

BASIC FINANCIAL STATEMENTS

CITY OF NORTH TONAWANDA, NEW YORK

STATEMENT OF NET ASSETS

December 31, 2006

ASSETS

	<u>Governmental Activities</u>
Cash	\$ 5,502,697
Receivables (Net of Allowances for Estimated Uncollectables):	
Taxes	3,542,138
Accounts	1,802,142
Loans	49,394
State and Federal	3,478,461
Due from Other Governments	967,144
Prepaid Expenses	493,211
Capital Assets	
Land	4,400,350
Other Capital Assets, Net of Depreciation	<u>40,271,185</u>
Total Assets	<u>\$ 60,506,722</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORTH TONAWANDA, NEW YORK

STATEMENT OF NET ASSETS

December 31, 2006

LIABILITIES AND NET ASSETS

	<u>Governmental Activities</u>
Liabilities:	
Accounts Payable	\$ 679,071
Accrued Liabilities	347,110
Accrued Interest	157,183
Bond Interest and Matured Bonds Payable	100,684
Due to Other Governments	1,760,529
Deferred Revenues	4,214,582
Other Liabilities	34,456
Long-term Liabilities:	
Due within One Year	5,161,000
Due in more than One Year	14,149,520
Total Liabilities	<u>26,604,135</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	23,539,685
Restricted for:	
Retirement	493,210
Insurance	295,969
Workers' Compensation	200,000
Unrestricted	9,373,723
Total Net Assets	<u>33,902,587</u>
Total Liabilities and Net Assets	<u>\$ 60,506,722</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORTH TONAWANDA, NEW YORK

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2006

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants And Contributions</u>	
Functions/Programs:					
Governmental Activities:					
General Government	\$ (4,990,064)	\$ 412,923	\$ -	\$ -	\$ (4,577,141)
Public Safety	(12,470,986)	295,480	1,780,276		(10,395,230)
Health		28,274			28,274
Transportation	(9,430,061)	7,228	123,171	1,030,543	(8,269,119)
Economic Assistance and Opportunity	(276,489)				(276,489)
Culture and Recreation	(2,518,047)	1,103,199	32,594		(1,382,254)
Home and Community Services	(14,887,398)	6,855,573	4,178,104		(3,853,721)
Interest and Fiscal Charges	(772,625)	-	-	-	(772,625)
Total Governmental Activities	<u>\$ (45,345,670)</u>	<u>\$ 8,702,677</u>	<u>\$ 6,114,145</u>	<u>\$ 1,030,543</u>	<u>(29,498,305)</u>
General Revenues:					
Property Taxes Levied for General Purposes					12,677,708
Real Property Tax Items					1,220,720
Non-property Tax Items					7,974,502
Use of Money and Property					380,945
Sales of Property and Compensation for Loss					272,937
Miscellaneous					36,342
Interfund Revenues					80,000
State Aid					<u>5,120,694</u>
Total General Revenues					<u>27,763,848</u>
Change in Net Assets					(1,734,457)
Total Net Assets at Beginning of Year					<u>35,637,044</u>
Total Net Assets of End of Year					<u>\$ 33,902,587</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORTH TONAWANDA, NEW YORK

GOVERNMENTAL FUNDS

Balance Sheet
December 31, 2006

<u>ASSETS</u>	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
Cash	\$ 1,927,446	\$ 1,645,252	\$ 1,829,315	\$ 100,684	\$ 5,502,697
Receivables (Net of Allowances for Estimated Uncollectables):					
Taxes	3,542,138				3,542,138
Accounts	320,118	1,482,024			1,802,142
Loans		49,394			49,394
State and Federal	2,445,338	1,033,123			3,478,461
Due from Other Funds	1,629,029				1,629,029
Due from Other Governments	967,144				967,144
Prepaid Expenses	419,299	73,912			493,211
Total Assets	<u>\$ 11,250,512</u>	<u>\$ 4,283,705</u>	<u>\$ 1,829,315</u>	<u>\$ 100,684</u>	<u>\$ 17,464,216</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORTH TONAWANDA, NEW YORK

