation loans receivable at December 31, 2012 consist of the following:

Other Governmental Funds:	
Individual home improvement revolving loans ranging in amount from \$1,724 to \$6,142 with an interest rate of 4% and repayment terms, secured by second mortgages on the individual properties.	\$ <u>11,849</u>
Total	\$ <u>11,849</u>

4. CAPITAL ASSETS

Capital asset activity for the City's governmental activities for the year ended December 31, 2012 was as follows:

	Balance 1/1/2012	Additions	Deletions	Balance 12/31/2012
Capital assets, not being depreciated:				
Land	\$ 328,850	\$ -	\$ -	\$ 328,850
Total capital assets, not being depreciated	<u>328,850</u>	<u>-</u>	<u>-</u>	<u>328,850</u>
Capital assets, being depreciated:				
Buildings and building improvements	6,785,617	1,046,379	-	7,831,996
Machinery and equipment	5,961,321	773,285	(179,693)	6,554,913
Infrastructure	27,013,585	4,168,461	-	31,182,046
Total capital assets, being depreciated	<u>39,760,523</u>	<u>5,988,125</u>	<u>(179,693)</u>	<u>45,568,955</u>
Less accumulated depreciation for:				
Buildings and improvements	4,369,370	215,855	-	4,585,225
Machinery and equipment	3,290,228	439,000	(130,162)	3,599,066
Infrastructure	16,152,403	890,287	-	17,042,690
Total accumulated depreciation	<u>23,812,001</u>	<u>1,545,142</u>	<u>(130,162)</u>	<u>25,226,981</u>
Total capital assets, being depreciated, net	<u>15,948,522</u>	<u>4,442,983</u>	<u>(49,531)</u>	<u>20,341,974</u>
Governmental activities capital assets, net	<u>\$ 16,277,372</u>	<u>\$ 4,442,983</u>	<u>\$ (49,531)</u>	<u>\$ 20,670,824</u>

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

Governmental Activities:	
General government support	\$ 41,326
Public safety	207,349
Transportation	914,420
Culture and recreation	134,567
Home and community services	247,480
	<u>\$ 1,545,142</u>

5. ACCRUED LIABILITIES

Accrued liabilities reported by governmental funds of the City as of December 31, 2012, were as follows:

	General Fund	Sewer Fund	Nonmajor Funds	Total Governmental Funds
Salary and employee benefits	\$ 295,523	\$ 5,112	\$ -	\$ 300,635
Incurred but not reported claims	262,086	-	-	262,086
Other liabilities	-	-	1,892	1,892
Total	<u>\$ 557,609</u>	<u>\$ 5,112</u>	<u>\$ 1,892</u>	<u>\$ 564,613</u>

6. PENSION PLANS

Plan Description—The City participates in the New York and Local Employees’ Retirement System (“ERS”), the New York State and local Police and Fire Retirement System (“PFRS”) and the Public Employees’ Group Life Insurance Plan (“Systems”). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (“NYSRSSL”). As set forth in the NYSRSSL, the Comptroller of the State of New York (“Comptroller”) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12244.

Funding Policy—The Systems are noncontributory except for employees who joined the New York State and Local Employees’ Retirement System after July 27, 1976 who contribute 3% of their salary for the first ten years of membership, and employees who joined on or after January 10, 2010 who generally contribute 3% of their salary for their entire length of service. Those joining after April 1, 2012 (Tier 6) are required to contribute three and one-half percent (3.5%) of their annual salary until March 31, 2013, after which the contribution percentage will be based on salary. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers’ contributions based on salaries paid during the New York State Local Retirement Systems fiscal year ending March 31.

