

CITY OF CANANDAIGUA, NEW YORK  
Basic Financial Statements and  
Required Supplementary Information  
December 31, 2011  
(With Independent Auditors' Report Thereon)

CITY OF CANANDAIGUA, NEW YORK

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 15
Basic Financial Statements:	
Government - Wide Financial Statements:	
Statement of Net Assets	16
Statement of Activities	17
Fund Financial Statements:	
Balance Sheet - Governmental Funds	18
Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds	19
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Basis of Budgeting) - General Fund	21
Statement of Net Assets - Proprietary Funds	22
Statement of Revenue, Expenditures, and Changes in Fund Balances - Proprietary Funds	23
Statement of Cash Flows - Proprietary Funds	24
Statement of Fiduciary Net Assets - Fiduciary Funds	25
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	26
Notes to Financial Statements	27 - 52
Supplementary Information:	
Schedule 1 - Combining Balance Sheet - Nonmajor Governmental Funds	53
Schedule 2 - Combining Statement of Revenue, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds	54
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 <u>Government Auditing Standards</u>	55- 56

**TOSKI & CO., P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

300 ESSJAY ROAD, STE. 115  
WILLIAMSVILLE, NY 14221  
(716) 634-0700

14 CORPORATE WOODS BLVD.  
ALBANY, NY 12211  
(518) 935-1069

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members  
of the City Council  
Canandaigua, New York:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Canandaigua, New York (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of December 31, 2011, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 21, 2012, 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, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 15 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 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 responses 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. Schedules 1 and 2 as listed in the foregoing table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the City's management and were derived from and related 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 basic 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 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 information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Toski & Co., CPAs, P.C.

Williamsville, New York  
May 21, 2012

# CITY OF CANANDAIGUA, NEW YORK

## Management's Discussion and Analysis

December 31, 2011

### INTRODUCTION

The following is a discussion and analysis of the City of Canandaigua, New York's (the City) financial performance for the year ended December 31, 2011. This section of the report should be read in conjunction with the basic financial statements, which immediately follow this section, in order to provide an enhanced understanding of the City's financial performance.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The City's basic financial statements are comprised of three components: **(1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements.** This report also contains individual fund financial statements and schedules in addition to these basic financial statements.

#### **Government-Wide Financial Statements**

These statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. These consist of:

- The statement of net assets which presents information on all of the City's 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.
- The statement of activities which presents information showing how the City's net assets changed during the most recent year. The primary governmental activities of the City as used in this statement include general government support, public safety, health, transportation, economic assistance, culture and recreation, home and community services, and interest on long-term debt. The business-type activities include the water and sewer fund. This statement calculates the cost of each functional activity as well as all resources available for that purpose.

The government-wide financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The accrual basis of accounting, which is similar to the methods used by most businesses, takes into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid.

#### **Fund Financial Statements**

In the governmental area, financial statements are organized around "funds." 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. Funds are established to control and manage the money and budgets of certain governmental activities. Some funds are required to be set up by law, and others to meet state and federal government requirements. All the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

CITY OF CANANDAIGUA, NEW YORK  
Management's Discussion and Analysis, Continued

- **Governmental Funds:** Governmental funds focus on a government's near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. The City maintains eight individual government funds that are included in the governmental balance sheet and statement of revenues, expenditures, and changes in fund balances. Major funds consist of the general fund, capital project fund and the community development fund. Nonmajor funds, combined on the financial statements, consist of the capital projects fund, debt service fund, watershed program, parks and open spaces and the technology fund. Data for each of these nonmajor funds can be found in the supplemental information.
- **Proprietary Funds:** Proprietary funds are used to account for governmental activities that are like commercial activities. Generally, they account for the production of goods or services sold to the public. A type of proprietary fund is an enterprise fund which a government establishes to account for activities that consist of rendering services or providing goods to the public for which a fee or charge is collected. The City has established two enterprise funds, a water fund and sewer fund.
- **Fiduciary Funds:** Fiduciary funds are used to account for assets held in a trustee or custodial capacity. The City maintains two types of fiduciary funds, an expendable trust and agency funds. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs.

**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 are located following the basic financial statements section of this report.

**Other Supplementary Information**

Other supplementary information includes combining financial statements for nonmajor governmental funds, each of which are added together and presented in single columns in the financial statements.

CITY OF CANANDAIGUA, NEW YORK  
Management's Discussion and Analysis, Continued

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of the City's financial position. As of December 31, 2011 the total assets of the City exceeded liabilities by \$54,325,900.

**CONDENSED STATEMENTS OF NET ASSETS  
FOR GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES**

	December 31, 2011			December 31, 2010		
	Governmental Activities	Business-type Activities	Total Government	Governmental Activities	Business-type Activities	Total Government
Current assets	\$ 8,037,805	\$ 7,973,842	\$ 16,011,647	\$ 7,662,289	\$ 5,280,835	\$ 12,943,124
Capital and other assets	41,442,777	19,909,175	61,351,952	39,637,221	19,244,694	58,881,915
Total assets	<u>\$ 49,480,582</u>	<u>\$ 27,883,017</u>	<u>\$ 77,363,599</u>	<u>\$ 47,299,510</u>	<u>\$ 24,525,529</u>	<u>\$ 71,825,039</u>
Other liabilities	996,168	555,847	1,552,015	1,209,707	251,142	1,460,849
Long-term liabilities	10,711,812	10,773,872	21,485,684	9,946,080	8,382,228	18,328,308
Total liabilities	<u>\$ 11,707,980</u>	<u>\$ 11,329,719</u>	<u>\$ 23,037,699</u>	<u>\$ 11,155,787</u>	<u>\$ 8,633,370</u>	<u>\$ 19,789,157</u>
Net Assets						
Invested in capital Assets						
net of related debt	34,302,051	10,815,480	45,117,531	32,070,446	11,043,065	43,113,511
Restricted	1,631,448	3,343,402	4,974,850	1,248,071	2,563,140	3,811,211
Unrestricted	1,839,103	2,394,416	4,233,519	2,825,206	2,285,954	5,111,160
Total net assets	<u>\$ 37,772,602</u>	<u>\$ 16,553,298</u>	<u>\$ 54,325,900</u>	<u>\$ 36,143,723</u>	<u>\$ 15,892,159</u>	<u>\$ 52,035,882</u>

The largest component of the City's net assets, \$45,117,531 or approximately 83%, reflects its investment in capital assets (land, buildings and facilities, machinery and equipment, rolling stock and infrastructure), less accumulated depreciation and any related outstanding debt used to acquire or construct the assets. The City uses these capital assets to provide a variety of services to its citizens and as a result these assets are not available for future spending.

Although the City's investment in a capital asset is reported net of related debt, the resources used to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the City's net position is restricted, representing resources that are subject to external restriction on how they may be used. Approximately \$4,974,850 or 9.2% of the total net assets are restricted and are not available to finance the day-to-day operations of the City. The increase of \$1,163,639 in the restricted portion of net assets from fiscal 2010 to fiscal 2011 is attributed to additional reserves for capital improvements.

The remaining \$4,233,519 balance of unrestricted net assets can be used to finance future operations.

CITY OF CANANDAIGUA, NEW YORK  
Management's Discussion and Analysis, Continued

**CHANGES IN NET ASSETS FOR  
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES**

	December 31, 2011			December 31, 2010		
	Governmental Activities	Business-type Activities	Total Government	Governmental Activities	Business-type Activities	Total Government
<b>Program Revenue:</b>						
Charges for Service	\$ 1,585,061	\$ 5,911,517	\$ 7,496,578	\$ 2,113,244	\$ 5,399,258	\$ 7,512,502
Operating Grants & Contributions	266,646	-	266,646	188,857	-	188,857
Capital Grants & Contributions	1,187,299	-	1,187,299	547,974	-	547,974
<b>General Revenue:</b>						
Real Property Taxes	4,671,030	-	4,671,030	4,167,016	-	4,167,016
Non-Property Taxes	4,307,241	-	4,307,241	4,236,594	-	4,236,594
Governmental Aid	1,287,344	-	1,287,344	1,392,324	-	1,392,324
Other	537,159	48,087	585,246	2,110,832	52,303	2,163,135
Transfers	290,000	(290,000)	-	290,000	(290,000)	-
<b>Total Revenue</b>	<b>14,131,780</b>	<b>5,669,604</b>	<b>19,801,384</b>	<b>15,046,841</b>	<b>5,161,561</b>	<b>20,208,402</b>
<b>Program Expenses</b>						
General Government	2,261,065	-	2,261,065	2,481,733	-	2,481,733
Public Safety	4,938,566	-	4,938,566	5,016,218	-	5,016,218
Transportation	2,642,293	-	2,642,293	2,613,789	-	2,613,789
Economic Assistance and Opportunity	119,144	-	119,144	195,466	-	195,466
Cultural and Recreation	1,240,556	-	1,240,556	2,248,074	-	2,248,074
Home and Community Services	897,827	-	897,827	914,169	-	914,169
Interest on Long-term Debt	403,450	-	403,450	427,095	-	427,095
Water	-	2,752,421	2,752,421	-	2,699,589	2,699,589
Sewer	-	2,256,044	2,256,044	-	2,120,084	2,120,084
<b>Total Expenses</b>	<b>12,502,901</b>	<b>5,008,465</b>	<b>17,511,366</b>	<b>13,896,544</b>	<b>4,819,673</b>	<b>18,716,217</b>
Change in Net Assets	1,628,879	661,139	2,290,018	1,150,297	341,888	1,492,185
<b>Net Assets - Beginning</b>	<b>36,143,723</b>	<b>15,892,159</b>	<b>52,035,882</b>	<b>34,993,426</b>	<b>15,550,271</b>	<b>50,543,697</b>
<b>Net Assets - Ending</b>	<b>\$ 37,772,602</b>	<b>\$ 16,553,298</b>	<b>\$ 54,325,900</b>	<b>\$ 36,143,723</b>	<b>\$ 15,892,159</b>	<b>\$ 52,035,882</b>

The revenue and expense information was derived from the government-wide statement of activities and reflects how the City's net assets changed during the fiscal year. The City earned program revenues of \$8.95 million and general revenues of \$10.85 million for a total of \$19.8 million during fiscal year 2011. Expenses for the City during fiscal year 2011 were \$17.51 million. The financial activities of the City in 2011 increased the net assets by \$2.29 million, which represents a 53.5% increase over the prior year.

**Governmental Activities:** The net assets of governmental activities increased \$1.63 million in fiscal year 2011. Revenues for the governmental activities totaled approximately \$14.13 million, a decrease of 6.1% over the prior year, while expenses totaled \$12.5 million, a decrease of 10% over the prior year. Significant variances are as follows:

**Revenue:**

- Charges for services decreased by 25% due to revenues received in the prior year for expense reimbursements for legal expenses and building permits due to a large expansion project. The current year resulted in a decrease in public safety revenue due to a decrease in the fine revenue received from City Court and structured changes in the School Resource Officer contract with the Canandaigua School District and the Fire Contract with the Town of Canandaigua which resulted in lower revenues.

CITY OF CANANDAIGUA, NEW YORK  
Management's Discussion and Analysis, Continued

- Operating grants and contributions increased by 41.2% primarily due to the implementation of a Fire Department Safer Grant to cover the cost of three firefighters.
- Capital grants and contributions had a 116.7% increase over the prior year. The City received a contribution of a dock in 2011 valued at \$300,000. The City also received several grants and aid from NYS for capital items in the amount of \$809,144. Grants were received for a Skatepark, crosswalk and a new street sweeper. The City applied for and received all current and outstanding Consolidated Highway Improvement Program (CHIPS) revenue which was an increase of 225% over the prior year.
- Real property taxes increased by 12.1% over the prior year due to an increase in the tax rate and recording of Worker's Compensation which was billed on the County Tax bill.
- Non-property taxes increased by 1.7% over the prior year primarily driven by an increase in sales tax.
- State Aid from New York State was decreased by 7.5% due to budget constraints.
- Other general revenues decreased by 74.6% primarily attributed to a one time sale of real property in 2010.

Expenditures:

- City employees did not receive a wage increase in 2011.
- Employee benefits increased by 7% over the prior year. Insurance premiums increased more than 11% and retirement benefit rates dramatically increased by an average of 39%.
- General government decreased by 8.9% primarily due to a one-time legal expense in 2010.
- Public safety expenditures decreased by 1.5 % due to the restructuring of a fire contract with the Town of Canandaigua which resulted in a contract payment in 2010 for coverage was not paid out in 2011.
- Economic assistance and opportunity decreased by 39% due to a one time grant expenditure in 2010.
- Culture and recreation expenditures decreased by 44.8% due to a one time purchase of 5.4 acres of land in 2010 which was subsequently sold for development with the remaining land to be set aside for parkland expansion and additional parking.
- Home and community services decreased by 1.8% primarily due expenditures incurred in 2010 for a "Planned Unit Development" which were subsequently reimbursed by the developer.
- Interest on long-term debt decreased by 5.5% due to the payoff of bonds.