GOVERNMENTAL FUNDS

Balance Sheet
December 31, 2006

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts Payable	\$ 368,926	\$ 246,102	\$ 64,043	\$	\$ 679,071
Accrued Liabilities	299,324	47,786			347,110
Revenue Anticipation Notes Payable	2,870,000				2,870,000
Due to Other Funds		1,290,648	338,381		1,629,029
Due to Other Governments	1,121,019	639,510			1,760,529
Deferred Revenues	2,843,946	1,370,636			4,214,582
Other Liabilities			34,456		34,456
Bond Interest and Matured Bonds Payable				100,684	100,684
Total Liabilities	<u>7,503,215</u>	<u>3,594,682</u>	<u>436,880</u>	<u>100,684</u>	<u>11,635,461</u>
Fund Balances:					
Reserved for:					
Encumbrances	1,492,552	25,458			1,518,010
Retirement	419,298	73,912			493,210
Insurance	295,969				295,969
Workers' Compensation	200,000				200,000
Unreserved:					
Designated for Golf Course Improvements	81,401				81,401
Undesignated	1,258,077	589,653	1,392,435		3,240,165
Total Fund Balances	<u>3,747,297</u>	<u>689,023</u>	<u>1,392,435</u>	<u>-</u>	<u>5,828,755</u>
Total Liabilities and Fund Balances	<u>\$ 11,250,512</u>	<u>\$ 4,283,705</u>	<u>\$ 1,829,315</u>	<u>\$ 100,684</u>	<u>\$ 17,464,216</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORTH TONAWANDA, NEW YORK

Reconciliation of Statement of Net Assets
To Governmental Fund Balances
For the Year Ended December 31, 2006

	<u>Governmental Activities</u>
Total Governmental Fund Balances	\$ 5,828,755
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:	
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds	44,671,535
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported in the funds	(16,440,520)
Net accrued interest for bonds are not reported in the funds	<u>(157,183)</u>
Net Assets of Governmental Activities	<u>\$ 33,902,587</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORTH TONAWANDA, NEW YORK

GOVERNMENTAL FUNDS

Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2006

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
Revenues:					
Real Property Taxes	\$ 12,677,708	\$	\$	\$	\$ 12,677,708
Real Property Tax Items	1,220,720				1,220,720
Non-property Tax Items	7,974,502				7,974,502
Departmental Income	1,286,117	6,849,785			8,135,902
Intergovernmental Charges	73,545				73,545
Use of Money and Property	340,301	40,644			380,945
Licenses and Permits	212,570				212,570
Fines and Forfeitures	280,660				280,660
Sale of Property and Compensation for Loss	269,922	3,015			272,937
Miscellaneous	35,768	574			36,342
Interfund Revenue	80,000				80,000
State Aid	5,489,435	575	1,030,543		6,520,553
Federal Aid	1,567,300	4,177,529			5,744,829
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	31,508,548	11,072,122	1,030,543	-	43,611,213

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORTH TONAWANDA, NEW YORK

GOVERNMENTAL FUNDS

Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2006

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
Expenditures:					
Current:					
General Government Support	\$ 3,694,107	\$ 71,151	\$	\$	\$ 3,765,258
Public Safety	8,010,342				8,010,342
Transportation	3,701,700				3,701,700
Economic Opportunity and Development	187,784				187,784
Culture and Recreation	1,793,572				1,793,572
Home and Community Services	3,035,097	9,500,062			12,535,159
Employee Benefits	6,772,341	1,195,106			7,967,447
Capital Outlay			4,653,784		4,653,784
Debt Service - Principal	2,175,750	815,702			2,991,452
Debt Service - Interest	434,813	196,902			631,715
Total Expenditures	<u>29,805,506</u>	<u>11,778,923</u>	<u>4,653,784</u>	<u>-</u>	<u>46,238,213</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,703,042</u>	<u>(706,801)</u>	<u>(3,623,241)</u>	<u>-</u>	<u>(2,627,000)</u>
Other Sources and (Uses):					
Proceeds of Bonds	422,879		4,853,121		5,276,000
Proceeds of Bond Anticipation Notes			364,000		364,000
Transfers from Other Funds		350,000			350,000
Transfers to Other Funds	<u>(350,000)</u>				<u>(350,000)</u>
Total Other Sources and (Uses)	<u>72,879</u>	<u>350,000</u>	<u>5,217,121</u>	<u>-</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 Beginning of Year	<u>1,971,376</u>	<u>1,045,824</u>	<u>(201,445)</u>	<u>-</u>	<u>2,815,755</u>
Fund Balance at End of Year	<u>\$ 3,747,297</u>	<u>\$ 689,023</u>	<u>\$ 1,392,435</u>	<u>\$ -</u>	<u>\$ 5,828,755</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORTH TONAWANDA, NEW YORK

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2006**

	<u>Governmental Activities</u>
Amounts Reported for Governmental Activities in the Statement of of Activities are Different Because:	
Net Changes in fund balances of governmental funds	\$ 3,013,000
Governmental funds reported capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as a long-term asset.	1,271,812
Depreciation expense not recorded in governmental funds.	(1,633,369)
The issuance of long-term debt increases the current financial resources of governmental funds. However, in the statement of activities, it is reflected as an increase of debt.	(4,192,906)
Net interest on bonds expensed in statement of activities but not in statement for governmental funds.	(162,007)
Changes in compensated absences are not reflected in the governmental funds.	<u>(30,987)</u>
Change in Net Assets of Governmental Activities	<u>\$ (1,734,457)</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORTH TONAWANDA, NEW YORK