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

	<u>ERS</u>	<u>PFRS</u>
2012	\$ 558,578	\$ 1,058,041
2011	546,566	945,463
2010	380,931	671,948

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

7. OTHER POSTEMPLOYMENT BENEFITS

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

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

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

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

	Governmental Activities	
	2012	2011
Annual required contribution	\$ 2,190,549	\$ 2,190,549
Interest on net OPEB obligation	67,195	67,195
Adjustment to annual required contribution	<u>(61,792)</u>	<u>(61,792)</u>
Annual OPEB cost (expense)	2,195,952	2,195,952
Expected contributions	<u>(1,931,796)</u>	<u>(1,931,796)</u>
Increase in net OPEB obligation	264,156	264,156
Net OPEB obligation—beginning of year	<u>1,757,379</u>	<u>1,493,223</u>
Net OPEB obligation—end of year	<u>\$ 2,021,535</u>	<u>\$ 1,757,379</u>

Funding Status and Fund Progress—The plan was unfunded as of December 31, 2012, and the actuarial accrued liability for benefits for governmental activities was \$47,731,182.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care costs trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets, if any, is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	Ratio of UAAL to Budget Covered Payroll
12/31/2010	1/1/2008	\$ -	\$ 37,331,140	\$ 37,331,140	0.0%	N/A	N/A
12/31/2011	5/1/2012	-	47,731,182	47,731,182	0.0%	N/A	N/A
12/31/2012	5/1/2012	-	47,731,182	47,731,182	0.0%	N/A	N/A

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

Year Ended December 31,	Annual Required Contribution	Contributions Made	Percentage Contributed
2010	\$ 1,856,852	\$ 1,439,494	77.5%
2011	2,195,952	1,931,796	88.0%
2012	2,195,952	1,931,796	88.0%

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 May 1, 2012 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 May 1, 2012. The expected interest rate, salary scale, and inflation rate was 4.5%, 4.0%, and 3.0%, respectively. The RP-2000 projected to 2010, weighted 50% White Collar, 50% Blue Collar tables were used for mortality rates. The unfunded actuarial accrued liability is being amortized over 30 years, therefore the remaining amortized period at December 31, 2012 was 25 years.

8. LABOR CONTRACTS AND CONTINGENCIES

Labor Relations—City employees are represented by four bargaining units with the remainder covered by Common Council rules and regulations. The City of Tonawanda Employee Association, Uniformed Professional Firefighters and the City of Tonawanda Police Benevolent Association have contracts with the City negotiated through December 31, 2016. The City of Tonawanda Civil Service Employee Association has an unsettled contract and is in negotiations as of December 31, 2012.

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

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

Pollution Remediation Obligations—On December 31, 2009, the City was issued Order on Consent #R9-20090408-23 by the New York State Department of Environmental Conservation (“NYSDEC”) for its violation of Article 17 of the Environmental Conservation Law and its implementing regulations found in Title 8 and 6 of the Official Compilation of the Codes, Rules and Regulations of the State of New York which govern the control and prevention of water pollution. As part of this notice the City conducted and submitted a system-wide Sanitary Sewer System Evaluation Survey (SSES) to reduce wet weather flows and eliminate sanitary sewer overflows in the City of Tonawanda. As of December 31, 2012 the NYSDEC has required that the City commit an estimated \$11,900,000 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 County of Erie to offset a portion of this liability beginning in 2013. At December 31, 2012, the award amounted to \$1,855,000.

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

9. SHORT-TERM DEBT

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

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

The following is a summary of the City’s short-term debt activity for the year ended December 31, 2012:

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance 1/1/2012</u>	<u>Issued</u>	<u>Paid</u>	<u>Balance 12/31/2012</u>
Bond Anticipation Note	0.90%	6/14/2012	\$ 2,335,000	\$ -	\$ 2,335,000	\$ -
Bond Anticipation Note	0.69%	6/13/2013	-	3,440,000	-	3,440,000
			<u>\$ 2,335,000</u>	<u>\$ 3,440,000</u>	<u>\$ 2,335,000</u>	<u>\$ 3,440,000</u>

10. LONG-TERM OBLIGATIONS

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

Landfill post-closure care costs—State and federal laws and regulations require the City to perform certain maintenance and monitoring functions in addition to remediation work on the City's landfill site. Both post-closure costs and remediation work are to be paid in the future. The total estimated post-closure care and remediation work cost liability is reported in the City's government-wide financial statements. The \$400,000 reported as the accrued landfill post-closure care liability at December 31, 2012 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 2012.

