

CITY OF CANANDAIGUA, NEW YORK
Basic Financial Statements and
Required Supplementary Information
December 31, 2012
(With Independent Auditors' Report Thereon)

CITY OF CANANDAIGUA, NEW YORK
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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, 2012, and the respective changes in financial position, and, where applicable, its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in note 1 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62 - "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements," GASB Statement No. 63 - "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," and GASB Statement No. 65 - "Items Previously Reported as Assets and Liabilities," during 2012.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 16 and the schedule of funding progress for other postemployment benefits on page 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's 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.

Other Information

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 management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or the basic 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 as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 25, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

Toski & Co., CPAs, P.C.

Williamsville, New York
June 25, 2013

CITY OF CANANDAIGUA, NEW YORK
Management's Discussion and Analysis
December 31, 2012

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, 2012. 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 position which presents information on all of the City's assets and liabilities, and deferred inflows/outflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The statement of activities which presents information showing how the City's net position changed during the most recent year. The primary governmental activities of the City as used in this statement include general government support, public safety, 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 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 position may serve over time as a useful indicator of the City's financial position. As of December 31, 2012 the total assets of the City exceeded liabilities by \$54,805,155.

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

	December 31, 2012			December 31, 2011		
	Governmental activities	Business-type activities	Total government	Governmental activities	Business-type activities	Total government
Current assets	\$ 8,157,605	6,898,099	15,055,704	8,037,805	7,973,842	16,011,647
Capital and other assets	40,220,606	24,432,549	64,653,155	41,442,777	19,909,175	61,351,952
Total assets	<u>48,378,211</u>	<u>31,330,648</u>	<u>79,708,859</u>	<u>49,480,582</u>	<u>27,883,017</u>	<u>77,363,599</u>
Other liabilities	724,511	501,334	1,225,845	996,168	555,847	1,552,015
Long-term liabilities	9,237,403	14,097,175	23,334,578	10,711,812	10,773,872	21,485,684
Total liabilities	<u>9,961,914</u>	<u>14,598,509</u>	<u>24,560,423</u>	<u>11,707,980</u>	<u>11,329,719</u>	<u>23,037,699</u>
Net position:						
Invested in capital assets net of related debt	31,790,550	10,528,649	42,319,199	34,302,051	10,815,480	45,117,531
Restricted	2,871,000	3,645,668	6,516,668	1,631,448	3,343,402	4,974,850
Unrestricted	3,754,747	2,557,822	6,312,569	1,839,103	2,394,416	4,233,519
Total net position	<u>\$ 38,416,297</u>	<u>16,732,139</u>	<u>55,148,436</u>	<u>37,772,602</u>	<u>16,553,298</u>	<u>54,325,900</u>

The largest component of the City's net position, \$42,319,199 or approximately 76.7%, 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 \$6,516,668 or 11.7% of total net position is restricted and is not available to finance the day-to-day operations of the City. The increase of \$1,541,818 in the restricted portion of net position from fiscal 2011 to fiscal 2012 is attributed to additional reserves for capital improvements.

The remaining \$6,312,569 balance of unrestricted net position can be used to finance future operations.

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

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

	December 31, 2012			December 31, 2011		
	Governmental activities	Business-type activities	Total government	Governmental activities	Business-type activities	Total government
Program revenue:						
Charges for service	\$ 1,542,141	5,527,154	7,069,295	1,585,061	5,911,517	7,496,578
Operating grants and contributions	272,401	-	272,401	266,646	-	266,646
Capital grants and contributions	334,614	-	334,614	1,187,299	-	1,187,299
General revenue:						
Real property taxes	4,661,050	-	4,661,050	4,671,030	-	4,671,030
Non-property taxes	4,447,478	-	4,447,478	4,307,241	-	4,307,241
Governmental aid	1,319,227	-	1,319,227	1,287,344	-	1,287,344
Other	285,143	50,623	335,766	537,159	48,087	585,246
Transfers	290,000	(290,000)	-	290,000	(290,000)	-
Total revenue	<u>13,152,054</u>	<u>5,287,777</u>	<u>18,439,831</u>	<u>14,131,780</u>	<u>5,669,604</u>	<u>19,801,384</u>
Program expenses:						
General government	2,184,994	-	2,184,994	2,261,065	-	2,261,065
Public safety	5,013,420	-	5,013,420	4,938,566	-	4,938,566
Transportation	2,975,538	-	2,975,538	2,642,293	-	2,642,293
Economic Assistance and Opportunity	174,357	-	174,357	119,144	-	119,144
Cultural and recreation	1,349,144	-	1,349,144	1,240,556	-	1,240,556
Home and community services	934,407	-	934,407	897,827	-	897,827
Interest on long-term debt	278,974	-	278,974	403,450	-	403,450
Water	-	2,839,549	2,839,549	-	2,752,421	2,752,421
Sewer	-	2,269,387	2,269,387	-	2,256,044	2,256,044
Total expenses	<u>12,910,834</u>	<u>5,108,936</u>	<u>18,019,770</u>	<u>12,502,901</u>	<u>5,008,465</u>	<u>17,511,366</u>
Change in net position	<u>241,220</u>	<u>178,841</u>	<u>420,061</u>	<u>1,628,879</u>	<u>661,139</u>	<u>2,290,018</u>
Net position at beginning of year as previously reported	37,772,602	16,553,298	54,325,900	36,143,723	15,892,159	52,035,882
Prior period adjustment*	402,475	-	402,475	-	-	-
Net position at beginning of year as restated	<u>38,175,077</u>	<u>16,553,298</u>	<u>54,728,375</u>	<u>36,143,723</u>	<u>15,892,159</u>	<u>52,035,882</u>
Net position at end of year	<u>\$ 38,416,297</u>	<u>16,732,139</u>	<u>55,148,436</u>	<u>37,772,602</u>	<u>16,553,298</u>	<u>54,325,900</u>

* See note 17

The revenue and expense information was derived from the government-wide statement of activities and reflects how the City's net position changed during the fiscal year. The City's total net position increased \$420,061 during fiscal 2012. Total government expenses of \$18.02 million were offset by revenues of \$18.44 million. The increase in net position was 81.7% less than in 2011 due to a decrease in revenues of (6.9%) and an increase in expenditures of 2.9%.

Governmental Activities: Governmental activities net position increased \$241,220 in fiscal year 2012 which represents a decrease of \$1.39 million (85.2%) from the prior year.

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

Total revenues from governmental activities decreased \$979,726 (6.9%) from \$14.13 million in 2011 to \$13.15 million in 2012. General revenues (taxes, intergovernmental, investment earnings and other revenue) represented 83.7% of these revenues while program revenues represented the remaining 16.3%.

- Capital grants and contributions had a (71.8%) decrease over the prior year. In 2011 the City received a contribution of a dock valued at \$300,000 and several grants for equipment and capital expenditures in the amount of \$530,435. The City received grants and donations of \$36,582 in 2012 for similar items. In 2012 the City applied for and received all current and outstanding Consolidated Highway Improvement Program (CHIPS) revenue which was a decrease of 38.1% from 2011.
- Non-property taxes increased by 3.3% over the prior year primarily driven by an increase in sales tax.
- Other general revenues decreased by 46.9% primarily attributed to a one time refund of prior year expenditures from RG&E received in 2011.

Program expenses increased \$407,933 (3.3%) over fiscal year 2011.

- City employees received a wage increase of 2.0% in 2012.
- Employee benefits increased by 7% over the prior year primarily driven by retirement expenses which increased by 31% due to rising pension contribution rates.
- Economic assistance and opportunity increased by 46.3% due to the payment of the Business Improvement District assessment. This amount is recorded as a revenue and expenditure beginning in 2012.
- Interest on long-term debt decreased by 30.9% due to the payoff of bonds and the refinancing of the HUD 108 note.