GENERAL FUND

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
(Non-GAAP Basis of Budgeting)
For the Year Ended December 31, 2006

	<u>Original</u>		<u>Final</u>		<u>Budgetary</u>		Variance
	<u>Budget</u>		<u>Budget</u>		<u>Actual</u>		<u>Final Budget</u>
							<u>Positive (Negative)</u>
Revenues:							
Real Property Taxes	\$ 12,697,497		\$ 12,697,497		\$ 12,677,708		\$ (19,789)
Real Property Tax Items	960,000		960,000		1,220,720		260,720
Non-property Tax Items	7,860,000		7,860,000		7,974,502		114,502
Departmental Income	1,330,700		1,330,700		1,286,117		(44,583)
Intergovernmental Charges	97,080		97,080		73,545		(23,535)
Use of Money and Property	102,000		102,000		340,301		238,301
Licenses and Permits	213,600		213,600		212,570		(1,030)
Fines and Forfeitures	325,000		325,000		280,660		(44,340)
Sale of Property and Compensation for Loss	320,200		320,200		269,922		(50,278)
Miscellaneous	11,000		11,000		35,768		24,768
Interfund Revenues	80,000		80,000		80,000		-
State Aid	4,024,894		4,024,894		5,489,435		1,464,541
Federal Aid	12,426		12,426		1,567,300		1,554,874
	<u>28,034,397</u>		<u>28,034,397</u>		<u>31,508,548</u>		<u>3,474,151</u>
Total Revenues							

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORTH TONAWANDA, NEW YORK

GENERAL FUND

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
(Non-GAAP Basis of Budgeting)
For the Year Ended December 31, 2006

	<u>Original</u>	<u>Final</u>	<u>Budgetary</u>	Variance
	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>	<u>Final Budget</u>
				<u>Positive (Negative)</u>
Expenditures:				
Current:				
General Government Support	\$ 3,820,683	\$ 3,889,569	\$ 3,694,107	\$ 195,462
Public Safety	7,946,664	8,117,987	8,010,342	107,645
Transportation	3,476,974	3,702,350	3,701,700	650
Economic Opportunity and Development	159,670	197,205	187,784	9,421
Culture and Recreation	1,696,958	1,782,104	1,793,572	(11,468)
Home and Community Services	1,450,432	4,729,746	3,035,097	1,694,649
Employee Benefits	7,350,000	6,809,420	6,772,341	37,079
Debt Service - Principal	2,343,750	2,175,750	2,175,750	
Debt Service - Interest	489,266	438,266	434,813	3,453
Total Expenditures	<u>28,734,397</u>	<u>31,842,397</u>	<u>29,805,506</u>	<u>2,036,891</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(700,000)</u>	<u>(3,808,000)</u>	<u>1,703,042</u>	<u>5,511,042</u>
Other Sources and (Uses):				
Proceeds of Long Term Obligations	700,000	700,000	422,879	(277,121)
Transfers to Other Funds	<u>-</u>	<u>(350,000)</u>	<u>(350,000)</u>	<u>-</u>
Total Other Sources and (Uses)	<u>700,000</u>	<u>350,000</u>	<u>72,879</u>	<u>(277,121)</u>
Net Change in Fund Balances	-	(3,458,000)	1,775,921	5,233,921
Fund Balance at January 1, 2006	<u>1,971,376</u>	<u>1,971,376</u>	<u>1,971,376</u>	<u>-</u>
Fund Balance at December 31, 2006	<u>\$ 1,971,376</u>	<u>\$ (1,486,624)</u>	<u>\$ 3,747,297</u>	<u>\$ 5,233,921</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORTH TONAWANDA, NEW YORK

FIDUCIARY FUNDS

Statement of Fiduciary Net Assets
For the Year Ended December 31, 2006

	<u>Permanent Trust</u>	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
Assets:			
Cash and Cash Equivalents	\$ 3,000	\$ 144,502	\$ 61,078
Due From Other Funds	<u> -</u>	<u> -</u>	<u>34,456</u>
Total Assets	<u>\$ 3,000</u>	<u>\$ 144,502</u>	<u>\$ 95,534</u>
Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 95,534</u>
Net Assets	<u>3,000</u>	<u>144,502</u>	<u> -</u>
Total Liabilities and Net Assets	<u>\$ 3,000</u>	<u>\$ 144,502</u>	<u>\$ 95,534</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORTH TONAWANDA, NEW YORK

Notes to Financial Statements

December 31, 2006

Note 1 - Summary of Significant Accounting Policies

The financial statements of the City of North Tonawanda, New York (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. 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.

A) Financial Reporting Entity

The City of North Tonawanda, New York, which was incorporated in 1897, is governed by City Law and other general laws of the State of New York and various local laws and ordinances. The City Council is the legislative body responsible for overall operations of the City. The Mayor serves as Chief Executive Officer and the City Treasurer as the Chief Fiscal Officer of the City.

