

CITY OF NORTH TONAWANDA, NEW YORK

Management's Discussion and Analysis December 31, 2006

This section of the City of North Tonawanda's (City) annual financial report presents a discussion and analysis of the City's financial performance during the fiscal year ended December 31, 2006. Please read it in conjunction with the City's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded liabilities at the close of the 2006 fiscal year by \$33,902,587 (net assets). Of this amount, \$9,373,723 (unrestricted net assets) may be used to meet ongoing obligations to citizens and creditors and \$23,539,685 is invested in capital assets, net of related debt.
- The governments total net assets decreased by \$1,734,457.
- As of December 31, 2006, the City's governmental funds reported combined fund balances of \$5,828,755, an increase of \$3,013,000 in comparison with the prior year. Approximately 81.2% of the combined fund balances, \$4,732,717 is available to meet the City's current and future needs (undesignated fund balance).
- At the end of the fiscal year, undesignated fund balance for the general fund was \$2,750,629 or 73.4% of total general fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts - *Management's Discussion and Analysis* (this section), and the *Basic Financial Statements*.

Basic Financial Statements

Governmental-Wide Financial Statements are two statements designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business.

The *Statement of Net Assets* presents information on all City assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

CITY OF NORTH TONAWANDA, NEW YORK

Management's Discussion and Analysis

December 31, 2006

The *Statement of Activities* presents information showing how 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 result in cash flows in future fiscal periods (i.e., unallocated taxes and earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities). The City does not have any functions that are intended to recover all or, in part, a portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, transportation, economic assistance and opportunity, culture and recreation, home and community services, interest and fiscal charges, and depreciation.

The government-wide financial statements can be found on pages 15-17 of this report.

Fund Financial Statements are groupings of related accounts that are 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 finance related legal compliance. All funds of the City can be divided into two categories: governmental funds and fiduciary 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 financial statements focus on near-term inflows and outflows of spendable resources, as well as, balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a City's near-term financing requirements.

Because of 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 governmental-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains four individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, the Capital Projects Fund, the Special Revenue Fund and the Debt Service Fund.

CITY OF NORTH TONAWANDA, NEW YORK

Management's Discussion and Analysis December 31, 2006

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 18-25 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's own programs. The City has three fiduciary funds. The Agency Fund is used to account for funds held by the City as agent for employees withholdings, monies due to other governments, and other miscellaneous items. The Permanent and Private Purpose Trusts are used to account for donated funds used for the purposes designated by the donors.

The basic fiduciary funds financial statements can be found on page 26 of this report.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The Notes can be found on pages 27-48 of this report.

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$33,902,587 at the close of the fiscal year.

CITY OF NORTH TONAWANDA, NEW YORK

Management's Discussion and Analysis
December 31, 2006

Summary of City of North Tonawanda's Net Assets

	Total Governmental Activities <u>December 31, 2006</u>	Total Governmental Activities <u>December 31, 2005</u>	Percent of Increase (Decrease)
Current and other assets	\$ 15,835,187	\$ 14,932,382	6.0%
Capital assets	44,671,535	45,533,093	-1.9%
Total assets	<u>60,506,722</u>	<u>60,465,475</u>	<u>0.1%</u>
Long-term liabilities	19,310,520	17,927,708	7.7%
Other liabilities	7,293,615	6,900,723	5.7%
Total liabilities	<u>26,604,135</u>	<u>24,828,431</u>	<u>7.2%</u>
Net assets:			
Investment in capital assets, net of related debt	23,539,685	29,070,942	-19.0%
Restricted	989,179	-	100.0%
Unrestricted	9,373,723	6,566,102	42.8%
Total net assets	<u>\$ 33,902,587</u>	<u>\$ 35,637,044</u>	<u>-4.9%</u>

The largest portion of the City's net assets reflects its investment in capital assets of \$23,539,685 (69.4%) (e.g. land, buildings, improvements, infrastructure, and equipment), which is net of any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its 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 themselves cannot be used to liquidate these liabilities.

Another portion of the City's net assets (3.0%) represents restricted net assets of \$989,179, which is reserved for retirement, insurance, and workers' compensation.