Business-Type Activities: The net position of business-type activities (Water Fund and Sewer Fund) increased by \$178,841 in fiscal year 2012 which represents a decrease of \$482,298 (72.9%) from the prior year.

Revenues for business-type activities totaled approximately \$5.29 million, a decrease of 6.7% from the prior year, while expenses totaled \$5.11 million, an increase of 2.0% from the prior year. Significant variances are as follows:

- Although water rates increased 9.3%, total revenues decreased due to a decrease in both liquid waste revenue and 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.

FINANCIAL ANALYSIS OF CITY FUNDS

Governmental Funds

At the end of the current fiscal year, the City reported a combined fund balance of \$7.1 million, an increase of \$1,987,700 from the prior year. A summary of the change in fund balance for all funds is as follows:

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

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

	<u>2012</u>	<u>2011</u>	<u>Increase (decrease)</u>
General fund:			
Nonspendable for prepaid expenses	\$ 286,705	224,317	62,388
Restricted for insurance	186,636	186,619	17
Restricted for capital	1,300,489	780,800	519,689
Restricted for amounts held in reserve by contributors for a specific purpose	15,853	14,267	1,586
Assigned for expenditures	50,648	34,202	16,446
Assigned for Kershaw Park	57,600	94,653	(37,053)
Assigned - designated for subsequent year's expenditures	718,293	855,721	(137,428)
Unassigned	<u>3,289,704</u>	<u>3,217,708</u>	<u>71,996</u>
Total fund balance - general fund	<u>5,905,928</u>	<u>5,408,287</u>	<u>497,641</u>
Capital projects fund:			
Restricted for capital expenditures	33,671	614,574	(580,903)
Assigned for capital expenditures	-	29,197	(29,197)
Unassigned budget deficit which will be eliminated as short-term debt is converted to permanent financing	<u>(74,779)</u>	<u>(1,768,673)</u>	<u>1,693,894</u>
Total fund balance - capital fund	<u>(41,108)</u>	<u>(1,124,902)</u>	<u>1,083,794</u>
Community development fund:			
Restricted for Community Block Grant Funds	<u>354,906</u>	<u>362,876</u>	<u>(7,970)</u>
Total fund balance - community development fund	<u>354,906</u>	<u>362,876</u>	<u>(7,970)</u>
Nonmajor governmental funds:			
Nonspendable for prepaid expenses	2,326	2,164	162
Restricted for debt service	362,952	5,800	357,152
Assigned for the Watershed program	89,973	89,197	776
Assigned for parks and open spaces	20,532	16,482	4,050
Assigned for technology	<u>426,224</u>	<u>374,129</u>	<u>52,095</u>
Total fund balance - nonmajor fund	<u>902,007</u>	<u>487,772</u>	<u>414,235</u>
Total fund balance - all funds	<u>\$ 7,121,733</u>	<u>5,134,033</u>	<u>1,987,700</u>

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

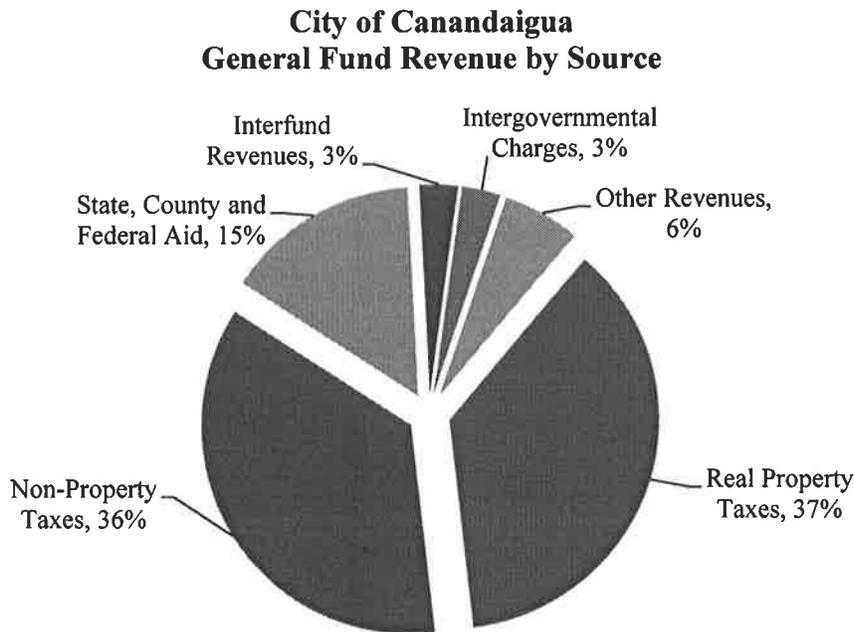
General Fund

The City's general fund is the largest "fund" of the City comprising 61% of the adopted 2012 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.

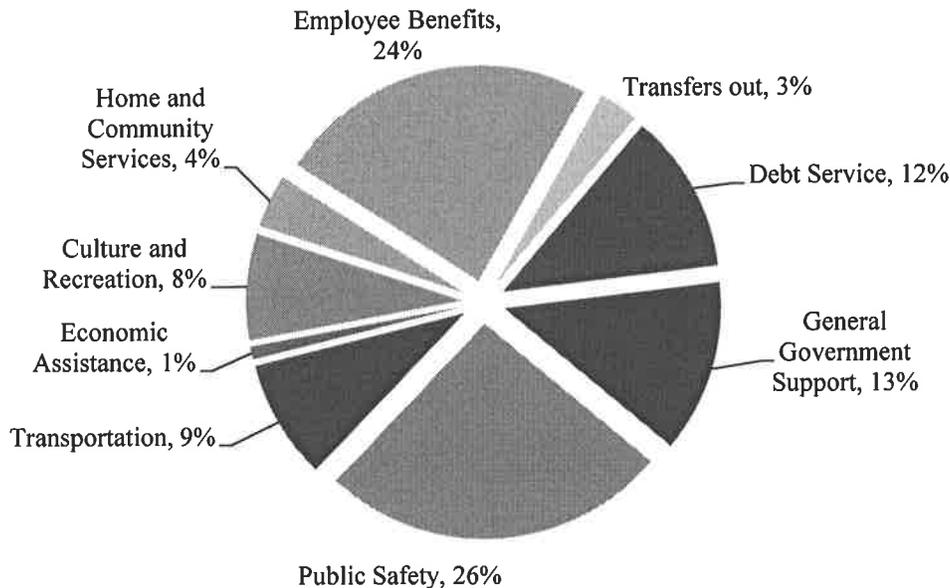
The City relies upon a number of important revenue sources to fund its operating expenses. Property taxes, sales taxes and State aid are the most significant sources of general fund revenue.