The City provides the following basic services: general government support, police protection and law enforcement, fire protection, safety inspection, highway maintenance, culture, recreation programs, street lighting, refuse collection, water, and wastewater.

All governmental activities and functions performed for the City of North Tonawanda are its direct responsibility. No other governmental organizations have been included or excluded from the reporting entity.

The financial reporting entity consists of (a) the primary government which is the City of North Tonawanda, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete as set forth in GASB Statement 14.

The decision to include a potential component unit in the City's reporting entity is based on several criteria set forth in GASB 14 including legal standing, fiscal dependency, and financial accountability.

Note 1 - **Summary of Significant Accounting Policies (Cont.)**

A) **Financial Reporting Entity (Cont.)**

Based on the foregoing criteria and the significant factors presented below, the following organization is included in the reporting entity.

The City of North Tonawanda Public Housing Agency, which is administered on the City's behalf by Belmont Shelter Corp., provides low-income housing assistance to qualifying citizens of the City of North Tonawanda. The North Tonawanda Public Housing Agency is included in the City's financial statements because the City Council exercises oversight control over it. The activities of the North Tonawanda Public Housing Agency are included within the Special Grant Fund of the City's financial statements.

B) **Government-wide and Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the government. The effects of interfund activity has been removed from these statements. Government activities are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead of general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Cont.)

C) Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus is the determination of what is expressed in reporting an entity's financial performance and position, (i.e., expenditures or expenses). A particular measurement focus is accomplished both by considering what resources will be measured and the basis of accounting.

Basis of accounting refers to when revenues, expenditures/expenses, and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to timing of the measurements made, regardless of the measurement focus.

Accrual Basis - Under 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.

Modified Accrual Basis - Under this 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. Revenues from federal, state, or other grants designated for specific City expenditure are recognized when the related expenditures are incurred.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due and expenditures for inventory-type items and for prepayments (except retirement) are recognized at the time of the disbursements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Property taxes 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

Note 1 - **Summary of Significant Accounting Policies (Cont.)**

C) **Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont.)**

The City reports the following major governmental funds:

General Fund - The principal operating fund that includes all operations not required to be recorded in other funds.

Water Fund - This fund accounts for the revenues and expenditures derived from providing water services to City residents.

Sewer Fund - This fund accounts for the revenues and expenditures derived from providing sanitary sewer services to City residents.

Special Grant Fund - This fund is used to account for the grant proceeds that are made available to the City by the United States Department of Housing and Urban Development.

Debt Service Fund - This fund is used to account for the financial resources accumulated for payment of future principal and interest on long-term indebtedness for all funds.

Capital Projects Fund - 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 types that are used to account for assets held by the City in a custodial capacity:

Agency Fund - Used to account for money and property received and held in the capacity of custodian or agent. The Agency Fund is custodial in nature and does not involve measurement of results of operations. Agency funds, such as payroll withholdings, are reported as liabilities.

Permanent and Private Purpose Trusts - Used to account for donated funds used for the purposes designated by the donors.

Note 1 - Summary of Significant Accounting Policies (Cont.)

C) Measurement Focus, Basis of Accounting and Financial Statement Presentation (Concl.)

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. General revenues are those that cannot be associated directly with program activities.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D) Property Tax Revenue Recognition

Property taxes attach an enforceable lien on property as of December 31. Taxes are levied on April 1. The City bills and collects its own taxes and also serves as collector of Niagara County and North Tonawanda City School District property taxes. City property tax revenues are recognized when levied to the extent that they result in current receivables.

The City is responsible for School District taxes reaching fourteen months delinquency.

An allowance for uncollectible taxes has been recorded for those property taxes which have been deemed to be uncollectible.

The City may not annually levy taxes, other than the debt service on City indebtedness in excess of 2% of the average full valuation of taxable real estate in the City for the previous years. This maximum taxing power for the year ended December 31, 2006 amounted to \$22,480,818. The 2006 tax levy of \$12,677,708 represents approximately 44% of the maximum taxing power.

Note 1 - Summary of Significant Accounting Policies (Cont.)