Other postemployment benefits—As explained in Note 7, 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 \$2,021,535 as of December 31, 2012.

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

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

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

Total claims and judgments expenditures of \$424,410 were recorded in the General Fund for the year ended December 31, 2012.

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, 2012, to address the violation is \$11,900,000. This estimated liability is recorded in the City's government-wide financial statements.

10. LONG-TERM OBLIGATIONS (continued)

The following is a summary of changes in long-term debt for the year ended December 31, 2012:

	Balance 1/1/2012	Additions	Deletions	Balance 12/31/2012	Due Within One Year
Compensated absences	\$ 2,636,266	\$ 325,806	\$ 161,859	\$ 2,800,212	\$ 140,011
Accrued landfill post-closure costs	420,000	-	20,000	400,000	20,000
Other postemployment benefits	1,757,379	2,195,952	1,931,796	2,021,535	-
Bonds payable	9,038,499	2,610,000	1,633,499	10,015,000	1,750,000
Capital leases	32,075	-	13,338	18,737	5,845
Workers' compensation	865,671	365,431	424,410	806,692	235,445
Pollution remediation obligations	10,950,000	3,945,000	2,995,000	11,900,000	1,225,000
	<u>\$ 25,699,890</u>	<u>\$ 9,442,189</u>	<u>\$ 7,179,902</u>	<u>\$ 27,962,176</u>	<u>\$ 3,376,301</u>

Bonds payable—The following is a summary of City bond transactions for the year ended December 31, 2012:

Description	Issue Date	Original Issue	Interest Rate (%)	Balance 1/1/2012	Issued 2012	Paid 2012	Balance 12/31/2012
<u>General Fund</u>							
Recreation & Water Line	6/01	\$ 1,620,000	4.375-4.75	\$ 465,000	\$ -	\$ (130,000)	\$ 335,000
Energy Performance	6/01	269,500	4.375-4.75	60,000	-	(20,000)	40,000
Wales Ave Landfill Closure	6/03	2,394,500	4.375-4.75	1,345,000	-	(140,000)	1,205,000
Public Improvement	6/04	1,690,000	4.25-5.0	975,000	-	(75,000)	900,000
Fire Ladder Truck	9/08	685,000	2.86	300,000	-	(150,000)	150,000
Fire Headquarters Roof	6/09	115,000	3.05	85,000	-	(15,000)	70,000
Street Improve. (Refunding)	6/09	1,280,000	2.00-3.25	254,000	-	(200,000)	54,000
Roads & Equipment	6/10	980,000	3.50-4.00	880,000	-	(110,000)	770,000
Various Purpose	6/11	1,728,499	2.40	1,728,499	-	(293,499)	1,435,000
Public Improvement	6/12	710,000	3.69	-	710,000	-	710,000
Total General		<u>11,472,499</u>		<u>6,092,499</u>	<u>710,000</u>	<u>(1,133,499)</u>	<u>5,669,000</u>
<u>Water Fund</u>							
Recon. Water Plan (Refunding)	6/09	1,567,710	2.00-3.25	1,306,000	-	(230,000)	1,076,000
Total Water		<u>1,567,710</u>		<u>1,306,000</u>	<u>-</u>	<u>(230,000)</u>	<u>1,076,000</u>
<u>Sewer Fund</u>							
Pump Station - EFC	2/96	825,000	2.95-5.20	195,000	-	(45,000)	150,000
Sewer Improvement	1/02	1,233,250	1.5-5.0	745,000	-	(60,000)	685,000
Sewer Pump and Improve.	6/09	600,000	3.05	460,000	-	(80,000)	380,000
Sewer Improve. (Refunding)	6/09	52,290	2.00-3.25	30,000	-	(10,000)	20,000
Sewer System Evaluation	6/11	210,000	2.40	210,000	-	(75,000)	135,000
Public Improvement	6/12	1,900,000	3.69	-	1,900,000	-	1,900,000
Total Sewer		<u>4,820,540</u>		<u>1,640,000</u>	<u>1,900,000</u>	<u>(270,000)</u>	<u>3,270,000</u>
Total All Funds		<u>\$17,860,749</u>		<u>\$9,038,499</u>	<u>\$2,610,000</u>	<u>\$ (1,633,499)</u>	<u>\$ 10,015,000</u>