Business-Type Activities: The net assets of business-type activities increased by \$661,139 in fiscal year 2011. Revenues for business-type activities totaled approximately \$5.7 million, an increase of 9.8% over the prior year, while expenses totaled \$5.0 million, an increase of 3.9% from the prior year. Significant variances are as follows:

- There was an overall increase in charges for services primarily driven by an increase of 30.7% in the sewer rate. There was also an increase in the liquid waste agreements and in charges to Ontario County for their share of the Waste Water Treatment Facility.
- Expenditures experienced an increase partially driven by an increase in depreciation expense and benefit expense for both the water and sewer fund.

CITY OF CANANDAIGUA, NEW YORK  
Management's Discussion and Analysis, Continued

**FINANCIAL ANALYSIS OF CITY FUNDS**

**Governmental Funds**

At the end of the current fiscal year, the City reported a combined fund balance of \$ 5.13 million, an increase of \$59,223 from the prior year. A summary of the change in fund balance for all funds is as follows:

**CHANGES IN FUND BALANCE FOR  
GOVERNMENTAL FUNDS  
FOR THE PERIOD ENDING DECEMBER 31,**

	2011	2010	Increase (Decrease)
<b>General Fund</b>			
Nonspendable for prepaid expenses	\$ 224,317	219,278	5,039
Restricted for insurance	186,619	184,501	2,118
Restricted for capital	780,800	404,251	376,549
Restricted for amounts held in reserve by contributors for a specific purpose	14,267	8,281	5,986
Assigned for expenditures	34,202	39,264	(5,062)
Assigned for Kershaw Park	94,653	81,345	13,308
Assigned - designated for subsequent year's expenditures	855,721	520,466	335,255
Unassigned	3,217,708	2,763,853	453,855
Total Fund Balance - General Fund	<u>5,408,287</u>	<u>4,221,239</u>	<u>1,187,048</u>
<b>Capital Projects Fund</b>			
Restricted for capital expenditures	614,574	9,751	604,823
Assigned for capital expenditures	29,197	-	29,197
Unassigned budget deficit which will be eliminated as short-term debt is converted to permanent financing	(1,768,673)	-	(1,768,673)
Total Fund Balance - Capital Fund	<u>(1,124,902)</u>	<u>9,751</u>	<u>(1,134,653)</u>
<b>Community Development Fund</b>			
Restricted for Community Block Grant Funds	362,876	385,575	(22,699)
Total Fund Balance - Community Development Fund	<u>362,876</u>	<u>385,575</u>	<u>(22,699)</u>
<b>Nonmajor Governmental Funds</b>			
Nonspendable for prepaid expenses	2,164	4,135	(1,971)
Restricted for debt service	5,800	-	5,800
Assigned for the Watershed Program	89,197	115,045	(25,848)
Assigned for Parks and Open Spaces	16,482	20,400	(3,918)
Assigned for Technology	374,129	318,665	55,464
Total Fund Balance - Nonmajor Fund	<u>487,772</u>	<u>458,245</u>	<u>29,527</u>
Total Fund Balance - All Funds	<u>\$ 5,134,033</u>	<u>5,074,810</u>	<u>59,223</u>

Reclassifications have been made to the 2010 fund balances to conform to the 2011 financial statement classification. This new classification is consistent per Government Accounting Standards Board (GASB) Statement No. 54. Such reclassifications had no effect on the total fund balance as previously reported.

CITY OF CANANDAIGUA, NEW YORK  
Management's Discussion and Analysis, Continued

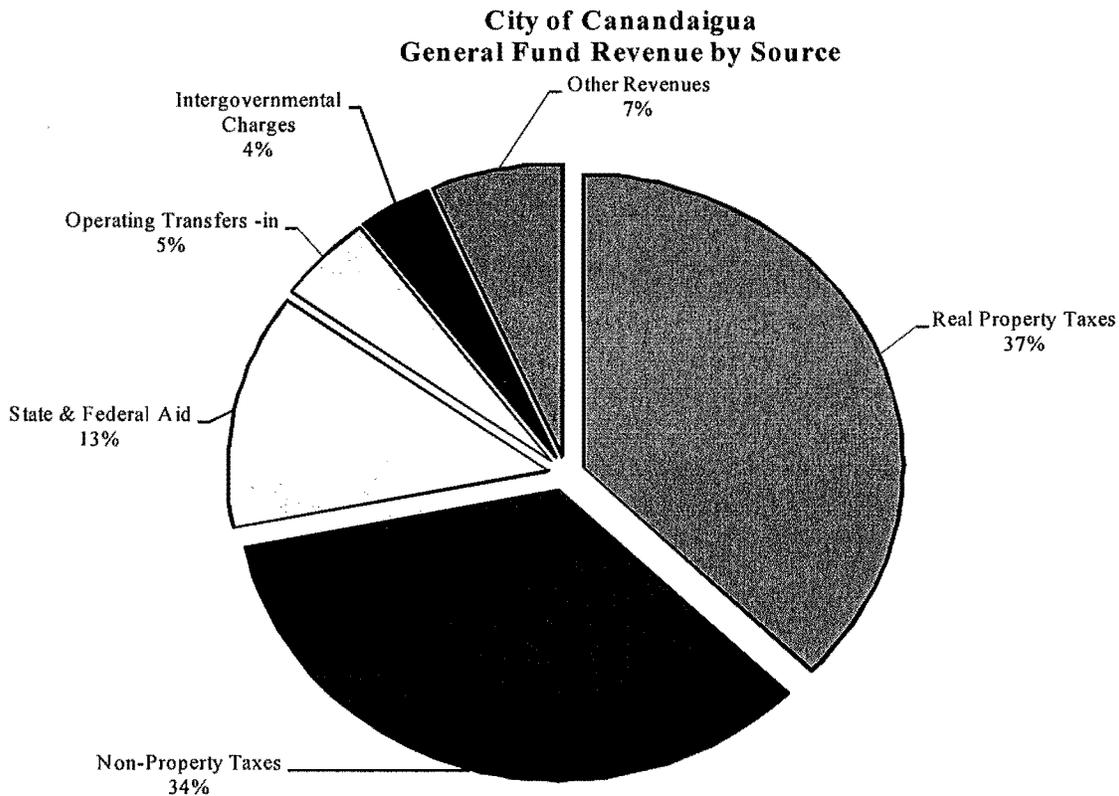
**General Fund**

The City's general fund is the largest "fund" of the City comprising 64.1% of the adopted 2011 City budget. Some of the services provided by the general fund are:

- Issuing and maintaining vital records (birth, death, and marriage certificates) and issuing various state and local licenses and permits;
- Providing public safety services, including police and fire protection and code enforcement;
- Building and maintaining roads and bridges, including snow and ice removal, street lighting and sidewalks;
- Operating and maintaining public parks and offering recreation programs;
- Providing sanitation services including curb-side collection of solid waste and recyclable materials, street sweeping and the maintenance of storm sewers;
- Planting and maintaining an "urban forest" of trees along city streets and on other public property.

In addition to the above programs, the general fund provides support such as administration, accounting and financial management, payroll and personnel, assessment, planning and zoning, legal, etc.

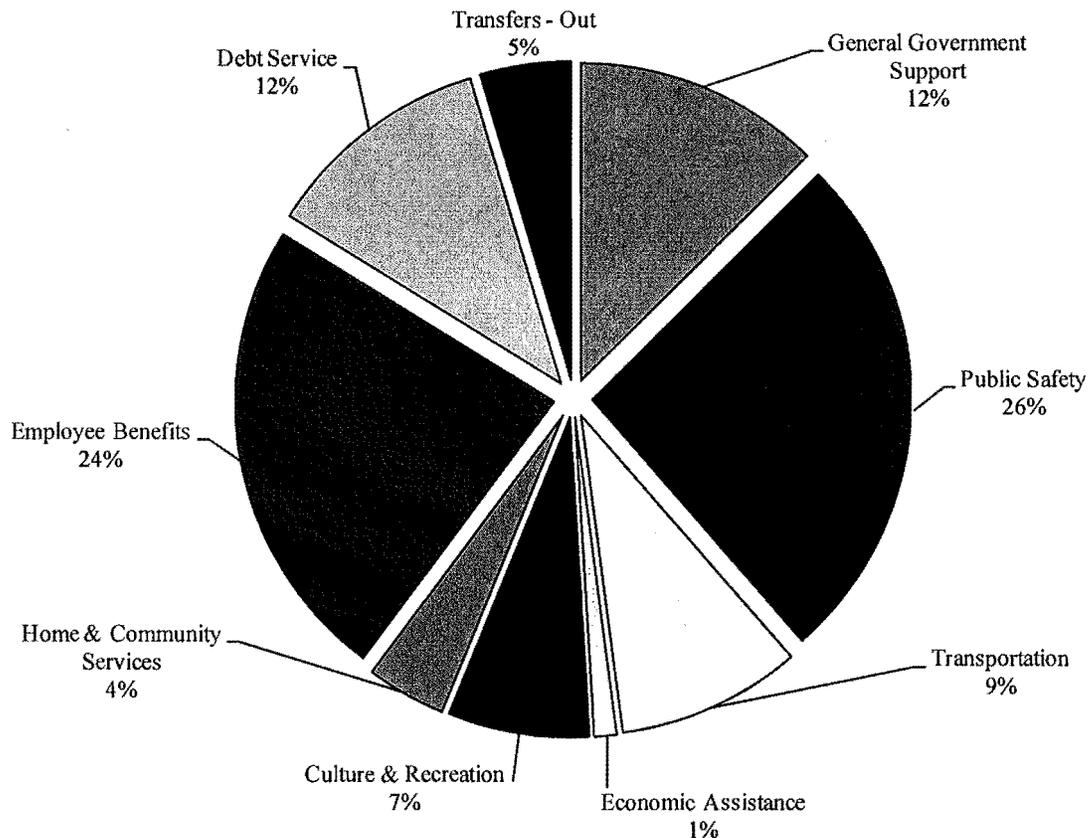
The City relies upon a number of important revenue sources to fund its operating expenses. Property taxes, sales taxes and State aid are the most significant sources of general fund revenue.



CITY OF CANANDAIGUA, NEW YORK  
Management's Discussion and Analysis, Continued

Public safety (police and fire services), public works operations, debt service, and employee benefits and other undistributed expenses are the most significant sources of general fund expense.

**City of Canandaigua  
General Fund Expenditures by Program**



The amended general fund budget in the amount of \$12.92 million anticipated the use of \$779,808 of fund balance and reserves. However, actual results of operations showed an overall increase to fund balance of \$795,073, which resulted in a net increase to fund balance (net of encumbrances) of \$1,540,679, comparing the actual results to the budget.

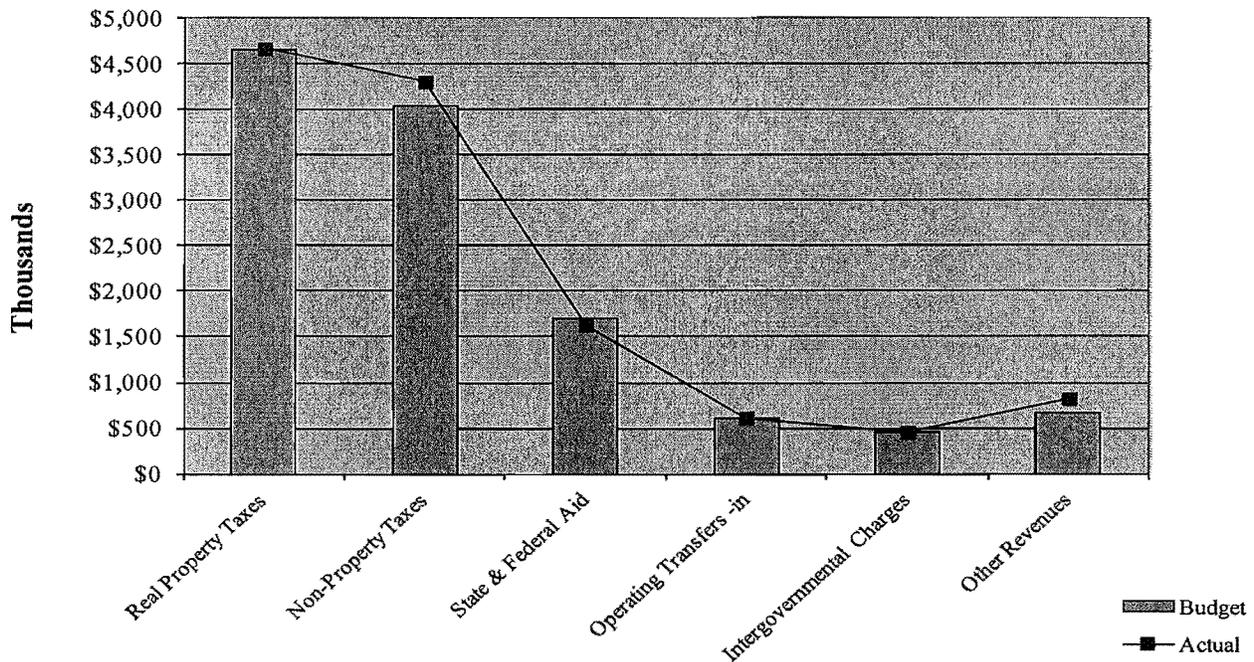
General fund revenue overall had a positive variance of 2.94% as compared to budget. The largest variances were:

- Other non-property taxes which includes sales tax, occupancy tax, utilities tax and cable franchise tax all ended the year with positive variances. All of these taxes are dependent on economic activities and came in at 6.61% above budgeted estimates.
- State and federal aid was under budget by 4%. This was due to a reduction in state aid due to fiscal pressures in Albany, a shortfall in estimated mortgage tax revenue which is dependent on home mortgages and a shared services grant which was budgeted to close out in 2011 but was delayed until 2012.