E) Budgets and Budgetary Data

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

1. In mid-May, budget documentation is submitted to department heads by the Budget Officer, requesting estimates of revenue and appropriations.
2. In mid-June, each department head submits to the Budget Officer his or her departmental estimates of revenue and appropriations for the ensuing fiscal year.
3. During the month of July, the Mayor, City Accountant and Department Heads meet and formulate the Mayor's budget. On or before August 1st, the Mayor shall submit to the Common Council a budget for the ensuing year and an accompanying message.
4. The Common Council and Budget Officer review the Mayor's budget at various workshop sessions during the month of August.
5. A public hearing is conducted to obtain taxpayer comments.
6. The Common Council has the power to delete, reduce, increase or add items to the Mayor's budget. All changes to the proposed Mayor's budget require approval from a majority of Council Members.
7. On or before September 15th, the budget is legally enacted through passage of a resolution. If the Common Council fails to adopt the budget by September 15th, the budget submitted by the Mayor shall be deemed adopted for the ensuing fiscal year.
8. The Mayor reviews the adopted budget and has the opportunity to veto the resolution adopting the budget within 10 days from the date of adoption. The Mayor may disapprove the entire budget or one or more specific appropriations or budget items. If the Mayor vetoes the budget, the Council needs four votes to override.

Note 1 - **Summary of Significant Accounting Policies (Cont.)**

E) Budgets and Budgetary Data (Cont.)

9. Common Council authorization is required for amounts exceeding \$250 for transfers of budgeted amounts within departments within any fund, transfers between departments within any fund, or any revisions that alter the total appropriations of any fund.
10. If the Mayor vetoes the budget, the Council needs a 2/3 vote or 4 votes to override. The Common Council shall meet no later than October 31st to consider overriding the Mayor's veto of budget items.
11. Formal budgetary integration is employed as a management control device during the year for all governmental fund types except for the Special Grant Fund, Debt Service Fund, and Capital Projects Fund. Budgetary control for the Special Grant Fund is provided by annual grant entitlements that are approved by the United States Department of Housing and Urban Development. Budgetary control over the Debt Service Fund and Capital Projects Fund are provided by Common Council approval of bond authorizations and provisions of bond indebtedness.

F) Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed in all City funds. Outstanding encumbrances at year end, exclusive of grant-related commitments, are presented for GAAP reporting purposes as reservations of fund balances, and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Note 1 - Summary of Significant Accounting Policies (Cont.)

G) Investments

The City had no marketable securities as of December 31, 2006. Investments such as certificates of deposits are shown under the caption "cash."

II) Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost equal to or greater than \$35,000 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. Major outlays for capital assets and improvements are capitalized as projects are constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives is not capitalized. Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives.

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	100 years
Wastewater Treatment Distribution Network	25-100 years
Machinery and Equipment	10-25 years
Transportation Network	10-75 years
Sanitary Sewer Network	25-100 years

When capital assets are retired, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period in the government-wide statements. Amortization is reflected in income for the period in the government-wide statements. Amortization of capital leases is computed using the straight-line method over the lease term or the estimated useful lives of the assets, whichever is shorter. Maintenance and repairs are charged to expense as incurred; significant renewals and betterments are capitalized.

Note 1 - **Summary of Significant Accounting Policies (Cont.)**

D) Insurance

Through October 22, 1987, the City purchased insurance covering liability for most risks including but not limited to general liability, police professional liability and excess liability.

Effective October 23, 1987, and originally funded in 1986, the City instituted a self-insurance program which covers general, automobile, streets and roads, and fire and building damage. Effective September 1993, the City obtained general liability insurance coverage which includes a self-insurance retention of \$100,000 for each claim with a \$200,000 self-insurance retention annual aggregate (stop loss aggregate) which gives the City coverage in the case of a claim over that self-insured limit. The City also obtained commercial auto bodily injury liability insurance in the amount of \$100,000.

Based on our standard operating procedure, judgments and claims up to \$25,000 are paid out of current budgetary appropriations. Judgments and claims over \$25,000 but less than \$200,000 are paid out of the General Fund Reserve for Insurance. Any judgments and claims greater than \$200,000 are bonded.

The City is also currently covered under property insurance, emergency medical technician (EMT) professional liability/malpractice, police professional liability, and public officials bond and theft, disappearance and destruction policies.

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.

Effective June 9, 1999, the City became self-insured for Workers' Compensation. Prior to June 9, 1999, Workers' Compensation coverage was provided through the Niagara County Self-Insurance Fund.

J) Pensions

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

Note 1 - **Summary of Significant Accounting Policies (Cont.)**

K) Vacation, Sick Leave and Compensatory Absences

City employees are granted vacation and sick leave, and earn compensatory absences in varying amounts. In the event of termination or upon retirement, an employee is entitled to payment for accumulated vacation and sick leave and unused compensatory absences at various rates subject to certain maximum limitations.

Depending upon the years of service and/or union membership, most employees are entitled to between one and six weeks of annual vacation. Generally, employees may not accrue unused vacation days beyond the expiration of the City's fiscal year end. Sick leave is administered to employees of the City as follows:

	<u>Fire</u>	<u>Police</u>	<u>CSEA</u>	<u>DPW</u>	<u>OPEIU</u>
Monthly Accrual Employed Prior to 1987	1 ½ days	1 ½ days	1 ½ days	1 ½ days	1 ½ days
Monthly Accrual Employed After 1987	1 day	1 1/4 days	1 day	1 day	1 day
Maximum Accrual	180 days	200 days	180 days	180 days	272 days
Payment at Termination	35% Unused	50% Unused	0%	0%	20%

City employees are paid in December for unused vacation time applicable to the current year. Vacation days are earned on the first day of the year. Sick days are earned on the first day of each month, for the prior month of service, defined as being on the active payroll for one full pay period.