Annual principal and interest requirements to amortize bond debt outstanding as of December 31, 2012 are as follows:

	<u>Bond Principal</u>	<u>Bond Interest</u>	<u>Total</u>
2013	\$ 1,750,000	\$ 362,617	\$ 2,112,617
2014	1,340,000	276,589	1,616,589
2015	1,140,000	236,547	1,376,547
2016	1,020,000	200,808	1,220,808
2017	840,000	169,206	1,009,206
2018-2022	2,535,000	484,462	3,019,462
2023-2027	530,000	217,900	747,900
2028 and thereafter	<u>860,000</u>	<u>176,600</u>	<u>1,036,600</u>
Total	<u>\$ 10,015,000</u>	<u>\$ 2,124,729</u>	<u>\$ 12,139,729</u>

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

Capital leases—The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2012 are as follows:

<u>Fiscal Year Ending December 31,</u>	<u>Governmental Activities</u>
2013	\$ 7,100
2014	7,101
2015	<u>7,107</u>
Total minimum lease payments	21,308
Less: amount representing interest	<u>(2,565)</u>
Present value of minimum lease payments	<u>\$ 18,743</u>

Risk management—At December 31, 2012 the amount of liabilities relating to workers' compensation was \$806,692. This liability is the City's best estimate based on available information. Changes in the reported liability resulted from the following:

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Year - End</u>
2012	\$ 865,671	365,431	\$ 424,410	\$ 806,692
2011	850,793	536,845	521,967	865,671

11. NET POSITION AND FUND BALANCE

A. Net Position—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.
- **Restricted amounts**—This category presents external restrictions imposed by creditors, grantors, contributors or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted amounts**—This category represents net investment in assets of the City not restricted for any project or other purpose.

The following presents a reconciliation of net investment in capital assets. The City has excluded bonds for the water system which related to assets transferred to the Erie County Water Authority. Also, the bond relating to the landfill has been excluded from the reconciliation as it relates to post-closure and remediation work which is not included in the City's capital assets.

Capital assets, net of accumulated depreciation		\$ 20,670,824
Less:		
Total outstanding bonds	\$ (10,015,000)	
Total bond anticipation notes	(3,440,000)	
Total outstanding capital leases	(18,737)	
Add: debt issued, which was not used for capital assets included in capital asset inventory and unspent debt proceeds used for capital projects:		
Bonds issued for landfill remediation	1,205,000	
Bonds issued for water system	1,076,000	
Unspent debt proceeds used for capital projects	<u>1,146,064</u>	<u>(10,046,673)</u>
Net investment in capital assets		<u>\$ 10,624,151</u>

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

Nonspendable—Amount of assets that cannot be spent in the current period because of their form or because they must be maintained intact. As of December 31, 2012, the City had \$576,800 of prepaid items that were classified as nonspendable funds.

Restricted—Amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation. As of December 31, 2012, the City had the following restricted funds, as presented on the following page.