CITY OF CANANDAIGUA, NEW YORK  
Management's Discussion and Analysis, Continued

- Other Revenues increased by 22.5% over 2011 budget. This was primarily driven by an increase in departmental fees and refunds of prior years. Department fees for rental housing inspections and park fees for Kershaw Park, park facility fees and recreational income all ended the year higher than budgeted. Refunds from our utilities vendor, healthcare provider and utilities tax receipts attributed for a one time increase in revenues of over \$124,000.

**City of Canandaigua  
Comparison of Budget to Actuals  
General Fund - Revenue by Source**

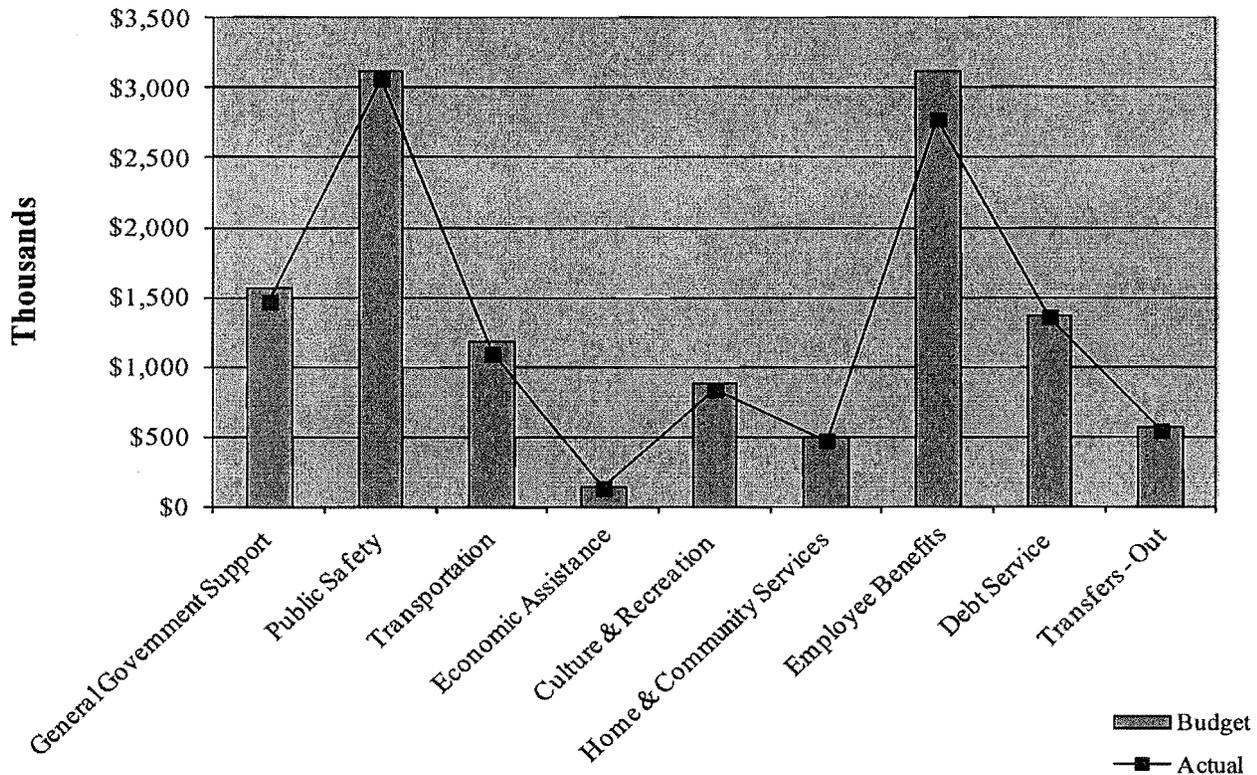


General fund expenditures reflected an overall positive variance of 9.2% as compared to the budget. The largest variances were:

- Salaries and wages were under budget by 2.52% primarily due to savings in overtime and vacant positions.
- Materials and supplies were under budget by 7% due to lower than anticipated consumption of supplies in all categories except for fuel charges which were slightly higher than expected.
- Contractual costs for utilities, landfill charges and street maintenance contributed to a positive variance of 8.3% as compared to the 2011 budget. The major contributors to this were lower than anticipated utilities, outside services and legal expenses.
- Employee benefits were under budget by 10.9% due in part to a lower than estimated medical and dental insurance due to contract negotiations. Estimated savings in NYS ERS and PFRS retirement contributions were \$119,719 due to lower than anticipated salary estimates.
- Budget contingency for unanticipated expenses in the amount of \$700,000 was passed in the approved budget. Amendments during the year utilized \$202,326 of the contingency leaving a balance of \$497,674 of budget savings in expenditures.

CITY OF CANANDAIGUA, NEW YORK  
Management's Discussion and Analysis, Continued

**City of Canandaigua  
Comparison of Budget to Actuals  
Expenditure Categories**



**Proprietary Funds**

The other two major “funds” of the City are the water fund and the sewer fund, which comprised 17.5% and 18.4% of the 2011 adopted City budget, respectively. The services provided by these enterprise funds are:

- Providing drinking water to city residents and selling drinking water to several town water districts; and
- Collecting, treating and discharging wastewater through a sanitary sewer system serving City residents, and providing wastewater treatment services to the county sewer district.

Each of these activities is run like a separate business with its own record of revenue, expenses and cash balances. The City’s proprietary funds provide the same type of information found in the government-wide statements but in more detail.

At the end of the current fiscal year, the City reported total net assets for its enterprise funds of \$16.55 million, an increase of \$661,139 in comparison with the prior year. Of the total net assets, \$10.82 million is recorded as an investment in capital assets net of related debt, \$3.34 million is restricted for capital reserves and debt service and the remaining \$ 2.39 million is unrestricted.

CITY OF CANANDAIGUA, NEW YORK  
Management's Discussion and Analysis, Continued

Water Fund - This fund finished the current fiscal year with a net income of \$33,078. The unrestricted fund balance is \$1.04 million, with an amount reserved for capital expenditures and debt service of \$1.01 million.

Sewer Fund - This fund finished the current fiscal year with net income of \$628,061. The unrestricted fund balance is \$1.36 million, with an amount reserved for capital expenditures and debt service of \$2.33 million.

**GOVERNMENT-WIDE CAPITAL ASSET AND DEBT ADMINISTRATION**

At December 31, 2011, the City has \$60.02 million (after depreciation is deducted) in a broad range of capital assets including land, buildings, and machinery and equipment and construction in progress. The change in the City's net assets between 2011 and 2010 is reflected below:

**Capital Assets, Net of Depreciation**

	December 31, 2011			December 30, 2010		
	Governmental Activities	Business-type Activities	Total Government	Governmental Activities	Business-type Activities	Total Government
Land and Land Improvements	\$ 9,648,177	\$ 175,072	\$ 9,823,249	\$ 9,414,927	\$ 177,941	\$ 9,592,868
Buildings and Improvements	3,887,473	12,414,139	16,301,612	4,098,931	13,091,710	17,190,641
Machinery and Equipment	1,617,287	863,661	2,480,948	2,434,813	841,951	3,276,764
Infrastructure	23,500,492	4,627,911	28,128,403	23,542,190	5,052,286	28,594,476
Construction in Progress	1,454,348	1,828,392	3,282,740	146,360	80,806	227,166
<b>Total Capital Assets</b>	<b>\$ 40,107,777</b>	<b>\$ 19,909,175</b>	<b>\$ 60,016,952</b>	<b>\$ 39,637,221</b>	<b>\$ 19,244,694</b>	<b>\$ 58,881,915</b>

Government-Wide Capital Assets - The net increase in capital assets during the current fiscal year amounted to \$470,556 and included the following:

- The construction or improvement to buildings and facilities - \$260,003.
- The reconstruction of streets, sidewalks, docks and parking lots - \$1,604,020
- The construction or improvement to parks - \$276,058
- The purchase of vehicles and equipment - \$308,759
- Depreciation expense of \$1,978,284 was charged against the assets

Business-Type Activities Capital Assets - The net increase in capital assets during the current fiscal year amounted to \$664,481 and included the following:

- The construction or improvement to buildings and facilities - \$1,111,369
- The reconstruction of water and sewer lines - \$655,612
- The purchase of vehicles and equipment - \$155,561
- Depreciation expense of \$1,258,062 was charged against the assets

**LONG-TERM DEBT**

At December 31, 2011, the City had \$ 16.7 million in general obligation and other long-term debt outstanding as follows:

CITY OF CANANDAIGUA, NEW YORK  
Management's Discussion and Analysis, Continued

	December 31, 2011			December 30, 2010		
	Governmental Activities	Business-type Activities	Total Government	Governmental Activities	Business-type Activities	Total Government
Serial Bonds	\$ 6,668,290	\$ 7,756,710	\$ 14,425,000	\$7,638,370	\$ 8,201,630	\$ 15,840,000
Capital Leases	-	-	-	89,844	-	89,844
Compensated Absences	599,402	144,310	743,712	624,131	146,534	770,665
HUD 108 - Serial Bond	1,335,000	-	1,335,000	1,450,000	-	1,450,000
Other postemployment benefits	166,620	39,852	206,472	143,735	34,064	177,799
<b>Total Long Term Debt</b>	<b>\$ 8,769,312</b>	<b>\$ 7,940,872</b>	<b>\$ 16,710,184</b>	<b>\$9,946,080</b>	<b>\$ 8,382,228</b>	<b>\$ 18,328,308</b>

At the end of the fiscal year, the City authorized unissued long-term debt in the amount of \$17.4 million, including \$14.6 million for sewer plant upgrades, \$2.29 million for street reconstruction, \$412,500 for City Hall improvements and \$100,000 for parking lot improvements. During the year the City issued \$4.8 million in bond anticipation notes, the proceeds of which were used to fund these various projects.

The City is subject to a constitutional debt limit pursuant to Article VIII of the State Constitution and Title 9 Article 2 of the Local Finance Law. This debt limit is equal to 7% of the latest five-year average of the full valuation of all taxable real property within the City. The water fund debt is constitutionally excluded from the debt limit, and the sewer fund debt prior to 2011 is excluded from the debt limit pursuant to Section 124.10 of the Local Finance Law. At December 31, 2011, the city exhausted 23.02% of its constitutional debt capacity and had the authority to issue up to an additional \$33.54 million of general obligation long-term debt.

### CREDIT RATING

The City was issued an excellent A+ credit rating by Standard & Poor's in 2009.

### FUTURE FINANCIAL IMPLICATIONS

The 2012 budget for the City of Canandaigua for general, capital, tech, water and sewer funds totaled \$22.07 million.

#### General Fund Highlights:

- The General Fund 2012 budget increased 8.84% over prior year's budget.
- Property tax rates increased to \$6.64 per thousand which represents a 5.55% increase in the tax levy. The total tax levy for 2012 was \$4,410,811 which was under the tax cap levy of \$4,652,278 (not including special districts). Although the levy was under the tax cap, the taxpayers saw an increase in the tax rate due to a shift of the workman's comp levy from the County to the City. This has always been part of the City's tax levy but billed separately as part of the County bill. Starting in 2012, workman's comp will be included on the City's tax bill.
- Sales tax revenues were increased 7.52% over the 2011 budget due to better than expected results.
- Due to its own fiscal problems, the State has held flat, reduced and/or eliminated the funding for various State Aid programs. AIM ("revenue sharing") has been reduced by another 2% over the prior year.