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, NEW YORK
Management's Discussion and Analysis, Continued

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



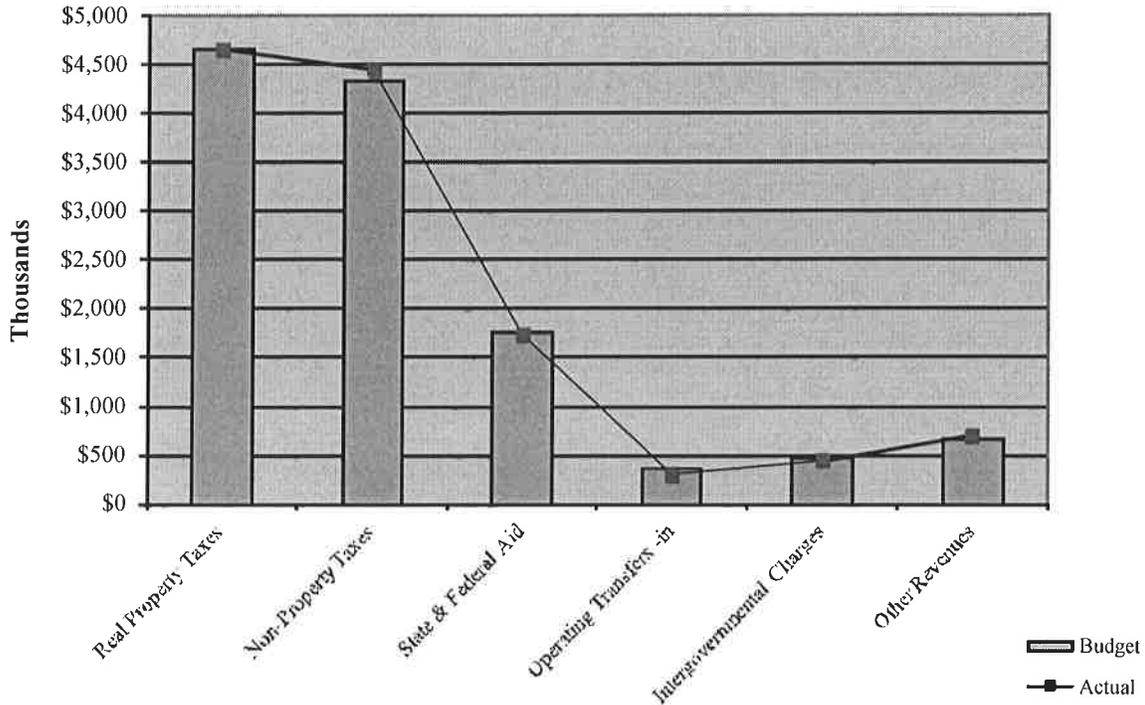
The amended general fund budget in the amount of \$13.65 million anticipated the use of \$1,128,839 of fund balance and reserves. However, actual results of operations showed an overall increase to fund balance of \$14,988, which resulted in a net increase to fund balance (net of encumbrances) of \$1,093,179, comparing the actual results to the budget.

General fund revenue overall had a positive variance of \$112,105 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 2.83% above budgeted estimates.
- Charges to Other governments were 8.34% below budget due to the elimination of the SRO program.
- State aid was 2.39% above budgeted estimates due to the timing of grant revenue for the Central Garage Study and an increase in estimated arterial maintenance.

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

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

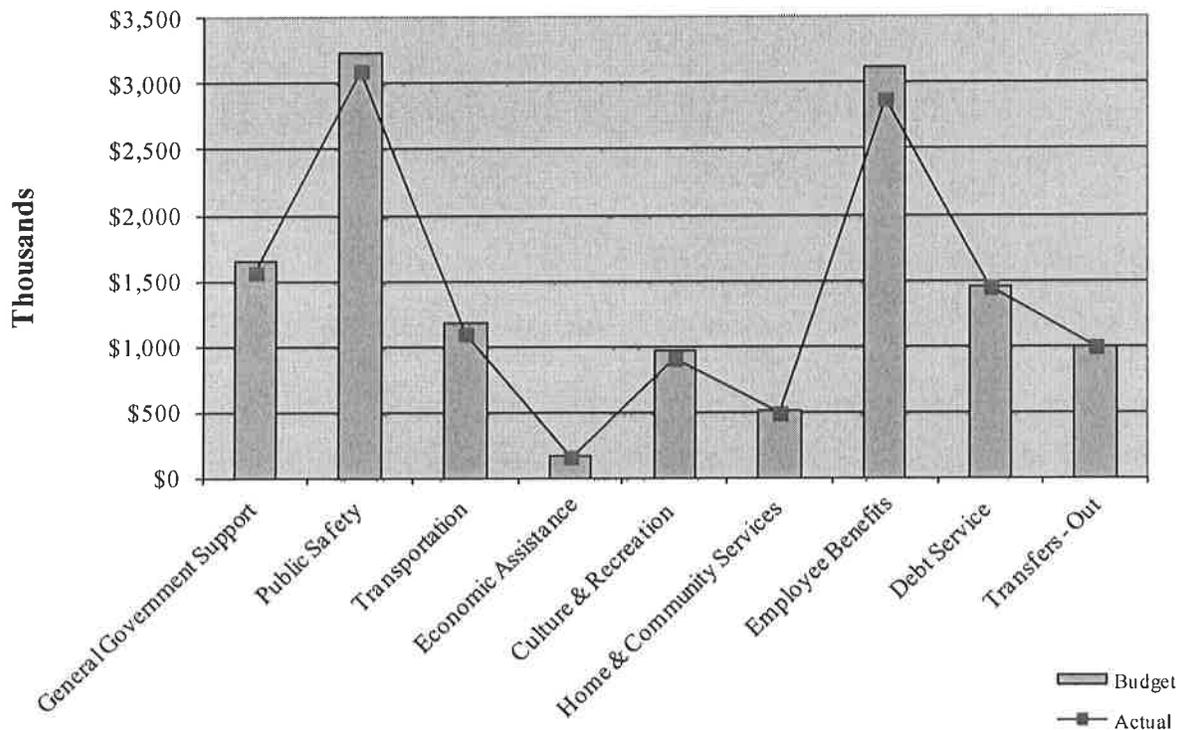


General fund expenditures reflected an overall positive variance of \$981,074 (net of encumbrances) as compared to the budget. The largest variances were:

- Salaries and wages were under budget by 2.29% primarily due to savings in overtime, vacant positions and a decrease in seasonal labor due to the unexpected closure of Kershaw Beach.
- Materials and supplies were under budget by 6.64% due to lower than anticipated consumption of supplies in all categories except for vehicle parts and supplies which were slightly higher than anticipated.
- Contractual costs for utilities, landfill charges and street maintenance contributed to a positive variance of 9.58% as compared to the 2012 budget. The major contributors to this were lower than anticipated utilities, outside services and legal expenses.
- Employee benefits were under budget by 7.8% due in part to a lower than estimated medical and dental insurance due to contract negotiations and DPW and non union switching to a different group plan with lower rates. Estimated savings in NYS ERS and PFRS retirement contributions were \$194,911 due to lower than anticipated salary estimates.
- Budget contingency for unanticipated expenses in the amount of \$500,000 was passed in the approved budget. Amendments during the year utilized \$102,160 of the contingency leaving a balance of \$397,840 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 15% and 17% of the 2012 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 position for its enterprise funds of \$16.73 million, an increase of \$178,841 in comparison with the prior year. Of the total net position, \$10.53 million is recorded as an investment in capital assets net of related debt, \$3.65 million is restricted for capital reserves and debt service and the remaining \$2.56 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 change in net position of (\$20,561). The unrestricted net position is \$1.08 million, with an amount reserved for capital expenditures and debt service of \$1.16 million.

Sewer Fund - This fund finished the current fiscal year with a change in net position of \$199,402. The unrestricted net position is \$1.48 million, with an amount reserved for capital expenditures and debt service of \$2.49 million.