The remaining balance of the City's net assets (27.6%) represents unrestricted net assets of \$9,373,723, which may be used to meet the City's ongoing obligations to citizens and creditors.

CITY OF NORTH TONAWANDA, NEW YORK

Management's Discussion and Analysis
December 31, 2006

At the end of the current fiscal year, the City is able to report positive balances in all of its net asset categories.

Governmental activities. Governmental activities decreased the City's net assets by \$1,734,457.

The following table indicates the changes in net assets for governmental activities:

Summary of City of North Tonawanda's Changes in Net Assets

	<u>2006</u>	<u>2005</u>	<u>Percent of Increase (Decrease)</u>
Revenues:			
Program revenues:			
Charges for services	\$ 8,702,677	\$ 8,543,587	1.9%
Operating grants and contributions	6,114,145	4,014,219	52.3%
Capital grants and contributions	1,030,543	1,444,339	-28.6%
General revenues:			
Property taxes	12,677,708	12,201,695	3.9%
Real property tax items	1,220,720	1,154,668	5.7%
Non-property tax items	7,974,502	7,564,151	5.4%
Use of money and property	380,945	363,816	4.7%
Sale of property and compensation for loss	272,937	417,404	-34.6%
Miscellaneous	36,342	101,989	-64.4%
Interfund Revenue	80,000		100.0%
State Aid	5,120,694	3,787,320	35.2%
Total revenues	<u>43,611,213</u>	<u>39,593,188</u>	

The following provides an explanation of revenues by source that changed significantly over the prior year:

- Capital Grants and Contributions - the \$413,796 decrease was due to a decrease in capital projects and State Aid.
- Real Property Taxes – the \$476,013 increase was caused by an increase in the city's tax levy.
- Sale of Property and Compensation for Loss – the \$144,467 decrease was caused by a decrease in acquired property sold by the city.

CITY OF NORTH TONAWANDA, NEW YORK

Management's Discussion and Analysis
December 31, 2006

	<u>2006</u>	<u>2005</u>	<u>Percent of Increase (Decrease)</u>
Expenses:			
General government support	\$ 4,990,064	\$ 4,545,034	9.8%
Public safety	12,470,986	11,212,450	11.2%
Transportation	9,430,061	4,457,828	111.5%
Economic assistance and opportunity	276,489	230,536	19.9%
Culture and recreation	2,518,047	2,213,743	13.7%
Home and community services	14,887,398	15,155,333	-1.8%
Interest and fiscal charges	<u>772,625</u>	<u>598,295</u>	<u>29.1%</u>
Total expenses	<u>45,345,670</u>	<u>38,413,219</u>	<u>18.0%</u>
 Change in net assets	 (1,734,457)	 1,179,969	 -247.0%
 Net assets - beginning	 <u>35,637,044</u>	 <u>34,457,075</u>	 <u>3.4%</u>
 Net assets - ending	 <u>\$ 33,902,587</u>	 <u>\$ 35,637,044</u>	 <u>-4.9%</u>

The following provides an explanation of expenditures by function that changed significantly over the prior year:

- Transportation – the increase of \$4,972,233 was due to an increase in contractual expenditures.
- Public Safety - the \$1,258,536 increase was caused by an increase in contractual expenditures.
- Home and Community Services - the \$267,935 decrease was due to a decrease in various Community Development programs.

Business-type activities. The City does not have any business type activities.

CITY OF NORTH TONAWANDA, NEW YORK

Management's Discussion and Analysis December 31, 2006

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 general governmental functions are contained in the General, Special Revenue and Capital Projects Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At December 31, 2006, the City's governmental funds reported combined fund balances of \$5,828,755, an increase of \$3,013,000 in comparison with the prior year. Approximately 82.6% of the combined fund balances, \$4,814,118, constitutes *unreserved fund balance*, which is available to meet the City's current and future operational and capital needs. The remainder of fund balance is *reserved* to indicate that it is *not* available for new spending because it has already been committed: (1) \$200,000 reserved for future workers' compensation claims; (2) \$25,458 reserved for encumbrances; (3) \$493,210 reserved for retirement; and (4) \$295,969 reserved for insurance.