CITY OF CANANDAIGUA, NEW YORK  
Management's Discussion and Analysis, Continued

- The City adopted a Fund Balance Policy in 2007 stating that the City will maintain an undesignated General Fund balance equal to a minimum of two months (16.6%) of the ensuing year's budgeted expenditures. In keeping with this policy all available fund balance in excess of this minimum balance has been used to offset taxes. This resulted in an amount of \$1,080,038 appropriated into the 2012 budget.
- General fund salaries & wages increased by 1.8% due to the addition of three firefighter positions which will be funded by the SAFER grant and an estimated 2% increase in wages. No wage increase was given to employees in 2011.
- Employee benefits increased by 2.69% primarily due to the inclusion of worker's compensation in the City's budget. There have also been increases in the retirement costs due to an increase in the rates and the addition of three firefighters. Although medical insurance rates continue to have double digit increases, our expense is estimated to be slightly lower than 2011. This is due to changes made by the insurance company which resulted in part of our employees placed in a less expensive plan and an increase in the contributions by employees.
- Increase in the transfer to the capital reserve of 4.37% to fund capital projects.
- The contingency was reduced 1.61% due to a better estimate of the extent of potential liability from the firefighter restructuring.

**Business-type Activities:**

- The total Water Fund expenditures decreased by 1.73% but the water rate increased by 9%. This was due to a discrepancy in the formula used to calculate the rate for our wholesale customers.
- The Sewer Fund budget increases by 4.4% with no increase in the rate charged to City customers. It is estimated that the revenue will entirely offset expenditures so no appropriation from fund balance is required. In 2011, the sewer rate experienced a 30.77% increase due to a major sewer treatment capital project initiating in 2011 which will be bonded over 20 years.

The City has made it a practice to maintain healthy fund balances, and has made a commitment to develop additional dedicated reserves. In 2007 we adopted a fund balance policy that preserves an undesignated fund balance as of December 31<sup>st</sup> equal to a minimum of two months of the ensuing year's budgeted general fund expenditures, with a targeted maximum of three months of the ensuing year's budgeted expenditures. These practices have enabled us to maintain our financial health despite adverse changes in the economic climate.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City's finances. If you would like additional information, please contact:

KAY W. JAMES  
CITY MANAGER  
TWO NORTH MAIN STREET  
CANANDAIGUA, NEW YORK 14424  
585-396-5000

CITY OF CANANDAIGUA, NEW YORK  
Statement of Net Assets  
December 31, 2011

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental activities</u>	<u>Business-type activities</u>	
<b>Assets:</b>			
Current assets:			
Cash and cash equivalents	\$ 5,472,995	6,176,910	11,649,905
Accounts receivable, net	907,499	1,169,335	2,076,834
Due from other governments	806,425	571,839	1,378,264
State and Federal aid receivable	624,405	-	624,405
Prepaid items	226,481	55,758	282,239
Total current assets	<u>8,037,805</u>	<u>7,973,842</u>	<u>16,011,647</u>
Long-term assets:			
Accounts receivable, net	1,335,000	-	1,335,000
Capital assets:			
Land	4,224,298	164,072	4,388,370
Work in progress	1,454,348	1,828,392	3,282,740
Other capital assets, net of depreciation	34,429,131	17,916,711	52,345,842
Total long-term assets	<u>41,442,777</u>	<u>19,909,175</u>	<u>61,351,952</u>
Total assets	<u>49,480,582</u>	<u>27,883,017</u>	<u>77,363,599</u>
<b>Liabilities:</b>			
Accounts payable and other current liabilities	271,449	476,310	747,759
Accrued liabilities	293,767	79,537	373,304
Due to other governments	28,177	-	28,177
Due to other funds	300	-	300
Deferred revenue	402,475	-	402,475
Long-term liabilities:			
Due in one year	3,209,041	3,327,388	6,536,429
Due in more than one year	7,502,771	7,446,484	14,949,255
Total liabilities	<u>11,707,980</u>	<u>11,329,719</u>	<u>23,037,699</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	34,302,051	10,815,480	45,117,531
Restricted for:			
Capital reserves	780,800	3,285,723	4,066,523
Debt service	5,800	57,679	63,479
Special districts	844,848	-	844,848
Unrestricted	1,839,103	2,394,416	4,233,519
Total net assets	<u>\$ 37,772,602</u>	<u>16,553,298</u>	<u>54,325,900</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK  
Statement of Activities  
Year ended December 31, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets Primary Government</u>		
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Primary government:							
Governmental activities:							
General government support	\$ 2,261,065	375,144	39,084	-	(1,846,837)	-	(1,846,837)
Public safety	4,938,566	733,906	108,689	64,544	(4,031,427)	-	(4,031,427)
Transportation	2,642,293	600	118,873	643,032	(1,879,788)	-	(1,879,788)
Economic assistance and opportunity	119,144	-	-	-	(119,144)	-	(119,144)
Culture and recreation	1,240,556	237,723	-	253,711	(749,122)	-	(749,122)
Home and community services	897,827	237,688	-	226,012	(434,127)	-	(434,127)
Interest on long-term debt	403,450	-	-	-	(403,450)	-	(403,450)
Total governmental activities	<u>12,502,901</u>	<u>1,585,061</u>	<u>266,646</u>	<u>1,187,299</u>	<u>(9,463,895)</u>	<u>-</u>	<u>(9,463,895)</u>
Business - type activities:							
Water fund	2,752,421	3,048,012	-	-	-	295,591	295,591
Sewer fund	2,256,044	2,863,505	-	-	-	607,461	607,461
Total business - type activities	<u>5,008,465</u>	<u>5,911,517</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>903,052</u>	<u>903,052</u>
Total primary government	<u>\$ 17,511,366</u>	<u>7,496,578</u>	<u>266,646</u>	<u>1,187,299</u>	<u>(9,463,895)</u>	<u>903,052</u>	<u>(8,560,843)</u>
General revenues:							
Taxes:							
Property taxes					\$ 4,671,030	-	4,671,030
Non-property taxes					4,307,241	-	4,307,241
Mortgage tax					168,040	-	168,040
Unallocated State aid					1,119,304	-	1,119,304
Sale of property and compensation for loss					33,179	-	33,179
Investment earnings					235,487	19,663	255,150
Transfers					290,000	(290,000)	-
Miscellaneous					268,493	28,424	296,917
Total general revenues					<u>11,092,774</u>	<u>(241,913)</u>	<u>10,850,861</u>
Change in net assets					1,628,879	661,139	2,290,018
Net assets at beginning of year					<u>36,143,723</u>	<u>15,892,159</u>	<u>52,035,882</u>
Net assets at end of year					<u>\$ 37,772,602</u>	<u>16,553,298</u>	<u>54,325,900</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK  
Balance Sheet - Governmental Funds  
December 31, 2011

	<u>General fund</u>	<u>Capital projects fund</u>	<u>Community development fund</u>	<u>Nonmajor governmental funds</u>	<u>Total funds</u>
<b>Assets:</b>					
Cash and cash equivalents	\$ 4,365,219	435,974	156,768	515,034	5,472,995
Receivables	273,057	3,656	630,786	-	907,499
Due from other governments	806,425	-	-	-	806,425
State and Federal aid receivable	201,471	422,934	-	-	624,405
Prepaid items	224,317	-	-	2,164	226,481
Total assets	<u>\$ 5,870,489</u>	<u>862,564</u>	<u>787,554</u>	<u>517,198</u>	<u>8,037,805</u>
<b>Liabilities and fund balances:</b>					
<b>Liabilities:</b>					
Accounts payables and other current liabilities	135,636	44,966	-	28,347	208,949
Accrued liabilities	257,689	-	103	1,079	258,871
Bond anticipation notes payable	-	1,942,500	-	-	1,942,500
Due to other funds	300	-	-	-	300
Due to other governments	28,177	-	-	-	28,177
Collections in advance	-	-	62,500	-	62,500
Deferred revenue	40,400	-	362,075	-	402,475
Total liabilities	<u>462,202</u>	<u>1,987,466</u>	<u>424,678</u>	<u>29,426</u>	<u>2,903,772</u>
<b>Fund balances:</b>					
<b>Reserved for:</b>					
Nonspendable	224,317	-	-	2,164	226,481
Restricted	981,686	614,574	362,876	5,800	1,964,936
Assigned	984,576	29,197	-	479,808	1,493,581
Unassigned	3,217,708	(1,768,673)	-	-	1,449,035
Total fund balances	<u>5,408,287</u>	<u>(1,124,902)</u>	<u>362,876</u>	<u>487,772</u>	<u>5,134,033</u>
Total liabilities and fund balances	<u>\$ 5,870,489</u>	<u>862,564</u>	<u>787,554</u>	<u>517,198</u>	

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 are not reported in the funds.	40,107,777
Long-term liabilities, including serial bonds payable, are not due in the current period and therefore are not reported in the funds.	(8,003,290)
Accounts receivable - HUD108	1,335,000
Interest is accrued on outstanding bonds in the statement of net assets but not in the funds.	(34,896)
Other postemployment benefits are not reported in the funds under fund accounting but are expensed as the liability is incurred in the statement of net assets.	(166,620)
Compensated absences are not reported in the funds under fund accounting but are expensed as the liability is incurred in the statement of net assets.	(599,402)
	<u>\$37,772,602</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK  
Statement of Revenue, Expenditures, and Changes in  
Fund Balances - Governmental Funds  
Year ended December 31, 2011

	General <u>fund</u>	Capital projects <u>fund</u>	Community development <u>fund</u>	Nonmajor governmental <u>funds</u>	Total <u>funds</u>
Revenue:					
Real property and tax items	\$ 4,671,030	-	-	-	4,671,030
Non-property taxes	4,307,241	-	-	-	4,307,241
Departmental income	438,188	-	-	9,000	447,188
Intergovernmental charges	456,799	-	-	89,499	546,298
Use of money and property	54,184	1,860	160	179,284	235,488
Licenses and permits	51,921	-	-	-	51,921
Fines and forfeitures	155,422	-	-	-	155,422
Sale of property and compensation for loss	33,178	-	-	-	33,178
Miscellaneous	130,755	307,504	253,439	25	691,723
Interfund revenues	324,264	-	-	-	324,264
State and County aid	1,553,618	710,817	-	2,250	2,266,685
Federal aid	174,077	-	52,265	-	226,342
Total revenue	<u>12,350,677</u>	<u>1,020,181</u>	<u>305,864</u>	<u>280,058</u>	<u>13,956,780</u>
Expenditures:					
Current:					
General governmental support	1,480,551	245,203	-	124,985	1,850,739
Public safety	3,064,381	38,076	-	-	3,102,457
Transportation	1,088,711	1,624,931	-	-	2,713,642
Economic assistance and opportunity	117,390	-	6,804	-	124,194
Culture and recreation	837,956	365,666	-	-	1,203,622
Home and community services	455,664	158,344	68,320	92,502	774,830
Employee benefits	2,776,525	-	-	25,844	2,802,369
Debt service:					
Principal	1,059,924	-	115,000	-	1,174,924
Interest and other charges	297,527	4,814	138,439	-	440,780
Total expenditures	<u>11,178,629</u>	<u>2,437,034</u>	<u>328,563</u>	<u>243,331</u>	<u>14,187,557</u>
Excess (deficiency) of revenue over expenditures	<u>1,172,048</u>	<u>(1,416,853)</u>	<u>(22,699)</u>	<u>36,727</u>	<u>(230,777)</u>
Other financing sources and uses:					
Operating transfers	<u>15,000</u>	<u>282,200</u>	<u>-</u>	<u>(7,200)</u>	<u>290,000</u>
Total other financing sources and uses	<u>15,000</u>	<u>282,200</u>	<u>-</u>	<u>(7,200)</u>	<u>290,000</u>
Net change in fund balances	1,187,048	(1,134,653)	(22,699)	29,527	59,223
Fund balances (deficits) at beginning of year	<u>4,221,239</u>	<u>9,751</u>	<u>385,575</u>	<u>458,245</u>	<u>5,074,810</u>
Fund balances at end of year	<u>\$ 5,408,287</u>	<u>(1,124,902)</u>	<u>362,876</u>	<u>487,772</u>	<u>5,134,033</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK  
 Reconciliation of the Statement of Revenue, Expenditures and  
 Change in Fund Balances of Governmental Funds to  
 the Statement of Activities  
 Year ended December 31, 2011