Payment of sick leave and compensatory absences in the General Long-term Debt Account Group 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 vacation, sick leave and compensatory damages when such payment becomes due.

L) Economic Development and Rehabilitation Loans Receivable

These loans receivable are equally offset by deferred revenue which indicates that they do not constitute "available expendable resources" since they are not a component of net current assets.

Note 1 - Summary of Significant Accounting Policies (Cont.)

M) Federal Grants

Federal grants are recorded as grant receivable and deferred revenue when the entitlement period occurs. Revenue is recognized as the City incurs expenditures and meets the performance requirements of the grants.

N) Post-employment 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. Health care benefits and survivors benefits are provided through insurance companies whose premiums are based on the benefits paid during the year. These benefits terminate upon death of the retired employee. The City recognizes the cost of providing benefits by recording its share of insurance premiums as an expenditure in the year paid. During the 2006 fiscal year, approximately \$649,000 was paid on behalf of 84 retirees and recorded as an expenditure in the General Fund.

O) Restrictions, Reserves and Designations

The government-wide fund financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- ***Invested in Capital Assets, Net of Related Debt*** - This category groups all capital assets, including infrastructure, into one component of net assets. 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 Net Assets*** - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The City has no balance in this category.
- ***Unrestricted Net Assets*** - This category represents net assets of the City not restricted for any project or other purpose.

Note 1 - Summary of Significant Accounting Policies (Concl.)

O) Restrictions, Reserves and Designations (Cont.)

In the fund financial statements, reserves represent that portion of fund balance that has been legally segregated for a specific use or is not appropriate for expenditure by the City at December 31, 2006, and include:

Reserved for Encumbrances – representing commitments related to unperformed (executory) contracts for goods and/or services.

Reserved for Retirement - representing resources that must be used for retirement payments that will be made in future periods.

Reserved for Insurance - representing resources that must be used for liability insurance payments that will be made in future periods.

Reserved for Workers' Compensation - representing resources that must be used for workers' compensation payments that will be made in future periods.

In the fund financial statements, designations are not legally required segregations, but are segregated for a specific purpose by the City. Designations at December 31, 2006 were as follows:

Designated for Subsequent Years' Expenditures - representing available fund balances being appropriated to meet future years' expenditure requirements.

Designated for Golf Course Improvements - representing golf course fees designated for capital improvements to Deerwood Golf Course.

Note 2 - Reporting on Budgetary Basis

The City reports its budgetary status with the actual data including encumbrances as charges against budget appropriations. In addition, budgetary comparison information is not presented for certain Special Revenue Funds because they are not considered part of the City's annual budgetary plan.

Budget columns presented in the accompanying financial statements reflect a deficiency of revenues and other financing sources over expenditures and other financing uses. This deficiency is caused by the anticipated use of prior year's fund balance, which had been designated for 2006 expenditures through the budget process.

Budgetary control of the General Fund is minimally exercised at the department and account level. There were no excesses of expenditures/expenses over appropriations at the established control level.

Note 3 - **Cash and Investments**

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. The City Comptroller is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. agencies, repurchase agreements and obligations of New York State or its localities.

Collateral is required for demand deposits and certificates of deposit in an amount equal to at least 105% of the amount 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. The detail of cash and investments at December 31, 2006 consists of:

Petty Cash	\$	6,900
Deposits:		
Checking and Savings Account		<u>5,704,377</u>
Total		<u>\$ 5,711,277</u>

Note 3 - Cash and Investments (Cont.)

Deposits

Deposits at December 31, 2006 were entirely covered by federal depository insurance or by collateral held by the City's custodial bank in the City's name.

All deposits are carried at cost and consist of:

<u>Fund</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>	
Primary Government:			
General Fund	\$ 680,761	\$ 1,920,546	Insured (FDIC), collateral held by City's Custodial Bank
Special Grants Fund	1,089,196	1,645,252	Insured (FDIC), collateral held by City's Custodial Bank
Capital Projects Fund	1,829,453	1,829,315	Insured (FDIC), collateral held by City's Custodial Bank
Debt Service	<u>100,684</u>	<u>100,684</u>	
	<u>3,700,094</u>	<u>5,495,797</u>	
Agency Fund:			
Trust and Agency Fund	<u>210,761</u>	<u>208,580</u>	Insured (FDIC), collateral held by City's Custodial Bank
Total	<u>\$ 3,910,855</u>	<u>\$ 5,704,377</u>	