GOVERNMENT-WIDE CAPITAL ASSET AND DEBT ADMINISTRATION

At December 31, 2012, the City has \$63.44 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 capital assets between 2012 and 2011 is reflected below:

Capital Assets, Net of Depreciation

	December 31, 2012			December 31, 2011		
	Governmental activities	Business-type activities	Total government	Governmental activities	Business-type activities	Total government
Land and land improvements	\$ 9,634,570	172,202	9,806,772	9,648,177	175,072	9,823,249
Buildings and improvements	3,957,263	11,719,335	15,676,598	3,887,473	12,414,139	16,301,612
Machinery and equipment	1,653,268	812,662	2,465,930	1,617,287	863,661	2,480,948
Infrastructure	23,676,596	4,966,169	28,642,765	23,500,492	4,627,911	28,128,403
Construction in progress	88,909	6,762,181	6,851,090	1,454,348	1,828,392	3,282,740
Total capital assets	<u>\$ 39,010,606</u>	<u>24,432,549</u>	<u>63,443,155</u>	<u>40,107,777</u>	<u>19,909,175</u>	<u>60,016,952</u>

Governmental Activities Capital Assets - The net decrease in capital assets during the current fiscal year amounted to \$1,097,171 and included the following:

- The construction or improvement to buildings and facilities - \$57,428
- The reconstruction of streets, sidewalks, and parking lots - \$412,130
- The purchase of vehicles and equipment - \$494,742
- Gain on disposal of assets - (\$521)
- Depreciation expense of \$2,060,951 was charged against the assets

Business-Type Activities Capital Assets - The net increase in capital assets during the current fiscal year amounted to \$4,523,374 and included the following:

- The construction or improvement to buildings and facilities - \$5,601,847
- The reconstruction of water and sewer lines - \$102,278
- The purchase of vehicles and equipment - \$102,409
- Depreciation expense of \$1,283,160 was charged against the assets

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

LONG-TERM DEBT

At December 31, 2012, the City had \$23.34 million in general obligation and other long-term debt outstanding as follows:

	December 31, 2012			December 31, 2011		
	Governmental activities	Business-type activities	Total government	Governmental activities	Business-type activities	Total government
Serial bonds	\$ 7,201,600	13,903,900	21,105,500	6,668,290	7,756,710	14,425,000
Compensated absences	652,390	151,864	804,254	599,402	144,310	743,712
HUD 108 - Serial bond	1,210,000	-	1,210,000	1,335,000	-	1,335,000
Other postemployment benefits	173,413	41,411	214,824	166,620	39,852	206,472
Total long-term debt	<u>\$ 9,237,403</u>	<u>14,097,175</u>	<u>23,334,578</u>	<u>8,769,312</u>	<u>7,940,872</u>	<u>16,710,184</u>

During the year the City issued long-term debt in the amount of \$8,130,500 which includes \$5,920,500 for sewer plant upgrades, \$1,900,000 for street reconstruction including water and sewer lines, \$265,000 for City Hall improvements and \$45,000 for parking lot improvements.

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 2012 is excluded from the debt limit pursuant to Section 124.10 of the Local Finance Law. At December 31, 2012, the City exhausted 18.79% of its constitutional debt capacity and had the authority to issue up to an additional \$36.37 million of general obligation long-term debt.

CREDIT RATING

The City was issued an excellent Aa3 credit rating by Moody's in 2012.

FUTURE FINANCIAL IMPLICATIONS

The 2013 budget for the City of Canandaigua for general, capital, tech, water and sewer funds totaled \$22.4 million.

General Fund Highlights:

- The General Fund 2013 budget increased .64% over prior year's budget.
- Property tax rates increased to \$6.74 per thousand which represents a 1.5% increase in the tax levy. The tax levy for 2013 is \$4,477,073 for general revenues and \$41,834 for special assessments which total \$4,518,907. The total tax levy is under the tax cap levy of \$4,652,988.
- Sales tax revenues were increased 6.13% over the 2012 budget due to better than expected results.
- Due to its own fiscal problems, the State has held AIM funding flat from 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 \$1,004,998 appropriated into the 2013 budget.
- General fund salaries and wages increased by 1.75% primarily due to an estimated 2.5% increase in wages.
- Employee benefits decreased by .88% over the 2012 budget. These decreases have been offset by increases in the retirement costs due to an increase in the rates. Although medical insurance rates continue to have double digit increases, our expense is estimated to be slightly lower than 2012. 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 43.5% to fund capital projects.
- The contingency was reduced 40% 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 2.66% with no increase in the rate charged to City customers for 2013. Approximately \$36,225 has been appropriated from fund balance for 2013.
- The Sewer Fund budget decreased by 18.87% due to a decrease in capital expenditures with no increase in the rate charged to City customers. Approximately \$183,688 has been appropriated from fund balance for 2013.

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 31st 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:

DAVID R. FORREST
CITY MANAGER
TWO NORTH MAIN STREET
CANANDAIGUA, NEW YORK 14424
585-396-5000

CITY OF CANANDAIGUA, NEW YORK
Statement of Net Position
December 31, 2012

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	
Assets:			
Current assets:			
Cash and cash equivalents	\$ 6,494,291	5,442,584	11,936,875
Accounts receivable, net	636,201	1,124,644	1,760,845
Due from other funds	17,093	-	17,093
Due from other governments	572,154	268,572	840,726
State and Federal aid receivable	148,835	-	148,835
Prepaid items	289,031	62,299	351,330
Total current assets	<u>8,157,605</u>	<u>6,898,099</u>	<u>15,055,704</u>
Long-term assets:			
Accounts receivable, net	1,210,000	-	1,210,000
Capital assets:			
Land	4,224,298	164,072	4,388,370
Work in progress	88,909	6,762,181	6,851,090
Other capital assets, net of depreciation	34,697,399	17,506,296	52,203,695
Total long-term assets	<u>40,220,606</u>	<u>24,432,549</u>	<u>64,653,155</u>
Total assets	<u>48,378,211</u>	<u>31,330,648</u>	<u>79,708,859</u>
Liabilities:			
Accounts payable and other current liabilities	360,617	415,169	775,786
Accrued liabilities	332,944	86,165	419,109
Due to other governments	29,866	-	29,866
Due to other funds	1,084	-	1,084
Long-term liabilities:			
Due in one year	1,445,093	801,471	2,246,564
Due in more than one year	7,792,310	13,295,704	21,088,014
Total liabilities	<u>9,961,914</u>	<u>14,598,509</u>	<u>24,560,423</u>
Net Position:			
Invested in capital assets, net of related debt	31,790,550	10,528,649	42,319,199
Restricted for:			
Capital reserves	1,300,489	3,563,837	4,864,326
Debt service	362,952	81,831	444,783
Special districts	1,207,559	-	1,207,559
Unrestricted	3,754,747	2,557,822	6,312,569
Total net position	<u>\$ 38,416,297</u>	<u>16,732,139</u>	<u>55,148,436</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK
Statement of Activities
Year ended December 31, 2012

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Primary government:							
Governmental activities:							
General government support	\$ 2,184,994	404,858	39,883	17,025	(1,723,228)	-	(1,723,228)
Public safety	5,013,420	694,857	104,200	143,329	(4,071,034)	-	(4,071,034)
Transportation	2,975,538	38,621	128,318	111,182	(2,697,417)	-	(2,697,417)
Economic assistance and opportunity	174,357	-	-	15,000	(159,357)	-	(159,357)
Culture and recreation	1,349,144	211,124	-	629	(1,137,391)	-	(1,137,391)
Home and community services	934,407	192,681	-	47,449	(694,277)	-	(694,277)
Interest on long-term debt	278,974	-	-	-	(278,974)	-	(278,974)
Total governmental activities	<u>12,910,834</u>	<u>1,542,141</u>	<u>272,401</u>	<u>334,614</u>	<u>(10,761,678)</u>	<u>-</u>	<u>(10,761,678)</u>
Business - type activities:							
Water fund	2,839,549	3,071,555	-	-	-	232,006	232,006
Sewer fund	2,269,387	2,455,599	-	-	-	186,212	186,212
Total business - type activities	<u>5,108,936</u>	<u>5,527,154</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>418,218</u>	<u>418,218</u>
Total primary government	<u>\$ 18,019,770</u>	<u>7,069,295</u>	<u>272,401</u>	<u>334,614</u>	<u>(10,761,678)</u>	<u>418,218</u>	<u>(10,343,460)</u>
General revenues:							
Taxes:							
Property taxes					4,661,050	-	4,661,050
Non-property taxes					4,447,478	-	4,447,478
Mortgage tax					199,923	-	199,923
Unallocated State aid					1,119,304	-	1,119,304
Compensation for loss					51,492	-	51,492
Investment earnings					219,228	13,511	232,739
Transfers					290,000	(290,000)	-
Miscellaneous					14,423	37,112	51,535
Total general revenues					<u>11,002,898</u>	<u>(239,377)</u>	<u>10,763,521</u>
Change in net position					241,220	178,841	420,061
Net position at beginning of year, as previously stated					37,772,602	16,553,298	54,325,900
Prior period adjustment					402,475	-	402,475
Net position at beginning of year, as restated					<u>38,175,077</u>	<u>16,553,298</u>	<u>54,728,375</u>
Net position at end of year					<u>\$ 38,416,297</u>	<u>16,732,139</u>	<u>55,148,436</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK
Balance Sheet - Governmental Funds
December 31, 2012