Net change in fund balances - total governmental funds		\$ 59,223
Amounts reported for governmental activities in the statement of activities are different because:		
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.</p>		
Capital outlay	\$1,688,156	
Additions of assets, net of disposals	760,684	
Depreciation	<u>(1,978,284)</u>	470,556
<p>Bond proceeds and capital leases provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayments of bond principal and leases are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
		1,059,924
<p>Compensated absences represent the value of the earned and unused portion of the liability for the vacation and compensatory time. They are reported in the statement of activities but do not require the use of the current financial resources and therefore are not reported as expenditures in the governmental funds. This is the net change of compensated absences.</p>		
		24,729
<p>In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditure is reported when due.</p>		
		37,332
<p>Other postemployment benefits represent the value of the unfunded portion of the cost of benefits for current employees upon retirement. They are reported in the statement of activities but do not require the use of the current financial resources and therefore are not reported as expenditures in the governmental funds.</p>		
		<u>(22,885)</u>
Change in net assets of governmental activities		<u>\$1,628,879</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK  
Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual  
(Non-GAAP Basis of Budgeting) - General Fund  
Year Ended December 31, 2011

	Budget Original	Budget (incl. carryover encumbrances) Amended	Actual	Encumbrances	Variances
Revenue and other sources:					
Revenue:					
Real property and tax items	\$ 4,384,138	4,660,351	4,671,030	-	10,679
Non-property taxes	4,040,000	4,040,000	4,307,241	-	267,241
Departmental income	361,750	372,790	429,421	-	56,631
Intergovernmental charges	460,136	460,136	456,799	-	(3,337)
Use of money and property	48,250	48,250	51,374	-	3,124
Licenses and permits	62,600	62,600	51,921	-	(10,679)
Fines and forfeitures	177,600	177,600	155,422	-	(22,178)
Sale of property and compensation for loss	-	-	510	-	510
Miscellaneous	7,150	7,150	130,660	-	123,510
Interfund revenues	324,264	324,264	324,264	-	-
State and County aid	1,506,770	1,531,770	1,458,120	-	(73,650)
Federal aid	35,910	168,569	174,077	-	5,508
Total revenue	<u>11,408,568</u>	<u>11,853,480</u>	<u>12,210,839</u>	<u>-</u>	<u>357,359</u>
Other sources - operating transfers	290,000	290,000	290,000	-	-
Total revenue and other sources	<u>11,698,568</u>	<u>12,143,480</u>	<u>12,500,839</u>	<u>-</u>	<u>357,359</u>
Expenditures:					
Current:					
General governmental support	1,542,400	1,567,001	1,468,044	805	98,152
Public safety	3,037,389	3,125,539	3,064,380	26	61,133
Transportation	1,120,823	1,177,986	1,088,711	3,556	85,719
Economic assistance and opportunity	112,850	131,260	117,390	13,870	-
Culture and recreation	866,380	876,779	837,956	-	38,823
Home and community services	487,575	499,975	455,664	15,945	28,366
Employee benefits	2,781,865	3,116,927	2,776,525	-	340,402
Debt service:					
Principal	1,059,920	1,059,920	1,059,924	-	(4)
Interest and other charges	293,810	301,380	297,527	-	3,853
Total expenditures	<u>11,303,012</u>	<u>11,856,767</u>	<u>11,166,121</u>	<u>34,202</u>	<u>656,444</u>
Other uses:					
Operating transfers	435,300	568,847	539,645	-	29,202
Contingency	700,000	497,674	-	-	497,674
Total expenditures and other uses	<u>12,438,312</u>	<u>12,923,288</u>	<u>11,705,766</u>	<u>34,202</u>	<u>1,183,320</u>
Revenue and other sources over (under) expenditures and other uses	(739,744)	(779,808)	795,073	(34,202)	<u>\$ 1,540,679</u>
Revenue and other sources over (under) expenditures and other uses:					
Insurance reserve fund	-	-	2,118	-	-
Kershaw Park reserve fund	-	-	13,308	-	-
Capital reserve	-	-	376,549	-	-
			<u>1,187,048</u>	<u>-</u>	<u>-</u>
Fund balance at beginning of year	<u>2,823,367</u>	<u>2,823,367</u>	<u>4,221,239</u>	<u>-</u>	<u>-</u>
Fund balance at end of year	<u>\$ 2,083,623</u>	<u>2,043,559</u>	<u>5,408,287</u>	<u>(34,202)</u>	<u>-</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK  
Statement of Net Assets -  
Proprietary Funds  
December 31, 2011

	<u>Business Type Activities - Enterprise Funds</u>		
Assets:	<u>Water fund</u>	<u>Sewer fund</u>	<u>Total</u>
Cash	\$ 1,512,623	4,664,287	6,176,910
Accounts receivable (net)	777,655	391,680	1,169,335
Due from other governments	2,725	569,114	571,839
Prepaid items	32,585	23,173	55,758
Capital assets:			
Land	40,736	123,336	164,072
Work in progress	300,417	1,527,975	1,828,392
Other capital assets, net of depreciation	9,794,542	8,122,169	17,916,711
Total assets	<u>12,461,283</u>	<u>15,421,734</u>	<u>27,883,017</u>
Liabilities:			
Accounts payable and other current liabilities	33,460	442,850	476,310
Accrued liabilities	62,482	17,055	79,537
Noncurrent liabilities:			
Due in one year	638,762	2,688,626	3,327,388
Due in more than one year	5,458,737	1,987,747	7,446,484
Total liabilities	<u>6,193,441</u>	<u>5,136,278</u>	<u>11,329,719</u>
Net assets:			
Invested in capital assets, net of related debt	4,214,856	6,600,624	10,815,480
Restricted for - capital reserves	965,424	2,320,299	3,285,723
Restricted for - debt service	48,253	9,426	57,679
Unrestricted	1,039,309	1,355,107	2,394,416
Total net assets	<u>\$ 6,267,842</u>	<u>10,285,456</u>	<u>16,553,298</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK  
Statement of Revenue, Expenditures, and Changes in  
Fund Balances - Proprietary Funds  
Year ended December 31, 2011

	<u>Business Type Activities - Enterprise Funds</u>		
	<u>Water fund</u>	<u>Sewer fund</u>	<u>Total</u>
Operating revenue:			
Contributions from operations	\$ 3,048,012	2,863,505	5,911,517
Rental of real property	8,880	-	8,880
Other revenue	<u>11,870</u>	<u>750</u>	<u>12,620</u>
Total operating revenue	<u>3,068,762</u>	<u>2,864,255</u>	<u>5,933,017</u>
Operating expenses:			
Judgments, claims, and insurance premiums	344,435	255,964	600,399
General services	1,592,488	988,667	2,581,155
Contractual expenses	23,169	222,817	245,986
Other professional services	1,805	19,220	21,025
Depreciation	<u>553,798</u>	<u>704,264</u>	<u>1,258,062</u>
Total operating expenses	<u>2,515,695</u>	<u>2,190,932</u>	<u>4,706,627</u>
Operating income	<u>553,067</u>	<u>673,323</u>	<u>1,226,390</u>
Nonoperating revenue (expense):			
Interest income	6,129	13,534	19,663
Interest expense	(236,726)	(65,112)	(301,838)
Interfund transfer	(290,000)	-	(290,000)
Other income	<u>608</u>	<u>6,316</u>	<u>6,924</u>
Total nonoperating expense	<u>(519,989)</u>	<u>(45,262)</u>	<u>(565,251)</u>
Net income	33,078	628,061	661,139
Net assets at beginning of year	<u>6,234,764</u>	<u>9,657,395</u>	<u>15,892,159</u>
Net assets at end of year	<u>\$ 6,267,842</u>	<u>10,285,456</u>	<u>16,553,298</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK  
Statement of Cash Flows  
Proprietary Funds  
Year ended December 31, 2011

	<u>Business Type Activities - Enterprise Funds</u>		
	<u>Water fund</u>	<u>Sewer fund</u>	<u>Total</u>
Cash flows from operating activities:			
Receipts from services	\$ 2,986,013	2,752,730	5,738,743
Cash payments to insurance providers	(344,435)	(255,964)	(600,399)
Cash payments for contractual services	(1,670,331)	(880,088)	(2,550,419)
Other operating revenue	<u>20,750</u>	<u>750</u>	<u>21,500</u>
Net cash provided by operating activities	<u>991,997</u>	<u>1,617,428</u>	<u>2,609,425</u>
Cash flows from capital and related financing activities:			
Proceeds of debt (capital)	345,000	2,712,500	3,057,500
Principal payments of debt (capital)	(265,900)	(403,520)	(669,420)
Interest expense (capital)	(236,726)	(65,112)	(301,838)
Interfund transfer	(290,000)	-	(290,000)
Purchases of capital assets	(326,555)	(1,595,988)	(1,922,543)
Other receipts	<u>608</u>	<u>6,316</u>	<u>6,924</u>
Net cash used in capital and related financing activities	<u>(773,573)</u>	<u>654,196</u>	<u>(119,377)</u>
Cash flows from investing activities - investment income	<u>6,129</u>	<u>13,534</u>	<u>19,663</u>
Net increase in cash and cash equivalents	224,553	2,285,158	2,509,711
Cash and cash equivalents at beginning of year	<u>1,288,070</u>	<u>2,379,129</u>	<u>3,667,199</u>
Cash and cash equivalents at end of year	<u>\$ 1,512,623</u>	<u>4,664,287</u>	<u>6,176,910</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	553,067	673,323	1,226,390
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	553,798	704,264	1,258,062
Changes in:			
Accounts receivable	(61,999)	(110,775)	(172,774)
Prepaid expenses	(6,410)	(4,112)	(10,522)
Accounts payable and accrued liabilities	(45,099)	349,804	304,705
Compensated absences	5,788	4,924	10,712
Other postemployment benefits	<u>(7,148)</u>	<u>-</u>	<u>(7,148)</u>
Net cash provided by operating activities	<u>\$ 991,997</u>	<u>1,617,428</u>	<u>2,609,425</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK  
Statement of Fiduciary Net Assets -  
Fiduciary Funds  
December 31, 2011

	<u>Expendable trust</u>	<u>Agency funds</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 38,637	25,454
Accounts receivable (net)	-	626
Due from other funds	<u>300</u>	<u>-</u>
Total assets	<u>38,937</u>	<u>26,080</u>
 <b>Liabilities:</b>		
Accounts payable	-	191
Tax sale surplus	-	6,912
Other liabilities	<u>-</u>	<u>18,977</u>
Total liabilities	<u>-</u>	<u>26,080</u>
Net assets - unreserved	<u>\$ 38,937</u>	<u>-</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK  
Statement of Changes in Fiduciary Net Assets -  
Fiduciary Funds  
Year ended December 31, 2011

	<u>Expendable trust</u>
Additions:	
Contributions	\$ 300
Investment earnings	<u>64</u>
Total additions	364
Deductions - culture and recreation	<u>-</u>
Change in net assets	364
Net assets at beginning of year	<u>38,573</u>
Net assets at end of year	<u><u>\$ 38,937</u></u>

See accompanying notes to financial statements.

# CITY OF CANANDAIGUA, NEW YORK

## Notes to Financial Statements

December 31, 2011

### (1) Summary of Significant Accounting Policies

The financial statements of the City of Canandaigua, New York (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 is governed by the charter of the City of Canandaigua, the General City Law, other general laws of the State of New York and various local laws and ordinances. The City Council, consisting of the Mayor and eight council persons, is the legislative body responsible for overall operations of the City. The City Manager serves as Chief Administrative Officer and the Chief Financial Officer of the City.

The City provides the following basic services to all residents of the City; police protection and law enforcement, fire fighting and prevention, a water treatment plant and distribution system, a sewage treatment plant and collection system, a traffic control system, street lighting, a street maintenance force (including construction, repair and snow/ice removal), recreation facilities and programs, refuse and garbage removal, community development and a staff to provide the necessary support for these services.

The financial reporting entity consists of (a) the primary government which is the City and (b) organizations for which the nature and significance of the 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.

The accompanying basic financial statements include only the operations of the City since there are no other organizations that meet the criteria for inclusion in the reporting entity of the City.

#### (b) Basis of Presentation

##### Government-Wide Statements

The statement of net assets and the statement of activities present financial information about the City's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of the internal transactions. Governmental activities generally are financed through taxes, State and Federal aid, intergovernmental revenues, and other exchange and non-exchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

CITY OF CANANDAIGUA, NEW YORK  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(b) Basis of Presentation, Continued

Government-Wide Statements, Continued

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

The City does not allocate indirect costs. An administrative service fee is charged by the general fund to the City's enterprise funds that is eliminated like a reimbursement (reducing the revenue and expense in the general fund) to recover the direct costs of services provided (finance, personnel, purchasing, legal, technology, management, etc.).

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

Fund Financial Statements

The fund statements provide information about the City's funds, including fiduciary funds. Separate statements for each fund category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each as displayed in a separate column. 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.

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

Community Development Fund - Used to account for grants received which are to be used for economic development and housing rehabilitation.