	General Fund	Capital Projects Fund	Other Governmental Funds	Total
Tax stabilization reserve	\$ 200,000	\$ -	\$ -	\$ 200,000
Workers' compensation reserve	1,114,722	-	-	1,114,722
Insurance reserve	129,654	-	-	129,654
Capital projects	-	91,988	-	91,988
Historical restoration reserve	-	-	1,000	1,000
Total restricted fund balance	<u>\$ 1,444,376</u>	<u>\$ 91,988</u>	<u>\$ 1,000</u>	<u>\$ 1,537,364</u>

Committed—Amounts that are subject to a purpose constraint imposed by a formal action of the City's highest level of decision-making authority, or by their designated body or official. As of December 31, 2012, the City of Tonawanda Common Council has not committed any fund balance to a specific purpose.

Assigned—Amounts that are subject to a purpose constraint that represents an intended use established by the City's Common Council, or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance. As of December 31, 2012, the balances below were considered to be assigned.

	General Fund	Sewer Fund	Water Fund	Other Governmental Funds	Total
Assigned for:					
Subsequent years' expenditures	\$ 375,000	\$ -	\$ -	\$ -	\$ 375,000
Self-insurance	125,000	-	-	-	125,000
Specific use	-	177,415	52,389	255,918	485,722
Total assigned fund balance	<u>\$ 500,000</u>	<u>\$ 177,415</u>	<u>\$ 52,389</u>	<u>\$ 255,918</u>	<u>\$ 985,722</u>

Significant encumbrances are amounts encumbered in excess of \$50,000. As of December 31, 2012, the City did not have any encumbrances that were considered to be significant.

Unassigned—Represents the residual classification of the government's General Fund, and could report a surplus or deficit. As of December 31, 2012, the unassigned fund balance was \$337,283, which is the net of the deficit unassigned balance in the Capital Projects Fund of \$1,771,262.

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

12. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables and interfund transfers as of and for the year ended December 31, 2012 are presented below:

Fund	Interfund			
	Receivables	Payables	Transfers In	Transfers Out
Governmental Funds:				
General Fund	\$ 1,164,603	\$ 1,304,216	\$ 156,400	\$ -
Sewer Fund	64,220	251,220	-	156,400
Water Fund	59,930	726,046	-	-
Capital Projects Fund	1,297,728	304,999	-	-
Total Governmental Funds	<u>\$ 2,586,481</u>	<u>\$ 2,586,481</u>	<u>\$ 156,400</u>	<u>\$ 156,400</u>

The outstanding balances between funds result from payments made on behalf of other funds or temporary advances. All of these balances are expected to be collected/paid within the subsequent year. Transfers made during the year were included in the original budget for operations.

13. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 20, 2013, 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.

FEDERAL AWARDS

CITY OF TONAWANDA, NEW YORK
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Disbursements/ Expenditures</u>
U.S. Department of Agriculture		
Direct Program:		
Urban and Community Forestry Grant	10.675	\$ <u>82,426</u>
Total U.S. Department of Agriculture		<u>82,426</u>
U.S. Department of Housing and Urban Development		
Passed through County of Erie, New York:		
Community Development Block Grant - Entitlement Grants	14.218	<u>320,597</u>
Total U.S. Department of Housing & Urban Development		<u>320,597</u>
U.S. Department of Justice		
Direct Program:		
Bulletproof Vest Program	16.607	<u>2,135</u>
Total U.S. Department of Justice		<u>2,135</u>
U.S. Department of Homeland Security		
Passed through County of Erie, New York:		
Justice Assistance Grant	97.067	22,284
Direct Programs:		
Assistance to Firefighters Grant	97.044	88,601
Port Security Grant	97.116	<u>75,772</u>
Total U.S. Department of Justice		<u>186,657</u>
Total Expenditures of Federal Awards		<u>\$ <u>591,815</u></u>

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

CITY OF TONAWANDA, NEW YORK
Notes to the Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

Note 1 — Basis of Presentation

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

Note 2 — Reconciliation of Federal Assistance to Financial Statements

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

Federal aid per the City's schedule of expenditures of federal awards for the year ended December 31, 2012	\$ 591,815
Add: Medicaid reimbursement	<u>13,254</u>
Total expenditures of Federal awards per financial statements	<u>\$ 605,069</u>

* * * * *

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

Honorable City Council
City of Tonawanda, New York

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 15, 2013 (which report contains an adverse opinion on the City's discretely presented component unit).