	General Fund	Capital Projects Fund	Community Development Fund	Nonmajor Governmental Funds	Total Funds
Assets:					
Cash and cash equivalents	\$ 5,239,954	(35,481)	418,424	871,394	6,494,291
Receivables	273,285	-	326,179	36,737	636,201
Due from other funds	68	17,025	-	-	17,093
Due from other governments	572,154	-	-	-	572,154
State and Federal aid receivable	148,835	-	-	-	148,835
Prepaid items	286,705	-	-	2,326	289,031
Total assets	<u>\$ 6,521,001</u>	<u>(18,456)</u>	<u>744,603</u>	<u>910,457</u>	<u>8,157,605</u>
Liabilities, deferred inflows and fund balance:					
Liabilities:					
Accounts payables and other current liabilities	255,346	22,652	-	7,083	285,081
Accrued liabilities	299,094	-	563	1,367	301,024
Due to other funds	1,084	-	-	-	1,084
Due to other governments	29,866	-	-	-	29,866
Collections in advance	-	-	75,536	-	75,536
Total liabilities	<u>585,390</u>	<u>22,652</u>	<u>76,099</u>	<u>8,450</u>	<u>692,591</u>
Deferred inflows	<u>29,683</u>	<u>-</u>	<u>313,598</u>	<u>-</u>	<u>343,281</u>
Fund balances (deficit):					
Nonspendable	286,705	-	-	2,326	289,031
Restricted	1,502,978	33,671	354,906	362,952	2,254,507
Assigned	826,541	-	-	536,729	1,363,270
Unassigned	3,289,704	(74,779)	-	-	3,214,925
Total fund balances (deficit)	<u>5,905,928</u>	<u>(41,108)</u>	<u>354,906</u>	<u>902,007</u>	<u>7,121,733</u>
Total liabilities, deferred inflows and fund balances (deficit)	<u>\$ 6,521,001</u>	<u>(18,456)</u>	<u>744,603</u>	<u>910,457</u>	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resource and therefore are not reported in the funds.	39,010,606
Long-term liabilities, including serial bonds payable, are not due in the current period and therefore are not reported in the funds.	(8,411,600)
Accounts receivable - HUD108	1,210,000
Accounts receivable - HUD loans	343,281
Interest is accrued on outstanding bonds in the statement of net position but not in the funds.	(31,920)
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 position.	(173,413)
Compensated absences are not reported in the funds under fund accounting but are expensed as the liability is incurred in the statement of net position.	(652,390)
Net position of governmental activities	<u>\$38,416,297</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds
Year ended December 31, 2012

	General Fund	Capital Projects Fund	Community Development Fund	Nonmajor Governmental Funds	Total Funds
Revenues:					
Real property and tax items	\$ 4,671,767	-	-	-	4,671,767
Non-property taxes	4,447,478	-	-	-	4,447,478
Departmental income	414,479	-	-	4,000	418,479
Intergovernmental charges	439,543	-	-	90,498	530,041
Use of money and property	48,000	1,895	173	169,161	219,229
Licenses and permits	63,598	-	-	-	63,598
Fines and forfeitures	149,440	-	-	-	149,440
Sale of property and compensation for loss	51,492	-	-	-	51,492
Miscellaneous	47,812	17,025	136,548	3,273	204,658
Interfund revenues	330,317	-	-	-	330,317
State and County aid	1,577,582	37,500	15,000	32,850	1,662,932
Federal aid	243,856	-	52,960	-	296,816
Total revenues	<u>12,485,364</u>	<u>56,420</u>	<u>204,681</u>	<u>299,782</u>	<u>13,046,247</u>
Expenditures:					
Current:					
General governmental support	1,567,029	57,428	-	115,889	1,740,346
Public safety	3,094,858	138,650	-	-	3,233,508
Transportation	1,095,466	734,946	-	-	1,830,412
Economic assistance and opportunity	157,603	-	43,197	-	200,800
Culture and recreation	904,120	14,079	-	-	918,199
Home and community services	489,982	29,197	32,905	99,823	651,907
Employee benefits	2,872,749	-	-	26,987	2,899,736
Debt service:					
Principal	1,186,690	-	125,000	-	1,311,690
Interest and other charges	262,082	8,318	11,549	-	281,949
Total expenditures	<u>11,630,579</u>	<u>982,618</u>	<u>212,651</u>	<u>242,699</u>	<u>13,068,547</u>
Excess (deficiency) of revenues over expenditures	<u>854,785</u>	<u>(926,198)</u>	<u>(7,970)</u>	<u>57,083</u>	<u>(22,300)</u>
Other financing sources and uses:					
Operating transfers	(357,144)	289,992	-	357,152	290,000
BANs redemmed from appropriations	-	195,000	-	-	195,000
Serial Bonds	-	1,525,000	-	-	1,525,000
Total other financing sources and uses	<u>(357,144)</u>	<u>2,009,992</u>	<u>-</u>	<u>357,152</u>	<u>2,010,000</u>
Net change in fund balances	497,641	1,083,794	(7,970)	414,235	1,987,700
Fund balances (deficit) at beginning 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>
Fund balances (deficit) at end of year	<u>\$ 5,905,928</u>	<u>(41,108)</u>	<u>354,906</u>	<u>902,007</u>	<u>7,121,733</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds to
 the Statement of Activities
 Year ended December 31, 2012

Net change in fund balance - total governmental funds	\$1,987,700
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	\$ 424,324
Additions of assets, net of disposals	539,455
Depreciation	<u>(2,060,951)</u> (1,097,172)
<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 position. Repayments of bond principal and leases are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>	
	(533,310)
<p>Amounts received from borrowers on the City's HUD loan program are recorded as revenues in the governmental funds, but are recorded against the loan receivable balance in the statement of net position.</p>	
	(59,194)
<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>	
	(52,988)
<p>In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditure is reported when due.</p>	
	2,977
<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>(6,793)</u>
Change in net position of governmental activities	<u>\$ 241,220</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
(Non-GAAP Basis of Budgeting) - General Fund
Year Ended December 31, 2012