The other funds which do not meet the major fund criteria are aggregated and reported as non-major other governmental funds. The following are reported as non-major other governmental funds:

Debt Service Fund - Used to account for financial resources accumulated in a reserve for payment of future principal and interest on long-term indebtedness.

Special Revenue Funds - Used to account for taxes, user fees, or other revenues which are raised or received to provide special services to areas that may or may not encompass the whole City. The following are non-major special revenue funds utilized by the City:

CITY OF CANANDAIGUA, NEW YORK  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(b) Basis of Presentation, Continued

Fund Financial Statements, Continued

Watershed Program  
Parks & Open Spaces  
Technology

Proprietary funds are to account for the City's ongoing organizations or activities which are similar to those often found in the private sector. The measurement focus is upon determination of net income.

Enterprise funds are used to account for operations that provide a service and are financed primarily by a user charge for the provision of that service or the periodic measurement of net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The enterprise funds include the water and sewer funds.

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 - Is custodial in nature and does not present results of operations or have measurement focus. The agency fund is accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the government holds for others in an agency capacity.

Government-wide financial statements apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedures.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

(c) Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund 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 at the time liabilities are incurred, regardless of when the related cash transaction takes place. Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include grants and donations. On an accrual basis, revenue from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

CITY OF CANANDAIGUA, NEW YORK  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(c) Measurement Focus and Basis of Accounting, Continued

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for recognition for governmental fund revenues. Material revenues that are susceptible to accrual include charges for services, intergovernmental revenues and operating transfers. If expenditures are the prime factor for determining eligibility, revenues from Federal and State grants are accrued when the expenditure is made.

(d) Property Tax Revenue Recognition

The City property taxes are levied annually no later than December 15 and become a lien on May 1. Taxes are collected during the period May 1 to the third Friday in December. Taxes which remain unpaid after the collection period are enforced pursuant to the tax sale provisions in the City charter.

In addition to the liens for taxes levied for City purposes, the City assumes full enforcement responsibility for taxes levied by the County of Ontario and the Canandaigua City School District on properties within the City. The City pays to the County the full amount of the taxes to be collected on their behalf. Unpaid County and School District liens are added to liens for City taxes at the time of tax sales.

The City is permitted by the Constitution of New York State to levy taxes up to 2% of the five-year average full assessed valuations for general governmental services other than the payment of debt service and capital expenditure. The City utilizes a full value system, assessing all properties at 100% of full market value. For the year ended December 31, 2011, the City had a legal margin of approximately \$10,196,790.

No allowance for uncollectible taxes is recorded since such amounts, if any, are considered to be immaterial in nature. Taxes not collected within 60 days of year-end are recorded as deferred revenues. These amounts will be recognized as revenue when they are received.

(e) Budgets and Budgetary Data

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

Annual budgets are adopted for the general, tech, capital, and enterprise funds only. Formal annual budgets are not prepared for the City's remaining special revenue, debt service and capital projects funds.

CITY OF CANANDAIGUA, NEW YORK  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(e) Budgets and Budgetary Data, Continued

The budget policies are as follows:

- No later than November 1, the City Manager submits a tentative budget to the City Council for the following year commencing the following January 1. The tentative budget includes appropriations and the proposed means of financing them. The general fund's budget is prepared on a departmental basis in which expenditures may not legally exceed appropriations on a departmental level.
- After a public hearing is conducted to obtain citizens comments, no later than December 15, the City Council adopts the annual budget.
- All revisions that alter total appropriations of any department or fund must be approved by the City Council.
- Budgetary controls are established for the capital projects fund through resolutions authorizing individual projects.

Budgets are adopted annually on a basis consistent with generally accepted accounting principles. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year.

(f) Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

(g) Investments

The City's investments are reported in accordance with GASB Statement No. 31. In accordance with this statement, investments are stated at cost, which approximates market.

(h) Accounts Receivable

Accounts receivable are shown net of allowance for uncollectibles. All amounts due from other governments are deemed fully collectible.

(i) Due To/From Other Funds

The amounts reported on the governmental funds balance sheet for due to and due from other funds represents amounts due between different fund types (general and non-major funds). Eliminations have been made for amounts due to and due from within the same fund type. A detailed description of the individual fund balances at year-end is provided subsequently in these notes.

(j) Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both governmental-wide and fund financial statements.

CITY OF CANANDAIGUA, NEW YORK  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(k) Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. streets) 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 \$10,000. 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 the 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	40 Years
Water and Sewer System/Infrastructure	50 Years
Equipment	4-20 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 leases 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.

GASB Statement No. 34 requires the City to report and depreciate new infrastructure assets. Infrastructure assets include roads, bridges, underground pipe (other than related utilities), etc. These infrastructure assets are likely to be the largest asset class of the City. The reporting of the City's retroactive infrastructure is concurrent with the implementation of the general provisions of GASB Statement No. 34.

(l) Compensated 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.

Compensated absences for governmental fund type employees are reported as a liability and expenditure in the government-wide financial statements, and are dependent on many factors; therefore, the timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payment of compensated absences when such payments become due.

Compensated absences are accrued when incurred in the proprietary funds and are recognized when paid in the governmental funds.

CITY OF CANANDAIGUA, NEW YORK  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(m) Postemployment Benefits

In addition to providing pension benefits, the City provides certain health care benefits to retired employees. Retired employees with at least 15 years of service are allowed to participate in the City's group medical insurance plan until they reach the age of 65. Retired employees reaching age 65 may continue participation in the plan but must reimburse the City for the premium. The City recognizes the cost of providing these benefits by expensing the annual insurance premiums which totaled \$440,477 for 29 retirees and/or their surviving spouses for the year ended December 31, 2011.

(n) Deferred Revenue

The City reports deferred revenues in its basic financial statements. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the City has legal claim to resources, the liability for deferred revenue is removed and revenue is recognized.

(o) Long-Term Obligations

Long-term obligations represent the City's future obligations or future economic outflows. The liabilities are reported as due in one year or due within more than one year in the statement of net assets.

(p) Equity Classifications

Government-Wide Statements

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 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.

Unrestricted Net Assets - This category represents net assets of the City not restricted for any project or purpose.

CITY OF CANANDAIGUA, NEW YORK  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(p) Equity Classifications, Continued

Funds Statements

As of December 31, 2011, fund balances of the governmental funds are classified as follows:

Non-Spendable - includes amounts that cannot be spent either because they are in non-spendable form or legally or contractually required to be maintained intact.

- \$224,317 General Fund - Prepaid items
- \$2,164 Special Revenue Fund - Prepaid items

Restricted - includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

- \$186,619 General Fund - Insurance Reserve (GML §6-n) can be used for any loss, claim, action or judgment for which the municipal corporation is authorized or required to purchase or maintain.
- \$780,800 General Fund - Capital Reserve Fund (GML §6-c) can be used for the construction, reconstruction or acquisition of general types of the capital improvements or the acquisition of general types of items or types of equipment.
- \$14,267 General Fund - Miscellaneous Reserves represent amounts held in reserve by contributors for a specific purpose.
- \$614,574 Capital Fund - Encumbrance for Restricted Capital Projects. These projects are composed of \$106,561 for General Government, \$418,263 for Transportation and \$84,750 for Public Safety.
- \$362,876 Community Development Block Grant Funds that can be used according to rules and regulations established by the Housing and Urban Development Agency for purposes of economic development and housing rehabilitation.
- \$5,800 Debt Service Fund (GML §6-1) is a mandatory fund used for the purpose of retiring the outstanding obligations for capital improvements that were finance by such obligations. Any remaining fund balance from the capital project is transferred to the Debt Service Fund.

CITY OF CANANDAIGUA, NEW YORK  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(p) Equity Classifications, Continued

Funds Statements, Continued

Assigned - includes amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes.

- \$34,202 General Fund - Encumbrances
- \$94,653 General Fund - Kershaw Reserve Fund established for improvements to Kershaw Park. This reserve is funded by revenues from events and activities held in the park.
- \$29,197 Capital Fund - For purchase of capital expenditures
- \$89,197 Special Revenue Fund - Watershed Program
- \$16,482 Special Revenue Fund - Parks and Open Spaces
- \$372,066 Special Revenue Fund - Technology
- \$2,063 Special Revenue Fund - Encumbrances
- \$855,721 General Fund - Appropriated Fund Balance assigned by City Council to reduce the tax levy for the ensuing fiscal year budget

Unassigned - Includes all other General Fund net assets that do not meet the definition of the above four classifications and are deemed to be available for general use by the City.

- \$(1,768,673) Capital Projects Fund budget deficit which will be eliminated as short-term debt is converted to permanent financing
- \$3,217,708 General Fund

The City's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year. For all funds, non-spendable fund balances are determined first and then restricted fund balances

(q) Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed in all City funds. Outstanding encumbrances for construction and other governmental fund capital purchases as of December 31, 2011 were \$614,574 included in restricted fund balance and \$29,197 included in assigned fund balance. In addition there are encumbrances of \$34,202 for the general fund and \$2,063 for non major special revenue funds that are included in assigned fund balance.

CITY OF CANANDAIGUA, NEW YORK  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(r) Changes in Accounting Standards

During the fiscal year ended December 31, 2011, the City adopted GASB Statement No. 54, "Accounting and Fund Balance Reporting and Governmental Fund Type Definitions." This statement requires that the equity of governmental funds be classified into five specific categories which will give greater clarity to the different kinds of constraints that apply.

(s) Future Impacts of Accounting Pronouncements

GASB Statement No. 57 - "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans," amends GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions," to allow agent employers that have individual employer OPEB plans, with less than 100 plan members to use the alternate measurement method, regardless of the total number of plan members in the multiple-employer OPEB plan in which it participates. The requirements of this statement are effective for periods beginning after June 15, 2011. This statement is not expected to have a material effect on the financial statements of the City.

GASB Statement No. 61 - "The Financial Reporting Entity: Omnibus" is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14 "The Financial Reporting Entity" and No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." This statement amends the criteria for including component units by only including those component units for which the elected officials are financially accountable or that the government determines would be misleading to exclude. This statement also amends the criteria for blending of component units to include only those component units that are so intertwined with the primary government that they are essentially the same as the primary government. The requirements of the statement are effective for periods beginning after June 15, 2012. This statement is not expected to have a material effect on the financial statements of the City.

GASB Statement No. 62 - "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements" is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. This statement incorporates into the GASB's authoritative literature the applicable guidance issued before November 30, 1989 from FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. The requirements of the statement are effective for periods beginning after December 15, 2011. This statement is not expected to have a material effect on the financial statements of the City.

CITY OF CANANDAIGUA, NEW YORK  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(s) Future Impacts of Accounting Pronouncements, Continued

GASB Statement No. 63 - "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" is intended to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The requirements of the statement are effective for periods beginning after December 15, 2011. This statement is not expected to have a material effect on the financial statements of the City.

GASB Statement No. 64 - "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53" is intended to improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The requirements of the statement are effective for periods beginning after June 15, 2011. This statement is not expected to have a material effect on the financial statements of the City.

(t) Subsequent Events

The City has evaluated events after December 31, 2011, and through May 21, 2012, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

(2) Cash and Investments

Cash equivalents include certificates of deposit with original maturities of three months or less and highly liquid investments in money market accounts.

In conformance with State law, the City Council biennially designates official depositories for the City. The City Clerk/Treasurer has authority to choose the types of deposits and investments made by the City within the constraints of applicable State laws. The City's practice is to limit deposits and investments to insured and/or collateralized demand deposit accounts, time deposit accounts and certificates of deposit. The City does not enter into repurchase agreements and/or reverse repurchase agreements.

The City pools individual fund cash balances in order to secure more favorable rates of return. Interest earnings are allocated to funds based on the respective funds' contributions to the pool.