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency presented as item 2012-01 to be a material weakness in internal control.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with

governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2012-02 through 2012-05 to be significant deficiencies.

Compliance and Other Matters

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

The City's Response to Findings

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

Purpose of this Report

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

March 20, 2013

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

Honorable City Council
City of Tonawanda, New York

Report on Compliance for Each Major Federal Program

We have audited the City of Tonawanda, New York's (the "City") compliance, with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City's major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the City as of and for the year ended December 31, 2012, and have issued our report thereon dated March 15, 2013, which contained an adverse opinion on the governmental activities and an unmodified opinion on the primary government. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

March 20, 2013

CITY OF TONAWANDA, NEW YORK
Schedule of Findings and Questioned Costs
Year Ended December 31, 2012

Part I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Adverse on Discretely Presented
Component Unit, Unmodified on
Governmental Acitivites*

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

Internal control over financial reporting:

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

Federal Awards:

Internal control over major programs:

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

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

Unqualified

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

7. The City's major program was:

Name of Federal Program	CFDA Number
Community Development Block Grant — Entitlement Grants	14.218

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

Part II. FINANCIAL STATEMENT FINDINGS SECTION

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

Finding 2012-01 — Financial Activities of Tonawanda Housing Authority

Criteria—GASB Statement No. 14, as amended by GASB Statement No. 39, establishes the standards for defining and reporting on the financial reporting entity. These statements apply to the reporting entity and to the separately issued financial statements of governmental component units. In addition, this Statement should be applied to governmental and nongovernmental component units when they are included in a governmental financial reporting entity.

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

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

Effect—The independent auditors’ report is adverse on the discretely presented component unit for such exclusion.

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

Management’s Response—The City has determined that it is not efficient to recognize the component unit and that not reporting this component unit does not materially affect the financial statements.

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

Finding 2012-02 — Segregation of Duties

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

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

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

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

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

Management’s Response—Management has evaluated the feasibility of segregating duties within the Treasurer’s Office. As a result, management does not feel that changes to the current operations are

cohesive with management style or practical under economic circumstances. Segregation of duties will not be expected in future years. Other mitigating controls will be evaluated by management.

Finding 2012-03 — Capital Assets

Criteria—All items presented in the capital assets listing should be capitalized and maintained in accordance with generally accepted accounting principles.

Condition—While reviewing the capital asset listing for the City, we noted that not all items within the listing appeared to be consistent with generally accepted accounting principles. We noted instances where there was negative depreciation and items that are below the City's capitalization threshold.

Cause—The City's capital assets schedule is not compiled and maintained in accordance with generally accepted accounting principles.

Effect—The City risks over/understatement of its capital assets.

Recommendation—We recommend that the City perform a detailed reviewed of its capital assets schedule and identify items that should not be included in the schedule and eliminate these items from its presentation.

Management's Response—Management will review the capital asset listing to identify and resolve any items that are not consistent with generally accepted accounting principles.

Finding 2012-04 — Financial Accounting System

Criteria—For proper segregation of duties, no employees with the ability to post financial data should have administrator rights to the financial software.

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

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

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

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

Management's Response—Management will consider restricting administrator rights to the IT Department to determine the feasibility and practicality of implementing this system.

Finding 2012-05 — Information Technology General Controls

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

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

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

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

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

Management's Response—Management will consider the feasibility of implementing these policies.

Part III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

No findings noted for the fiscal year ended December 31, 2012.