	Budget Original	Budget (incl Carryover Encumbrances) Amended	Actual	Encumbrances	Variances
Revenue and other sources:					
Revenues:					
Real property and tax items	\$4,651,856	4,651,856	4,671,767	-	19,911
Non-property taxes	4,325,000	4,325,000	4,447,478	-	122,478
Departmental income	377,550	396,753	407,283	-	10,530
Intergovernmental charges	470,159	470,159	439,543	-	(30,616)
Use of money and property	52,924	52,924	44,748	-	(8,176)
Licenses and permits	63,320	63,320	63,598	-	278
Fines and forfeitures	137,600	137,600	149,440	-	11,840
Sale of property and compensation for loss	-	-	6,679	-	6,679
Miscellaneous	7,150	9,500	9,156	-	(344)
Interfund revenues	330,317	330,317	330,317	-	-
State and County aid	1,463,304	1,463,967	1,489,301	-	25,334
Federal aid	289,212	289,212	243,856	-	(45,356)
Total revenue	<u>12,168,392</u>	<u>12,190,608</u>	12,303,166	-	112,558
Other sources - operating transfers	<u>290,000</u>	<u>335,000</u>	<u>334,547</u>	-	(453)
Total revenues and other sources	<u>12,458,392</u>	<u>12,525,608</u>	<u>12,637,713</u>	-	<u>112,105</u>
Expenditures:					
Current:					
General governmental support	1,555,294	1,644,362	1,565,476	4,810	74,076
Public safety	3,223,284	3,227,798	3,094,858	216	132,724
Transportation	1,184,024	1,181,710	1,095,466	11,122	75,122
Economic assistance and opportunity	155,589	169,459	157,603	6,500	5,356
Culture and recreation	886,423	965,423	904,120	28,000	33,303
Home and community services	483,153	502,593	489,982	-	12,611
Employee benefits	3,116,190	3,116,190	2,872,749	-	243,441
Debt service:					
Principal	1,124,190	1,124,190	1,186,690	-	(62,500)
Interest and other charges	<u>331,183</u>	<u>331,183</u>	<u>262,082</u>	-	<u>69,101</u>
Total expenditures	12,059,330	12,262,908	11,629,026	50,648	583,234
Other uses:					
Operating Transfers	979,100	993,699	993,699	-	-
Contingency	<u>500,000</u>	<u>397,840</u>	-	-	<u>397,840</u>
Total expenditures and other uses	<u>13,538,430</u>	<u>13,654,447</u>	<u>12,622,725</u>	<u>50,648</u>	<u>981,074</u>
Revenues and other sources over (under) expenditures and other uses	(1,080,038)	(1,128,839)	14,988	(50,648)	<u>1,093,179</u>
Revenues and other sources over (under) expenditures and other uses:					
Insurance reserve fund	-	-	17	-	-
Kershaw Park reserve fund	-	-	(37,053)	-	-
Capital reserve	-	-	519,689	-	-
Total revenues and other sources	-	-	497,641	-	-
Fund balances at beginning of year	<u>2,823,367</u>	<u>2,823,367</u>	<u>5,408,287</u>	-	-
Fund balances at end of year	<u>\$1,743,329</u>	<u>1,694,528</u>	<u>5,905,928</u>	<u>(50,648)</u>	-

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK
Statement of Net Position -
Proprietary Funds
December 31, 2012

	<u>Business Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
	<u>fund</u>	<u>fund</u>	
Assets:			
Cash and cash equivalents	\$1,660,310	3,782,274	5,442,584
Accounts receivable, net	765,115	359,529	1,124,644
Due from other governments	2,729	265,843	268,572
Prepaid items	36,398	25,901	62,299
Capital assets:			
Land	40,736	123,336	164,072
Work in progress	-	6,762,181	6,762,181
Other capital assets, net of depreciation	<u>9,666,092</u>	<u>7,840,204</u>	<u>17,506,296</u>
Total assets	<u>12,171,380</u>	<u>19,159,268</u>	<u>31,330,648</u>
Liabilities:			
Accounts payable and other current liabilities	36,010	379,159	415,169
Accrued liabilities	65,821	20,344	86,165
Noncurrent liabilities:			
Due in one year	314,289	487,182	801,471
Due in more than one year	<u>5,507,979</u>	<u>7,787,725</u>	<u>13,295,704</u>
Total liabilities	<u>5,924,099</u>	<u>8,674,410</u>	<u>14,598,509</u>
Net position:			
Invested in capital assets, net of related debt	4,015,528	6,513,121	10,528,649
Restricted for - capital reserves	1,082,483	2,481,354	3,563,837
Restricted for - Debt Service	72,379	9,452	81,831
Unrestricted	<u>1,076,891</u>	<u>1,480,931</u>	<u>2,557,822</u>
Total net position	<u>\$6,247,281</u>	<u>10,484,858</u>	<u>16,732,139</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK
Statement of Revenues, Expenditures, and Changes in
Net Position - Proprietary Funds
Year ended December 31, 2012

	<u>Business Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
	<u>fund</u>	<u>fund</u>	
Operating revenues:			
Contributions from operations	\$3,071,555	2,455,599	5,527,154
Rental of real property	8,880	-	8,880
Other revenue	23,105	4,330	27,435
Total operating revenues	<u>3,103,540</u>	<u>2,459,929</u>	<u>5,563,469</u>
Operating expenses:			
Judgments, claims, and insurance premiums	375,087	252,941	628,028
General services	1,658,282	977,473	2,635,755
Contractual expenses	15,876	170,057	185,933
Other professional services	5,359	59,795	65,154
Depreciation	556,418	726,742	1,283,160
Total operating expenses	<u>2,611,022</u>	<u>2,187,008</u>	<u>4,798,030</u>
Operating income	<u>492,518</u>	<u>272,921</u>	<u>765,439</u>
Nonoperating revenue (expense):			
Interest income	5,448	8,063	13,511
Interest expense	(228,527)	(82,379)	(310,906)
Interfund transfer	(290,000)	-	(290,000)
Other income	-	797	797
Total nonoperating expense	<u>(513,079)</u>	<u>(73,519)</u>	<u>(586,598)</u>
Change in net position	(20,561)	199,402	178,841
Net position at beginning of year	<u>6,267,842</u>	<u>10,285,456</u>	<u>16,553,298</u>
Net position at end of year	<u>\$6,247,281</u>	<u>10,484,858</u>	<u>16,732,139</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK
Statement of Cash Flows
Proprietary Funds
Year ended December 31, 2012

	<u>Business Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
	<u>fund</u>	<u>fund</u>	
Cash flows from operating activities:			
Receipts from services	\$ 3,084,091	2,791,021	5,875,112
Cash payments to insurance providers	(375,087)	(252,941)	(628,028)
Cash payments for contractual services	(1,669,772)	(1,269,011)	(2,938,783)
Other operating revenue	31,985	4,330	36,315
Net cash provided by operating activities	<u>1,071,217</u>	<u>1,273,399</u>	<u>2,344,616</u>
Cash flows from capital and related financing activities:			
Proceeds of debt (capital)	335,000	6,270,500	6,605,500
Principal payments of debt (capital)	(617,900)	(2,673,410)	(3,291,310)
Interest expense (capital)	(228,527)	(82,379)	(310,906)
Interfund transfer	(290,000)	-	(290,000)
Purchases of capital assets	(127,551)	(5,678,983)	(5,806,534)
Other receipts	-	797	797
Net cash used in capital and related financing activities	<u>(928,978)</u>	<u>(2,163,475)</u>	<u>(3,092,453)</u>
Cash flows from investing activities - investment income	<u>5,448</u>	<u>8,063</u>	<u>13,511</u>
Net increase (decrease) in cash and cash equivalents	147,687	(882,013)	(734,326)
Cash and cash equivalents at beginning of year	<u>1,512,623</u>	<u>4,664,287</u>	<u>6,176,910</u>
Cash and cash equivalents at end of year	<u>\$ 1,660,310</u>	<u>3,782,274</u>	<u>5,442,584</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	492,518	272,921	765,439
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	556,418	726,742	1,283,160
Changes in:			
Accounts receivable	12,536	335,422	347,958
Prepaid items	(3,813)	(2,728)	(6,541)
Accounts payable and accrued liabilities	5,889	(60,402)	(54,513)
Compensated absences	1,559	1,444	3,003
Other postemployment benefits	6,110	-	6,110
Net cash provided by operating activities	<u>\$ 1,071,217</u>	<u>1,273,399</u>	<u>2,344,616</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK
Statement of Fiduciary Net Position -
Fiduciary Funds
December 31, 2012