CITY OF CANANDAIGUA, NEW YORK  
Notes to Financial Statements, Continued

(2) Cash and Investments, Continued

Protection of City deposits is provided by federal deposit insurance, as well as qualified pledged securities by the institutions holding the assets. Collateralization is required (by State law) at the rate of 100% of uninsured deposits and is composed of obligations of the United States and its agencies and obligations of the State of New York, its municipalities and school districts. The detail of cash and investments at December 31, 2011 consists of:

Petty cash	\$ 550
Deposits - checking and savings accounts	<u>11,713,446</u>
Total	<u>\$ 11,713,996</u>

Deposits at December 31, 2011 were entirely covered by federal depository insurance or by eligible securities held in the City's name by a third party custodial bank or the trading partner's trust department. Bank balances held are as follows at December 31, 2011:

FDIC Insurance	\$ 760,605
Collateral held by third party custodial bank	1,136,523
Collateral held by trading partner's trust department	<u>10,547,350</u>
Total	<u>\$ 12,444,478</u>

Cash and equivalents are reported as follows in the statement of net assets:

Primary Government	\$ 11,649,905
Fiduciary Funds	<u>64,091</u>
Total	<u>\$ 11,713,996</u>

CITY OF CANANDAIGUA, NEW YORK  
Notes to Financial Statements, Continued

(3) Receivables

Receivables at December 31, 2011 consisted of the following, which are net of an allowance for uncollectible amounts:

	<u>General</u>	<u>Capital projects</u>	<u>Community development</u>	<u>Agency funds</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Current:							
Taxes	\$ 92,531	-	-	-	-	-	92,531
Accounts	40,462	3,656	268,711	626	284,598	677,180	1,275,233
Franchise fees	83,927	-	-	-	-	-	83,927
Utilities tax	14,184	-	-	-	-	-	14,184
Rents receivable	-	-	-	-	127,082	100,475	227,557
Refuse fee receivable	10,534	-	-	-	-	-	10,534
Parking tickets	39,945	-	-	-	-	-	39,945
Rehabilitation loans	-	-	362,075	-	-	-	362,075
Other governments	806,425	-	-	-	569,114	2,725	1,378,264
State and Federal aid	201,471	422,934	-	-	-	-	624,405
Less allowance for uncollectibles	<u>(8,526)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20,000)</u>	<u>-</u>	<u>(28,526)</u>
Total current receivables, net	1,280,953	426,590	630,786	626	960,794	780,380	4,080,129
Noncurrent - Steamboat landing project, Section 108 HUD Loan	<u>-</u>	<u>-</u>	<u>1,335,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,335,000</u>
Total receivables	<u>\$ 1,280,953</u>	<u>426,590</u>	<u>1,965,786</u>	<u>626</u>	<u>960,794</u>	<u>780,380</u>	<u>5,415,129</u>

CITY OF CANANDAIGUA, NEW YORK  
Notes to Financial Statements, Continued

(4) Interfund Receivables and Payables

Interfund receivables and payables at December 31, 2011 were as follows:

<u>Fund</u>	<u>Interfund receivables</u>	<u>Interfund payables</u>
General fund	\$ -	300
Trust and agency fund	300	-
Total	<u>\$ 300</u>	<u>300</u>

(5) Capital Assets

Capital assets activity for the year ended December 31, 2011 was as follows:

	<u>Balance at January 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at December 31, 2011</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 4,224,298	-	-	4,224,298
Work in process	146,360	1,688,156	(380,168)	1,454,348
Total capital assets not being depreciated	<u>4,370,658</u>	<u>1,688,156</u>	<u>(380,168)</u>	<u>5,678,646</u>
Capital assets, being depreciated:				
Land improvements	\$ 7,927,731	422,064	-	8,349,795
Infrastructure	54,163,996	395,229	-	54,559,225
Buildings and improvements	8,727,824	14,800	-	8,742,624
Machinery and equipment	5,514,981	308,759	-	5,823,740
Total capital assets being depreciated	<u>76,334,532</u>	<u>1,140,852</u>	<u>-</u>	<u>77,475,384</u>

CITY OF CANANDAIGUA, NEW YORK  
Notes to Financial Statements, Continued

(5) Capital Assets, Continued

	Balance at January 1, <u>2011</u>	<u>Increases</u>	<u>Decreases</u>	Balance at December 31, <u>2011</u>
Less accumulated depreciation for:				
Land improvements	\$ 2,737,102	188,814	-	2,925,916
Infrastructure	30,621,806	436,927	-	31,058,733
Buildings and improvements	4,628,893	226,258	-	4,855,151
Machinery and equipment	<u>3,080,168</u>	<u>1,126,285</u>	-	<u>4,206,453</u>
Total accumulated depreciation	<u>41,067,969</u>	<u>1,978,284</u>	-	<u>43,046,253</u>
Total capital assets being depreciated, net	<u>35,266,563</u>	<u>(837,432)</u>	-	<u>34,429,131</u>
Total	<u>\$ 39,637,221</u>	<u>850,724</u>	<u>(380,168)</u>	<u>40,107,777</u>

Depreciation expense for the year was charged to functions/programs as follows:

Governmental activities:

General governmental support	\$ 129,302
Public safety	264,891
Transportation	1,291,190
Economic development	1,754
Culture and recreation	218,551
Home and community	<u>72,596</u>
	<u>\$ 1,978,284</u>

CITY OF CANANDAIGUA, NEW YORK  
Notes to Financial Statements, Continued

(5) Capital Assets, Continued

	Balance at January 1, <u>2011</u>	<u>Increases</u>	<u>Decreases</u>	Balance at December 31, <u>2011</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 164,072	-	-	164,072
Work in process	<u>80,806</u>	<u>1,747,586</u>	<u>-</u>	<u>1,828,392</u>
Total capital assets not being depreciated	<u>244,878</u>	<u>1,747,586</u>	<u>-</u>	<u>1,992,464</u>
Capital assets, being depreciated:				
Land improvements	28,694	-	-	28,694
Infrastructure	19,255,335	-	-	19,255,335
Buildings and improvements	28,451,191	19,395	-	28,470,586
Machinery and equipment	<u>3,436,553</u>	<u>156,070</u>	<u>(508)</u>	<u>3,592,115</u>
Total capital assets being depreciated	<u>51,171,773</u>	<u>175,465</u>	<u>(508)</u>	<u>51,346,730</u>
Less accumulated depreciation for:				
Land improvements	14,825	2,869	-	17,694
Infrastructure	14,203,049	424,375	-	14,627,424
Buildings and improvements	15,359,481	696,966	-	16,056,447
Machinery and equipment	<u>2,594,702</u>	<u>133,852</u>	<u>-</u>	<u>2,728,554</u>
Total accumulated depreciation	<u>32,172,057</u>	<u>1,258,062</u>	<u>-</u>	<u>33,430,119</u>
Total capital assets being depreciated, net	<u>18,999,716</u>	<u>(1,082,597)</u>	<u>(508)</u>	<u>17,916,611</u>
Total	<u>\$ 19,244,594</u>	<u>664,989</u>	<u>(508)</u>	<u>19,909,075</u>

Depreciation expense amounting to \$1,258,062 was charged to the appropriate functions/programs.

CITY OF CANANDAIGUA, NEW YORK  
Notes to Financial Statements, Continued

(6) Retirement Plans

(a) Plan Description

The City participates in the New York State and Local Employees' Retirement System (ERS) and the New York State and Local Police and Fire Retirement System (PFRS) (collectively the Systems). These are cost sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute, and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (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 the custody and control of their funds. The Systems issued 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 System, 110 State Street, Albany, NY 12244.

(b) Funding Policy

The Systems are noncontributory except for the 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 1, 2010 (ERS) or January 9, 2010 (PFRS) who generally contribute 3% of their salary for the entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressed used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31.

The rates billed by the Comptroller for ERS ranged from 9% to 15.2% for January through March 2011 and 12.6% to 21.6% for April through December 2011. The average contribution rates for PFRS range from 16.8% for January through March 2011 and 20.9% for April through December 2011.

The required contributions for the current year and two preceding years were as follows:

	<u>ERS</u>	<u>PFRS</u>
2011	\$ 507,322	384,898
2010	371,866	438,408
2009	253,254	361,968

(7) Other Postemployment Benefits

In addition to providing pension benefits, the City provides certain health insurance benefits to retired employees and their families. Substantially all of the City's employees may become eligible for these benefits if they reach normal retirement age while working for the City and have at least 15 years of service with the City. The City's policy has been to account for and fund these benefits on a pay-as-you-go basis.

CITY OF CANANDAIGUA, NEW YORK  
Notes to Financial Statements, Continued

(7) Other Postemployment Benefits, Continued

The Government Accounting Standard Board has issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions" which requires the accrual of these liabilities. The City has implemented this statement as of January 1, 2009. The cost to the City of providing health insurance benefits to retirees amounted to \$469,150 during the year ended December 31, 2011.

(a) Plan Description

The City administers the medical insurance plans (the Plan) as a single-employer defined benefit Other Postemployment Benefit (OPEB) plan. The Plan provides for continuation of medical and dental insurance benefits for certain retirees and their spouses and can be amended by action of the City subject to the applicable collective bargaining and employment agreements. The City pays the cost of postemployment healthcare benefits for retirees, their spouses, and their dependents until Medicare eligible or age 65, whichever is sooner, after which the retiree is required to contribute the entire cost of the insurance. The Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

(b) Funding Policy

The obligation of the plan members, employers and other entities, are established by action of the City pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members varies depending on the applicable agreement. The employer currently contributes enough money to the plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the plan are paid by the City.

(c) Actuarial Methods and Assumptions

The valuation of postretirement healthcare benefits involves estimates and assumptions about the probability of events occurring far into the future. Examples are assumptions about future employment, mortality, and the health care cost trend. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of the valuation and on the historical pattern of cost sharing between the City and plan members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective and calculations.

For the valuation dated June 1, 2009, the entry age normal method, over a level percent of pay was used. Since the City does not currently segregate funding for these benefits, the investment rate of 5%, is the discount rate used, based on the expected return on the City's general assets. The rates of turnover are based on the 2003 Society of Actuaries small plan withdrawal, scaled at 50%. The rates of retirement for police, fire and DPW/MATCCS range from 5% to 100% of current age. It was assumed that 100% of future retirees and beneficiaries eligible will elect to receive postemployment healthcare benefits. Current retirees were assumed to continue participation in their current plans.

CITY OF CANANDAIGUA, NEW YORK  
Notes to Financial Statements, Continued

(7) Other Postemployment Benefits, Continued

(d) Annual OPEB cost at December 31, 2011

	<u>City-wide</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Normal cost	\$ 176,090	162,706	13,384
Amortization of unamortized actuarial liability (UAL)	279,852	249,068	30,784
Interest	<u>8,082</u>	<u>7,193</u>	<u>889</u>
Annual required contribution (ARC)	287,934	256,261	31,673
Interest on OPEB obligation	5,126	4,144	982
Adjustment to ARC	<u>-</u>	<u>-</u>	<u>-</u>
OPEB expense	\$ <u>469,150</u>	<u>423,111</u>	<u>46,039</u>

(e) Reconciliation of Net OPEB obligation at  
December 31, 2011

Net OPEB obligation at the beginning of the year	177,799	143,735	34,064
OPEB expense	469,150	423,164	45,986
Net OPEB contributions made during the fiscal year	<u>(440,477)</u>	<u>(400,279)</u>	<u>(40,198)</u>
Net OPEB obligation at the end of the year	\$ <u>206,472</u>	<u>166,620</u>	<u>39,852</u>
Percentage of expense contributed	<u>68.08%</u>	<u>70.60%</u>	<u>50.21%</u>

(f) Schedule of funding process

Total actuarial accrued liability As of June 1, 2009	6,440,875	5,733,574	707,301
Actuarial value of plan assets	<u>-</u>	<u>-</u>	<u>-</u>
Unfunded actuarial accrued liability	\$ <u>6,440,875</u>	<u>5,733,574</u>	<u>707,301</u>

(g) Number of participants as of December 31, 2011

Active Employees	94	75	19
Retired Employees	<u>29</u>	<u>24</u>	<u>5</u>
Total Employees	<u>123</u>	<u>99</u>	<u>24</u>

CITY OF CANANDAIGUA, NEW YORK  
Notes to Financial Statements, Continued

(8) Long Term Debt

(a) Serial Bonds

The City borrows money in order to acquire land, high cost equipment or to construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These long-term liabilities are full faith and credit obligations of the City. The provision to be made in future budgets for capital indebtedness represents the amount, exclusive of interest, authorized to be collected in future years from taxpayers and others for liquidation of the long-term liabilities.

(b) Other Long-Term Obligations

In addition to long-term bonded debt, the City also has compensated absences and other post employment Benefits.