CITY OF TONAWANDA, NEW YORK
Schedule of Prior Federal Award Findings
Year Ended December 31, 2012 (Follow-up on December 31, 2011 Findings)

Finding 2011-06 — Subrecipient Monitoring

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

Condition—We noted, that as of the date of our report date, that the City, as a pass-through entity of Section 8 Moderate Rehabilitation monies, has not performed an audit of its subrecipients for the fiscal year ended December 31, 2011.

Cause—An audit has not been performed.

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

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

Management's Response— During 2011, the U.S. Department of Housing and Urban Development released the City from its oversight responsibility relating to the Tonawanda Towers.

Current Year Follow-Up—As of December 31, 2011, the City is no longer responsible for oversight relating to the Tonawanda Towers.

CITY OF TONAWANDA, NEW YORK
Schedule of Expenditures of New York State Department of Transportation Assistance
Year Ended December 31, 2012

Program Title / Description	NYS Reference Number	Expenditures
Consolidated Highway Improvement Program ("CHIPS")	532056	\$ 333,849
New York State Marchiselli Aid	575757	<u>7,500</u>
 Total New York State Department of Transportation Expenditures		 \$ <u>341,349</u>

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

CITY OF TONAWANDA, NEW YORK
Note to Schedule of Expenditures of New York State Department of Transportation Assistance
Year Ended December 31, 2012

1. BASIS OF PRESENTATION

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

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

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

Honorable City Council
City of Tonawanda, New York:

Report on Compliance for New York State Transportation Assistance Programs

We have audited the City of Tonawanda, New York's, (the "City") with the types of compliance requirements described in Draft Part 43 of the New York State Codification of Rules and Regulations (NYCRR) that are applicable to each state transportation assistance program tested for the year ended December 31, 2012. The programs tested are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the laws, regulations, contracts and grants applicable to each program tested.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Draft Part 43 of NYCRR. Those standards and Draft Part 43 of NYCRR require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a state transportation assistance programs tested has occurred. An audit includes examining, on a test basis, evidence about City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each state transportation assistance program. However, our audit does not provide a legal determination on City's compliance.

Opinion on Each State Transportation Assistance Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its state transportation assistance programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with requirements that could have a

direct and material effect on state transportation assistance programs tested to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each state transportation assistance program and to test and report on internal control over compliance in accordance with Draft 43 of NYCRR, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

Report on Schedule of State Transportation Assistance Expended

We have audited the financial statements of the City as of and for the year ended December 31, 2012, and have issued our report thereon dated March 15, 2013, which contained an adverse opinion on governmental activities and an unmodified opinion on the primary government. Our audit was conducted for the purpose of forming an opinion on the City's financial statements taken as a whole. The accompanying schedule of state transportation assistance expended is presented for purposes of additional analysis as required by Draft 43 of NYCRR, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of state transportation assistance expended is fairly stated in all material respects in relation to the financial statements as a whole.

Purpose of this Report

This report is intended solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over compliance. This report is for the information and use of the City Council, management, the New York State Department of Transportation, the Office of the State Comptroller of the State of New York. Accordingly, this communication is not suitable for any other purpose.

March 20, 2013

CITY OF TONAWANDA, NEW YORK
Schedule of Findings and Questioned Costs of
New York State Department of Transportation Assistance
For the Year Ended December 31, 2012

Part I. SUMMARY OF AUDITORS' RESULTS

New York State Department of Transportation Assistance:

Internal control over major programs:

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

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

Unmodified

- | | | | |
|---|-----------|--|--|
| 3. Any audit findings disclosed that are required to be reported in accordance with Draft Part 43 of NYCRR? | _____ Yes | _____ <input checked="" type="checkbox"/> No | |
|---|-----------|--|--|

4. The City's programs tested were:

Name of Program

Consolidated Highway Improvement Program (CHIPS)

Part II. COMPLIANCE FINDINGS AND QUESTIONED COSTS

No matters are reportable.