The general fund is the chief operating fund of the City. At December 31, 2006, unreserved fund balance of the general fund was \$2,832,030, while total fund balance reached \$3,747,297. As a measure of general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 9.5% of total fund expenditures, while total fund balance also represents 12.6% of that same amount.

Revenues for governmental functions totaled \$43,611,213 in fiscal year ended December 31, 2006, which represents an increase of 10.2% from the fiscal year ended December 31, 2005.

CITY OF NORTH TONAWANDA, NEW YORK

Management's Discussion and Analysis
December 31, 2006

The following table presents the amount of revenues from various sources, as well as, increases or decreases from the prior year:

Revenues Classified by Source
Governmental Funds

	<u>December 31,</u> <u>2006 Amount</u>	<u>Percent of</u> <u>Total</u>	<u>December 31,</u> <u>2005 Amount</u>	<u>Amount of</u> <u>Increase</u> <u>(Decrease)</u>	<u>Percent of</u> <u>Increase</u> <u>(Decrease)</u>
Revenues					
Real property taxes and tax items	\$ 13,898,428	31.87%	\$ 13,356,363	\$ 542,065	4.06%
Non-property tax items	7,974,502	18.29%	7,564,151	410,351	5.42%
Departmental income	8,135,902	18.66%	7,965,695	170,207	2.14%
Intergovernmental charges	73,545	0.17%	79,927	(6,382)	-7.98%
Use of money and property	380,945	0.87%	363,816	17,129	4.71%
Licenses and permits	212,570	0.49%	232,679	(20,109)	-8.64%
Fines and forfeitures	280,660	0.64%	251,739	28,921	11.49%
Sale of property and compensation for loss	272,937	0.63%	417,404	(144,467)	-34.61%
Miscellaneous	36,342	0.08%	101,989	(65,647)	-64.37%
Interfund Revenue	80,000	0.18%	-	80,000	100.00%
State and Federal Aid	12,265,382	28.12%	9,245,878	3,019,504	32.66%
Total Revenues	<u>\$ 43,611,213</u>	<u>100.00%</u>	<u>\$ 39,579,641</u>	<u>\$ 4,031,572</u>	

The following provides an explanation of revenues by source that changed significantly over the prior year:

- Real property taxes and tax items - the \$542,065 increase was caused in part by the increase in the tax levy.
- Miscellaneous - the \$65,647 decrease was primarily caused by a decrease in Community Development activity.
- State and Federal Aid – the \$3,019,504 increase was primarily caused by an increase in aid due to the October storm.

CITY OF NORTH TONAWANDA, NEW YORK

Management's Discussion and Analysis
December 31, 2006

The following table presents expenditures, by function, compared to prior year amounts:

Expenditures by Function
Governmental Funds

	<u>December 31,</u> <u>2006 Amount</u>	<u>Percent of</u> <u>Total</u>	<u>December 31,</u> <u>2005 Amount</u>	<u>Amount of</u> <u>Increase</u> <u>(Decrease)</u>	<u>Percent of</u> <u>Increase</u> <u>(Decrease)</u>
Expenditures:					
General governmental support	\$ 3,765,258	8.14%	\$ 3,602,707	\$ 162,551	4.51%
Public safety	8,010,342	17.32%	7,741,957	268,385	3.47%
Transportation	3,701,700	8.01%	3,439,156	262,544	7.63%
Economic assistance and opportunity	187,784	0.41%	180,370	7,414	4.11%
Culture and recreation	1,793,572	3.88%	1,650,146	143,426	8.69%
Home and community services	12,535,159	27.11%	10,840,260	1,694,899	15.64%
Employee benefits	7,967,447	17.23%	7,392,584	574,863	7.78%
Capital outlay	4,653,784	10.06%	3,403,133	1,250,651	36.75%
Debt service:		0.00%			
Principal	2,991,452	6.47%	3,365,902	(374,450)	-11.12%
Interest	631,715	1.37%	598,305	33,410	5.58%
Total Expenditures	<u>\$ 46,238,213</u>	<u>100.00%</u>	<u>\$ 42,214,520</u>	<u>\$ 4,023,693</u>	

CITY OF NORTH TONAWANDA, NEW YORK

Management's Discussion and Analysis

December 31, 2006

The following provides an explanation of the expenditures by function that changed significantly over the prior year:

Expenditures

- Home and Community Services - The \$1,694,899 increase was caused by the increase in expenditures relating to Federal and State programs.
- Employee Benefits - The \$574,863 increase was caused by increases in pension, workers' compensation and health insurance costs.
- Capital Outlay – The \$1,250,651 increase was caused by an increase in contractual obligations for capital projects.