Note 4 - Receivables - State and Federal

State and federal receivables accrued by the City at December 31, 2006 include the following:

General Fund:		
State Aid - Assessor	\$	63,065
State Aid - Court System		20,940
State Aid - Disaster Assistance		800,000
State Aid - Emergency Management		6,213
State Aid - Police		247
Federal Aid - Disaster Assistance		<u>1,554,873</u>
Total General Fund		<u>2,445,338</u>
Special Grant Fund:		
Federal Aid		<u>1,033,123</u>
Total		<u>\$ 3,478,461</u>

Note 5 - Due from Other Governments

Other government receivables accrued by the City at December 31, 2006 include the following:

General Fund:

County of Niagara - Sales Tax \$ 967,144

Note 6 - Capital Assets

Capital asset activity for the year ended December 31, 2006 was as follows:

<u>Type</u>	<u>Balance at January 1, 2006</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at December 31, 2006</u>
Capital Assets Not Being Depreciated:				
Land	\$ 4,400,350	\$ -	\$ -	\$ 4,400,350
Capital Assets Being Depreciated:				
Buildings and Improvements	10,279,458	218,721	57,185	10,440,994
Machinery and Equipment	5,088,614	1,110,275		6,198,889
Transportation Network	6,655,740			6,655,740
Water Treatment and Distribution Network	8,532,933			8,532,933
Sanitary Sewer Network	39,715,176	-	-	39,715,176
Total Capital Assets Being Depreciated	<u>70,271,921</u>	<u>1,328,996</u>	<u>57,185</u>	<u>71,543,732</u>
Less: Accumulated Depreciation for:				
Buildings and Improvements	2,723,377	102,795	57,185	2,768,987
Machinery and Equipment	3,365,110	235,534		3,600,644
Transportation Network	3,002,480	240,014		3,242,494
Water Treatment and Distribution Network	2,742,098	156,303		2,898,401
Sanitary Sewer Network	17,806,113	955,908	-	18,762,021
Total Accumulated Depreciation	<u>29,639,178</u>	<u>1,690,554</u>	<u>57,185</u>	<u>31,272,547</u>
Total Assets Being Depreciated, Net	<u>\$ 40,632,743</u>	<u>\$ (361,558)</u>	<u>\$ -</u>	<u>\$ 40,271,185</u>

Note 7 - Retirement Plans

Plan Description

The City of North Tonawanda participates in the New York State 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 benefit 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 transactions of the business of the Systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Employees' Retirement Systems, Governor Alfred E. Smith State Office Building, Albany, New York 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. Employees in the System more than ten years are no longer required to contribute. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

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

	<u>ERS</u>	<u>PFRS</u>
2006	\$ 1,019,477	\$ 953,367
2005	881,413	879,064
2004	601,372	575,451

The City of North Tonawanda's contributions made to the Systems were equal to 100 percent of the contributions required for each year.

Note 7 - Retirement Plans (Cont.)

Since 1989, the Systems' billings have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to begin making payments on a current basis, while amortizing existing unpaid amounts relating to the Systems' fiscal years ending March 31, 1988 and 1989 (which otherwise were to have been paid on June 30, 1989 and 1990, respectively) over a 17-year period with an 8.75% interest factor added. Local governments were given the option to prepay this liability. The City of North Tonawanda elected to prepay such liability.

Note 8 - Short-term Debt

The City may issue Revenue Anticipation Notes and Tax Anticipation Notes, in anticipation of the receipt of revenues. These notes are recorded as a liability of the fund that will actually receive the proceeds from the issuance of the notes. The RAN's and TAN's represent a liability that will be extinguished by the use of expendable, available resources of the fund. The balance at December 31, 2006 was \$2,870,000.

Liabilities for bond anticipation notes (BAN's) are generally accounted for in the Capital Projects Funds. Principal payments on BAN's must be made annually. There was no balance at December 31, 2006.

State law generally requires that BAN's issued for capital purposes be converted to long-term obligations within five years after the original issue date. However, BAN's issued for assessable improvement projects may be renewed for periods equivalent to the maximum life of the permanent financing, provided that stipulated reductions of principal are made on an annual basis.

Note 9 - Long-term Debt

- a. At December 31, 2006 the total outstanding long-term bond indebtedness of the City aggregated \$13,861,500. Of this amount, \$12,428,850 was subject to the constitutional debt limit and represented approximately 17.53% of its debt limit.
- b. Compensated Absences represents the value of earned and unused portion of the liability for compensated absences.