	<u>Expendable Trust</u>	<u>Agency funds</u>
Assets:		
Cash and cash equivalents	\$ 36,986	134,031
Accounts receivable (net)	-	249
Due from other funds	-	1,084
Total assets	36,986	135,364
 Liabilities:		
Accounts payable	-	18,342
Tax sale surplus	-	75,962
Other liabilities	-	23,967
Due to other funds	-	17,093
Total liabilities	-	135,364
Net position - unrestricted	\$ 36,986	-

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK
Statement of Changes in Fiduciary Net Position -
Fiduciary Funds
Year ended December 31, 2012

	Expendable <u>Trust</u>
Additions:	
Contributions	\$ -
Investment earnings	59
Total additions	59
Deductions - move to trust account	2,010
Change in net position	(1,951)
Net position at beginning of year	38,937
Net position at end of year	\$ 36,986

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK
Notes to Financial Statements
December 31, 2012

(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

Beginning in 2012, the City adopted the provisions of GASB Statement No. 62 - "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 GASB and AICPA Pronouncements." This statement codifies all sources of accounting principles generally accepted in the United States of America into the GASB's authoritative literature.

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

(1) Summary of Certain Significant Accounting Policies, Continued

(b) Basis of Presentation, Continued

For the year ended December 31, 2012 the City implemented GASB Statement No. 63 - "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." This statement amends the net asset reporting requirements in GASB Statement No. 34. - "Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments" and other pronouncements by incorporating deferred outflows of resources and deferred inflows or resources into the definitions of the required components of the residual measure and by renaming that measure as net positions, rather than net assets.

For the year ended December 31, 2012, the City implemented GASB Statement No. 65 - "Items Previously Reported as Assets and Liabilities." This statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes as outflows of resources or inflows of resources, certain items that were previously reported as assets or liabilities.

Government-Wide Statements

The statement of net position 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.

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 position resulting from the current year's activities.

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

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:

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.

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

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 accrual basis of accounting. This fund is used to account for assets that the government holds for others in an agency capacity.

Expendable Trust - This fund is used to account for monies donated to the City to benefit certain City owned cemeteries.

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.

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.

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

(1) Summary of Certain Significant Accounting Policies, Continued

(d) Property Tax Revenue Recognition, Continued

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, 2012, the City had a legal margin of approximately \$12,263,001.

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.

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.

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

(1) Summary of Certain Significant Accounting Policies, Continued

(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.

(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.

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

(1) Summary of Certain Significant Accounting Policies, Continued

(k) Capital Assets, Continued

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.

(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 \$367,153 for 27 retirees and/or their surviving spouses for the year ended December 31, 2012.

(n) Deferred Inflows

The City reports deferred inflows in its basic financial statements. Deferred inflows arises when revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred inflows 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 deferred inflows are 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 position.

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

(1) Summary of Certain Significant Accounting Policies, Continued

(p) Equity Classifications

Government-Wide Statements

The government-wide financial statements utilize a net position presentation. Net position is 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 position. 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 Position - 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 Position - This category represents net position of the City not restricted for any project or purpose.

Funds Statements

As of December 31, 2012, 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.

\$286,705 - General Fund - Prepaid items

\$2,326 - 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.

\$186,636 - 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.

\$1,300,489 - 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.

\$15,853 - General Fund - Miscellaneous Reserves represent amounts held in reserve by contributors for a specific purpose.

\$33,671 - Capital Fund - Encumbrance for Restricted Capital Projects. These projects are composed of \$32,625 for Transportation and \$1,046 for Public Safety.

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

\$668,504 - 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.

\$362,952 - 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.

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.

\$50,648 - General Fund - Encumbrances

\$57,600 - 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.

\$89,973 - Special Revenue Fund - Watershed Program

\$20,532 - Special Revenue Fund - Parks and Open Spaces

\$285,153 - Special Revenue Fund - Technology

\$141,071 - Special Revenue Fund - Encumbrances

\$718,293 - 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 fund balances that do not meet the definition of the above four classifications and are deemed to be available for general use by the City.

\$(74,779) - Capital Projects Fund budget deficit which will be eliminated as short-term debt is converted to permanent financing

\$3,289,704 - General Fund

The City's policy is to apply expenditures against nonspendable 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, nonspendable fund balances are determined first and then restricted fund balances

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

(1) Summary of Certain Significant Accounting Policies, Continued

(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, 2012 were \$33,671 included in restricted fund balance. In addition there are encumbrances of \$50,648 for the general fund and \$141,071 for non-major special revenue funds that are included in assigned fund balance.

(r) Future Impacts of Accounting Pronouncements

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. 66 - "Technical Corrections - 2012 - an Amendment of GASB Statements No. 10 and No. 62" improves accounting and financial reporting for a governmental entity by resolving conflicting guidance that resulted from the issuance of two pronouncements. Statements No. 54 - "Fund Balance Reporting and Governmental Fund Type Definitions" and No. 62 - "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." This statement amends Statement No. 10 by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The requirements of this statement are effective for periods beginning after December 15, 2012. 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

(r) Future Impacts of Accounting Pronouncements, Continued

GASB Statement No. 67 - "Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25" replaces the requirements of Statements No. 25 - "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans," and No. 50 - "Pension Disclosures," as they relate to pension plans that are administered through trusts or equivalent arrangements. The requirements of the Statement are effective for financial statements for fiscal years beginning after June 15, 2013. Management has not yet determined the effect that this statement will have on the future financial statements of the City.

GASB Statement No. 68 - "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27" is intended to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of the statement are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect that this statement will have on the future financial statements of the City.

GASB Statement No. 69 - "Government Combinations and Disposals of Government Operations" establishes accounting and financial reporting standards for government mergers, acquisitions, and disposals. The Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effect of those transactions. The requirements of this Statement are effective for periods beginning after December 15, 2013. This statement is not expected to have a material effect on the financial statements of the City.

(s) Subsequent Events

The City has evaluated events after December 31, 2012, and through June 25, 2013, 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.

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

(2) Cash and Cash Equivalents

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.

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 cash equivalents at December 31, 2012 consists of:

Petty cash	\$ 550
Deposits - checking and savings accounts	<u>12,107,342</u>
Total	<u>\$ 12,107,892</u>

Deposits at December 31, 2012 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, 2012:

FDIC Insurance	\$ 760,605
Collateral held by third party custodial bank	1,139,920
Collateral held by trading partner's trust department	<u>10,647,750</u>
Total	<u>\$ 12,548,275</u>

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

Primary Government	\$ 11,936,875
Fiduciary Funds	<u>171,017</u>
Total	<u>\$ 12,107,892</u>