The current year excess of revenues over expenditures is presented below:

Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental Funds

	<u>Major Funds</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total</u>
Revenues	\$ 31,508,548	\$ 11,072,122	\$ 1,030,543	\$ 43,611,213
Expenditures	<u>29,805,506</u>	<u>11,778,923</u>	<u>4,653,784</u>	<u>46,238,213</u>
Excess (Deficiency) of Revenues over Expenditures	1,703,042	(706,801)	(3,623,241)	(2,627,000)
Other Financing Sources, Net	<u>72,879</u>	<u>350,000</u>	<u>5,217,121</u>	<u>5,640,000</u>
Net Change in Fund Balances	1,775,921	(356,801)	1,593,880	3,013,000
Fund Balance at January 1, 2006	<u>1,971,376</u>	<u>1,045,824</u>	<u>(201,445)</u>	<u>2,815,755</u>
Fund Balance at December 31, 2006	<u>\$ 3,747,297</u>	<u>\$ 689,023</u>	<u>\$ 1,392,435</u>	<u>\$ 5,828,755</u>

CITY OF NORTH TONAWANDA, NEW YORK

Management's Discussion and Analysis
December 31, 2006

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in a \$3,108,000 decrease in appropriations and can be briefly summarized as follows:

- \$540,580 of the decrease was for employee benefits that are being amortized. \$219,000 of the decrease was for costs relating to debt service. There was a \$2,348,420 decrease for personnel and contractual services within the departments.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental activities as of December 31, 2006, amounted to \$44,671,535 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, buildings, and equipment.

Current assets net of depreciation are presented below:

Summary of City of North Tonawanda's Capital Assets
(Net of Depreciation)

	<u>2006</u>	<u>2005</u>	<u>Percent of</u> <u>Change</u>
Land	\$ 4,400,350	\$ 4,400,350	0.00%
Transportation network	3,413,246	3,653,260	-6.57%
Buildings and improvements	7,672,007	7,556,081	1.53%
Machinery and equipment	2,598,245	1,723,504	50.75%
Water treatment and distribution network	5,634,532	5,790,835	-2.70%
Sanitary sewer network	20,953,155	21,909,063	-4.36%
Work in progress	-	500,000	-100.00%
Total	<u>\$ 44,671,535</u>	<u>\$ 45,533,093</u>	

CITY OF NORTH TONAWANDA, NEW YORK

Management's Discussion and Analysis

December 31, 2006

Long-term Debt

At December 31, 2006, the City had total long-term debt outstanding of \$16,440,520 as compared to \$12,678,509 in the prior year. The amount is comprised of Serial Bonds of \$13,861,500, long term portion of retirement contributions of \$1,565,454 and Compensated Absences of \$1,013,566. During the year retirement of debt amounted to \$3,030,177. New York State statutes limit the amount of general obligation debt a governmental entity may issue to 7% of its five-year valuation. The current debt-limitation for the City is \$70,900,456, which is significantly in excess of the City's outstanding general obligation debt.

Since 2006, the City's general obligation debt has maintained an A3 rating from Moody's Investment Service.

Additional information on the City's long-term debt can be found on pages 43-45 of the Notes to the Financial Statements.

Short-term Debt

At December 31, 2006, the City had short-term debt outstanding; the amount is comprised of Revenue Anticipation Notes of \$2,870,000 compared to 3,300,000 in the prior year. The Bond Anticipation Note balance as of December 31, 2006 is zero as compared to \$1,514,000 in the prior year.

Request 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 government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Office of the City Accountant, 216 Payne Avenue, North Tonawanda, New York 14120.