Note 9 - Long-term Debt (Cont.)

c. Summary Long-term Debt. The following is a summary of long-term liabilities outstanding at December 31, 2006:

	<u>General Long-term Debt</u>
Serial Bonds	\$ 13,861,500
NYS Retirement System	1,565,454
Compensated Absences	<u>1,013,566</u>
	<u>\$ 16,440,520</u>

d. The following is a summary of changes in long-term liabilities for the year ended December 31, 2006:

	<u>Serial Bonds</u>	<u>NYS Retirement System</u>	<u>Compensated Absences</u>
Balance at January 1, 2006	\$ <u>11,212,952</u>	\$ <u>482,978</u>	\$ <u>982,579</u>
Additions	<u>5,276,000</u>	<u>1,485,201</u>	<u>30,987</u>
Deletions	<u>(2,627,452)</u>	<u>(402,725)</u>	<u>-</u>
Balance at December 31, 2006	<u>\$ 13,861,500</u>	<u>\$ 1,565,454</u>	<u>\$ 1,013,566</u>

Additions and deletions to compensated absences and other long-term debt are shown net since it is impracticable to determine these amounts separately.

Note 9 - Long-term Debt (Cont.)

e. Maturity Schedule

The following schedule sets forth the remaining annual maturities of long-term debt by debt type at December 31, 2006:

<u>Year</u>	<u>Serial Bond Principal</u>	<u>Serial Bond Interest</u>	<u>Total</u>
2007	\$ 2,291,000	\$ 649,198	\$ 2,940,198
2008	2,000,000	568,884	2,568,884
2009	1,710,000	476,053	2,186,053
2010	1,425,000	395,949	1,820,949
2011	1,035,000	329,711	1,364,711
2012-2016	3,555,500	1,002,882	4,558,382
2017-2021	1,345,000	366,502	1,711,502
2022-2026	500,000	91,950	591,950
Total	<u>\$ 13,861,500</u>	<u>\$ 3,881,129</u>	<u>\$ 17,742,629</u>

Note 10 - Interfund Receivables and Payables

Interfund receivables and payables at December 31, 2006 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 1,629,029	\$
Capital Projects Funds		338,381
Sewer Fund		763,116
Water Fund	-	527,532
	<u>\$ 1,629,029</u>	<u>\$ 1,629,029</u>

Note 11 - Fund Balance Reservations

Reservations of fund balances of governmental fund types are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriate for future expenditures. Specific reservations of the fund balance accounts are summarized below.

<u>Fund</u>	<u>Balance</u>
Government Fund Type:	
General Fund - Retirement	\$ 419,298
General Fund - Reserve for Insurance	295,969
General Fund - Reserve for Workers' Compensation	200,000
General Fund - Reserve for Encumbrances	1,492,552
Special Revenue Fund Type:	
Sewer Fund - Encumbrances	18,439
Sewer Fund - Retirement	40,779
Water Fund - Encumbrances	7,019
Water Fund - Retirement	<u>33,133</u>
Total	<u>\$ 2,507,189</u>

Note 12 - Fund Balance Designations

Designations are not legally required segregations but are segregated for a specific purpose by the City at December 31, 2006 and consist of the following:

Designated for golf course improvements represents available fund balances that can only be appropriated to finance improvements at the Deerwood Golf Course:

<u>Fund</u>	<u>Amount</u>
Governmental Fund Type:	
General Fund	<u>\$ 81,401</u>

Note 13 **Contingencies**

The City is a recipient of several grants which are subject to audit by agencies of the federal and state governments. Such audits may result in disallowances and a request for a return of funds to the federal and state governments. Based on past audits, the local government administration believes disallowances, if any, will be immaterial.

Note 14 **Special Grant Fund**

The City has entered into several contracts with the United States Department of Housing and Urban Development. These contracts authorize the City to receive grant assistance for expenditures towards eligible activities for various program years. Any excess of authorizations over revenues are still available to the City as follows:

<u>Program Year</u>	<u>Authorized</u>	<u>Revenue Received</u>	<u>Receivable</u>
1998	\$ 400,000	\$ 400,000	\$ -
1999	400,000	400,000	
2005	315,790	315,790	
2006	14,715	-	14,715
	<u>\$ 1,130,505</u>	<u>\$ 1,115,790</u>	<u>\$ 14,715</u>

Note 14 - **Special Grant Fund (Con't)**

The City has also entered into contracts with the New York State Housing Trust Fund Corporation for federal grant assistance from the United States Department of Housing and Urban Development passed through the State.

<u>Program Year</u>	<u>Home Rehabilitation Program</u>		
	<u>Authorized</u>	<u>Revenue Received</u>	<u>Receivable</u>
	1998	\$ 285,000	\$ 285,000

<u>Program Year</u>	<u>Community Development Block Grant Program</u>		
	<u>Authorized</u>	<u>Revenue Received</u>	<u>Receivable</u>
	2000	\$ 857,000	\$ 857,000
2003	358,558	358,558	
2005	285,967	285,967	
2006	650,000	-	650,000
	<u>\$ 2,151,525</u>	<u>\$ 1,501,525</u>	<u>\$ 650,000</u>