(c) Summary of Debt

The following is a summary of obligations outstanding at December 31, 2011:

	Balance at January 1, <u>2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance at December 31, <u>2011</u>	<u>Classified As</u>	
					<u>Current</u>	<u>Non-current</u>
<u>Governmental Funds:</u>						
Serial bonds	\$ 7,638,370	-	970,080	6,668,290	991,690	5,676,600
Bond Anticipation Notes	-	1,942,500	-	1,942,500	1,942,500	-
Capital leases	89,844	-	89,844	-	-	-
HUD 108 - Serial bonds	1,450,000	-	115,000	1,335,000	125,000	1,210,000
Compensated absences	624,131	-	24,729	599,402	149,851	449,551
Other postemployment benefits	143,735	423,164	400,279	166,620	-	166,620
<b>Total governmental funds</b>	<b>\$ 9,946,080</b>	<b>2,365,664</b>	<b>1,599,932</b>	<b>10,711,812</b>	<b>3,209,041</b>	<b>7,502,771</b>

CITY OF CANANDAIGUA, NEW YORK  
Notes to Financial Statements, Continued

(8) Long Term Debt, Continued

(c) Summary of Debt, Continued

<u>Enterprise funds:</u>	Balance at January 1, <u>2010</u>	<u>Additions</u>	<u>Deletions</u>	Balance at December 31, <u>2011</u>	<u>Classified As</u>	
					<u>Current</u>	<u>Non-current</u>
Water:						
Serial bonds	\$ 5,895,100	-	265,900	5,629,200	272,900	5,356,300
Bond Anticipation Notes	-	345,000	-	345,000	345,000	-
Compensated absences	90,595	-	7,148	83,447	20,862	62,585
Other postemployment benefits	34,064	24,218	18,430	39,852	-	39,852
Sewer:						
Serial bonds	2,306,530	-	179,020	2,127,510	185,410	1,942,100
Bond Anticipation Notes	-	2,712,500	224,500	2,488,000	2,488,000	-
Compensated absences	55,939	4,924	-	60,863	15,216	45,647
Other postemployment benefits	-	21,768	21,768	-	-	-
<b>Total enterprise funds</b>	<b>\$ 8,382,228</b>	<b>3,108,410</b>	<b>716,766</b>	<b>10,773,872</b>	<b>3,327,388</b>	<b>7,446,484</b>

(d) Maturity Schedule

The following is a statement of bonds with corresponding maturity schedules:

<u>Purpose</u>	<u>Issue date</u>	<u>Rate of Interest</u>	<u>Amount outstanding at 12/31/11</u>	<u>Final Maturity</u>
General:				
Serial bonds	4/99	4.375% - 4.40%	507,990	04/14
Serial bonds	2/03	2.00% - 4.125%	1,695,000	03/16
Serial bonds	7/03	2.50% - 4.00%	808,000	12/21
Serial bonds	12/06	4.00% - 4.10%	950,000	12/26
Serial bonds	11/07	4.00% - 4.125%	2,224,600	12/27
Serial bonds	11/08	3.50% - 4.30%	210,500	12/18
Serial bonds	8/10	2.00% - 3.4%	272,200	12/19
<b>Total general</b>			<b>6,668,290</b>	

CITY OF CANANDAIGUA, NEW YORK  
Notes to Financial Statements, Continued

(8) Long Term Debt, Continued

(d) Maturity Schedule, Continued

<u>Purpose</u>	<u>Issue date</u>	<u>Rate of Interest</u>	Amount outstanding at <u>12/31/11</u>	<u>Final Maturity</u>
Water:				
Serial bonds	7/03	2.50% - 4.00%	\$ 87,000	12/21
Serial bonds	11/07	4.00% - 4.625%	2,729,400	12/46
Serial bonds	4/09	3.50% - 4.50%	2,510,000	12/28
Serial bonds	8/10	2.00% - 3.4%	<u>302,800</u>	,12/19
Total water			<u>5,629,200</u>	
Sewer:				
Serial bonds	4/99	4.375% - 4.40%	82,010	4/14
NYS Environmental Facilities Corporation bonds	7/03	0.721% - 4.50%	1,205,000	1/23
Serial bonds	12/06	4.00% - 4.10%	440,000	12/26
Serial bonds	11/07	4.00% - 4.125%	396,000	12/27
Serial bonds	11/08	3.50% - 4.30%	<u>4,500</u>	12/18
Total sewer			<u>2,127,510</u>	
Community Development - HUD 108 - Serial bond	8/01	0.31% - 2.05%	<u>1,335,000</u>	8/19
Total			<u>\$ 15,760,000</u>	

CITY OF CANANDAIGUA, NEW YORK  
Notes to Financial Statements, Continued

(8) Long Term Debt, Continued

(e) Future Debt Service

The following table summarizes the City's future debt service requirements as of December 31, 2011:

<u>Year</u>	<u>Bonds</u>	<u>Interest</u>
2012	\$ 1,575,000	549,923
2013	1,590,000	502,286
2014	1,605,000	448,534
2015	1,415,000	397,792
2016	1,450,000	349,950
2017 - 21	4,300,000	1,231,618
2022 - 26	2,010,000	634,301
2027 - 46	<u>1,815,000</u>	<u>725,550</u>
Total	<u>\$ 15,760,000</u>	<u>4,839,954</u>

(f) Defeasement

In prior years, the City defeased general obligations by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. Outstanding general obligation bonds of \$1,635,000 are considered to be defeased.

(9) Fund Balance Reservations

Reservations of fund balances of governmental fund types are created to either: (1) to 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 fund balance accounts are summarized below.

<u>Fund</u>	<u>Balance</u>
General fund:	
Reserved for insurance	\$ 186,619
Reserved for encumbrances	34,202
Kershaw Park reserve	94,653
Capital reserve	780,800
Miscellaneous reserve	<u>14,267</u>
Total general fund	\$ <u>1,110,541</u>
Capital projects fund - reserved for encumbrances	\$ <u>643,771</u>
Non-major governmental funds- reserved for encumbrances	\$ <u>2,063</u>

CITY OF CANANDAIGUA, NEW YORK  
Notes to Financial Statements, Continued

(10) Fund Balance Designations

Designations are not legally required segregations but are segregated for a specific purpose by the City. At December 31, 2011, designated for subsequent year's expenditures in the general fund amounted to \$1,080,038 which includes \$224,317 for prepaid expenditures.

(11) Net Assets - Restricted

The following table shows the net assets restricted for other purposes as shown on the statement of net assets:

<u>Restricted Net Assets</u>	<u>Restricted by</u>	<u>Amount</u>
Capital reserves - enterprise funds	Local law	\$ 3,285,723
Capital reserves - governmental funds	Local law	780,800
Debt service reserves - enterprise funds	State law	57,679
Debt service reserves – governmental funds	State Law	5,800
Special Districts:		
Community development	Local law	362,876
Parks and recreation	Local law	16,482
Technology	Local law	374,257
Watershed program	Local law	<u>91,233</u>
		<u>844,848</u>
Total restricted net assets		\$ <u>4,974,850</u>

(12) Labor Relations

City employees are represented by four bargaining units with the balance governed by City personnel policies and practices. Two of the units have contracts that expire December 31, 2013. The remaining two units have contracts that expired December 31, 2011 and are currently being renegotiated.

(13) Interfund Transfers

Cash transfers from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Operating transfers in, and operating transfers out, for the year ended December 31, 2011 for the primary government were as follows:

CITY OF CANANDAIGUA, NEW YORK  
Notes to Financial Statements, Continued

(13) Interfund Transfers, Continued

	<u>Operating transfers in</u>	<u>Operating transfers out</u>
General fund	\$ 15,000	-
Water fund	-	290,000
Capital projects fund	282,200	-
Nonmajor funds	<u>-</u>	<u>7,200</u>
Total	\$ <u>297,200</u>	<u>297,200</u>

(14) Insurance Reserve

The City is exposed to various risks of loss related to torts; theft or damage to, or destruction of assets, and natural disasters. Under the City's self-insurance plan, self-insurance coverage is provided for deductibles and for uninsured claims. The City purchases commercial insurance for claims in excess of the self-insurance coverage and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past four years.

There were no estimated accrued claims for the years ended December 31, 2011 and 2010 as defined by GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. The claims and expenditures charged to this fund during 2011 totaled \$12,507. However, as referred to in note 9, the City has established and maintains an insurance reserve having a balance of \$186,619 at December 31, 2011.

(15) Workers' Compensation Plan

The City is a member of the Ontario County Workers' Compensation Self-Insurance Plan (the Plan). Current membership of the Plan includes various municipal entities. The Plan is administered by Ontario County (the County) and utilizes a third party administrator who is responsible for processing claims, estimating liabilities and providing actuarial services.

The Plan states that participants are charged an annual assessment on the basis of their five-year experience (60%), exposure (20%) and assessed value (20%). The County does not have excess insurance coverage above the funding provided by this self-insurance program.

CITY OF CANANDAIGUA, NEW YORK  
Notes to Financial Statements, Continued

(15) Workers' Compensation Plan, Continued

The Plan establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. However, because actual claims costs depend on complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Such claims are based on the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and claims that have been incurred but not reported. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. During the year ended December 31, 2011, the City incurred premiums or contribution expenditures totaling \$276,213, which is considered part of the City tax levy but were collected on the County's tax bill. Beginning in 2012, the County will direct bill the City for the worker's compensation premiums.

(16) Contingencies

The City is subject to lawsuits in the ordinary conduct of its affairs. There are five cases pending relating to reduction in tax assessments. Also, Canandaigua Fire Fighters Association filed an improper practice charge with the Public Employment Relations Board regarding various actions involving the Fire Department without negotiating with the Association. The City does not believe, however, that such suits, individually or in the aggregate, are likely to have a material adverse effect on the financial condition of the City.

The City participates in a number of Federal and New York State grant and assistance programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

CITY OF CANANDAIGUA, NEW YORK  
Combining Balance Sheet -  
Nonmajor Governmental Funds  
December 31, 2011

	<u>Special Revenue Funds</u>				<u>Total</u>
	<u>Debt Service</u>	<u>Watershed Program</u>	<u>Parks and Open Spaces</u>	<u>Technology</u>	
Assets:					
Cash and cash equivalents	\$ 5,800	92,234	16,482	400,518	515,034
Prepaid items	-	2,036	-	128	2,164
Total assets	<u>\$ 5,800</u>	<u>94,270</u>	<u>16,482</u>	<u>400,646</u>	<u>517,198</u>
Liabilities and fund balances:					
Liabilities:					
Accounts payables and other current liabilities	-	1,958	-	26,389	28,347
Accrued liabilities	-	1,079	-	-	1,079
Total liabilities	<u>-</u>	<u>3,037</u>	<u>-</u>	<u>26,389</u>	<u>29,426</u>
Fund balances:					
Nonspendable	-	2,036	-	128	2,164
Restricted	5,800	-	-	-	5,800
Assigned	-	89,197	16,482	374,129	479,808
Total fund balances	<u>5,800</u>	<u>91,233</u>	<u>16,482</u>	<u>374,257</u>	<u>487,772</u>
Total liabilities and fund balances	<u>\$ 5,800</u>	<u>94,270</u>	<u>16,482</u>	<u>400,646</u>	<u>517,198</u>

CITY OF CANANDAIGUA, NEW YORK  
Combining Statement of Revenue, Expenditures, and Changes in  
Fund Balance - Nonmajor Governmental Funds  
Year ended December 31, 2011

	<u>Special Revenue Funds</u>				
	<u>Debt</u>	<u>Watershed</u>	<u>Parks and</u> <u>Open</u>	<u>Technology</u>	<u>Total</u>
	<u>Service</u>	<u>Program</u>	<u>Spaces</u>		
Revenue:					
Departmental income	\$ -	-	9,000	-	9,000
Intergovernmental changes	-	89,499	-	-	89,499
Use of money and property	-	525	82	178,677	179,284
Miscellaneous	-	25	-	-	25
State and County aid	-	2,250	-	-	2,250
Total revenues	<u>-</u>	<u>92,299</u>	<u>9,082</u>	<u>178,677</u>	<u>280,058</u>
Expenditures:					
General governmental support	-	-	-	124,985	124,985
Home and community services	-	92,502	-	-	92,502
Employee benefits	-	25,106	-	738	25,844
Total expenditures	<u>-</u>	<u>117,608</u>	<u>-</u>	<u>125,723</u>	<u>243,331</u>
Excess of revenue over expenditures	<u>-</u>	<u>(25,309)</u>	<u>9,082</u>	<u>52,954</u>	<u>36,727</u>
Other financing uses -operating transfers	<u>5,800</u>	<u>-</u>	<u>(13,000)</u>	<u>-</u>	<u>(7,200)</u>
Net change in fund balances	5,800	(25,309)	(3,918)	52,954	29,527
Fund balances at beginning of year	<u>-</u>	<u>116,542</u>	<u>20,400</u>	<u>321,303</u>	<u>458,245</u>
Fund balances at end of year	<u>\$ 5,800</u>	<u>91,233</u>	<u>16,482</u>	<u>374,257</u>	<u>487,772</u>

**TOSKI & CO., P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

300 ESSJAY ROAD, STE. 115  
WILLIAMSVILLE, NY 14221  
(716) 634-0700

14 CORPORATE WOODS BLVD.  
ALBANY, NY 12211  
(518) 935-1089

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 Mayor and Members  
of the City Council  
City of Canandaigua, New York:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Canandaigua, New York (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 21, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Canandaigua's internal control over financial reporting as a basis for designing our auditing procedures 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 of Canandaigua's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Canandaigua's internal control over financial reporting.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Canandaigua'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.

This report is intended solely for the information and use of management, City Council, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Touki & Co., CPAs, P.C.

Williamsville, New York  
May 21, 2012