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

(3) Receivables

Receivables at December 31, 2012 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>Nonmajor Agency Funds</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Current:							
Taxes	\$ 86,537	-	-	-	-	-	86,537
Accounts	43,893	-	12,582	249	260,982	653,037	970,743
Franchise fees	83,927	-	-	-	-	-	83,927
Utilities Tax	14,184	-	-	-	-	-	14,184
Rents receivable	-	-	-	36,737	127,784	112,078	276,599
Refuse Fee receivable	13,325	-	-	-	-	-	13,325
Parking tickets	51,315	-	-	-	-	-	51,315
Rehabilitation loans	-	-	313,597	-	-	-	313,597
Other governments	572,154	-	-	-	265,843	2,729	840,726
State and Federal aid	148,835	-	-	-	-	-	148,835
Less allowance for uncollectibles	<u>(19,896)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(29,237)</u>	<u>-</u>	<u>(49,133)</u>
Total current receivables, net	994,274	-	326,179	36,737	625,372	767,844	2,750,655
Noncurrent:							
Steamboat Landing project, Section 108 HUD Loan	-	-	<u>1,210,000</u>	-	-	-	<u>1,210,000</u>
Total receivables	<u>\$994,274</u>	<u>-</u>	<u>1,536,179</u>	<u>36,737</u>	<u>625,372</u>	<u>767,844</u>	<u>3,960,655</u>

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(4) Interfund Receivables and Payables

Interfund receivables and payables at December 31, 2012 were as follows:

<u>Fund</u>	<u>Interfund receivables</u>	<u>Interfund payables</u>
General fund	\$ 68	1,084
Capital fund	17,025	-
Trust and agency fund	1,084	17,093
Total	<u>\$ 18,177</u>	<u>18,177</u>

(5) Capital Assets

Capital assets activity for the year ended December 31, 2012 was as follows:

	<u>Balance at January 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at December 31, 2012</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 4,224,298	-	-	4,224,298
Construction in process	1,454,348	424,324	(1,789,763)	88,909
Total capital assets not being depreciated	<u>5,678,646</u>	<u>424,324</u>	<u>(1,789,763)</u>	<u>4,313,207</u>
Capital assets, being depreciated:				
Land improvements	8,349,795	194,464	-	8,544,259
Infrastructure	54,559,225	1,337,902	-	55,897,127
Buildings and improvements	8,742,624	302,631	-	9,045,255
Machinery and equipment	5,823,740	494,742	(610,041)	5,708,441
Total capital assets being depreciated	<u>77,475,384</u>	<u>2,329,739</u>	<u>(610,041)</u>	<u>79,195,082</u>

(Continued)

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(5) Capital Assets, Continued

	Balance at January 1, 2012	Increases	Decreases	Balance at December 31, 2012
Less accumulated depreciation for:				
Land improvements	\$ 2,925,916	208,071	-	3,133,987
Infrastructure	31,058,733	1,161,798	-	32,220,531
Buildings and improvements	4,855,151	232,841	-	5,087,992
Machinery and equipment	4,206,453	458,241	(609,521)	4,055,173
Total accumulated depreciation	<u>43,046,253</u>	<u>2,060,951</u>	<u>(609,521)</u>	<u>44,497,683</u>
Total capital assets being depreciated, net	<u>34,429,131</u>	<u>268,788</u>	<u>(520)</u>	<u>34,697,399</u>
Total	<u>\$40,107,777</u>	<u>693,112</u>	<u>(1,790,283)</u>	<u>39,010,606</u>

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

Governmental activities:

General governmental support	\$ 123,122
Public safety	256,051
Transportation	1,340,103
Economic Development	1,754
Culture and recreation	252,736
Home and community	<u>87,185</u>
	<u>\$2,060,951</u>

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(5) Capital Assets, Continued

	Balance at January 1, 2012	Increases	Decreases	Balance at December 31, 2012
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 164,072	-	-	164,072
Construction in process	1,828,392	5,711,019	(777,230)	6,762,181
Total capital assets not being depreciated	<u>1,992,464</u>	<u>5,711,019</u>	<u>(777,230)</u>	<u>6,926,253</u>
Capital assets, being depreciated:				
Land improvements	28,694	-	-	28,694
Infrastructure	19,255,335	770,335	-	20,025,670
Buildings and improvements	28,470,586	-	-	28,470,586
Machinery and equipment	3,592,215	102,410	(14,021)	3,680,604
Total capital assets being depreciated	<u>51,346,830</u>	<u>872,745</u>	<u>(14,021)</u>	<u>52,205,554</u>
Less accumulated depreciation for:				
Land improvements	17,694	2,870	-	20,564
Infrastructure	14,627,424	432,077	-	15,059,501
Buildings and improvements	16,056,447	694,804	-	16,751,251
Machinery and equipment	2,728,554	153,409	(14,021)	2,867,942
Total accumulated depreciation	<u>33,430,119</u>	<u>1,283,160</u>	<u>(14,021)</u>	<u>34,699,258</u>
Total capital assets being depreciated, net	<u>17,916,711</u>	<u>(410,415)</u>	<u>-</u>	<u>17,506,296</u>
Total	<u>\$19,909,175</u>	<u>5,300,604</u>	<u>(777,230)</u>	<u>24,432,549</u>

Depreciation expense amounting to \$1,283,160 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 and before April 1, 2012 are required to contribute 3.5% throughout their active membership. Those joining on or after April 1, 2012 are required to contribute between 3% and 6%, dependent upon their salary, for their entire working career. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates 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 12.6% to 21.3% for January through March 2012 and 9.9% to 25.2% for April through December 2012. The contribution rates for PFRS ranged from 16.7% to 20.9% for January through March 2012 and 14.6% to 25.1% for April through December 2012.

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

	<u>ERS</u>	<u>PFRS</u>
2012	\$ 619,503	571,067
2011	507,322	384,898
2010	371,866	438,408

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

(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.

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 \$367,153 during the year ended December 31, 2012.

(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.

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

(7) Other Postemployment Benefits, Continued

(c) Actuarial Methods and Assumptions, Continued

For the valuation dated September 1, 2012, 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 4%, 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.

(d) Annual OPEB cost at December 31, 2012

	<u>City-wide</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Normal cost with Interest	\$ 125,983	112,953	13,030
Amortization of unamortized actuarial liability (UAL) with interest	<u>241,677</u>	<u>208,983</u>	<u>32,694</u>
Annual required contribution (ARC)	367,660	321,936	45,724
Interest on OPEB obligation	7,922	6,393	1,529
Adjustment to ARC	<u>(8,429)</u>	<u>(6,802)</u>	<u>(1,627)</u>
OPEB expense	\$ <u>367,153</u>	<u>321,527</u>	<u>45,626</u>

(e) Reconciliation of Net OPEB obligation at
December 31, 2012

Net OPEB obligation at the beginning of the year	206,472	166,620	39,852
OPEB expense	367,153	321,527	45,626
Net OPEB contributions made during the fiscal year	<u>(358,801)</u>	<u>(314,734)</u>	<u>(44,067)</u>
Net OPEB obligation at the end of the year	\$ <u>214,824</u>	<u>173,413</u>	<u>41,411</u>
Percentage of expense contributed	<u>97.7%</u>	<u>97.9%</u>	<u>96.6%</u>

(f) Number of participants as of December 31, 2012

Active employees	93	73	20
Retired employees	<u>27</u>	<u>22</u>	<u>5</u>
Total employees	<u>120</u>	<u>95</u>	<u>25</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 postemployment benefits.

(c) Summary of Debt

The following is a summary of obligations outstanding at December 31, 2012:

	Balance at January 1, 2012	Additions	Deletions	Balance at December 31, 2012	Classified As	
					Current	Non-current
<u>Governmental Funds:</u>						
Serial bonds	\$ 6,668,290	1,525,000	991,690	7,201,600	1,146,995	6,054,605
Bond Anticipation Notes	1,942,500	-	1,942,500	-	-	-
HUD 108 - Serial bonds	1,335,000	-	125,000	1,210,000	135,000	1,075,000
Compensated absences	599,402	52,988	-	652,390	163,098	489,292
Other postemployment benefits	166,620	321,527	314,734	173,413	-	173,413
Total governmental funds	<u>\$10,711,812</u>	<u>1,899,515</u>	<u>3,373,924</u>	<u>9,237,403</u>	<u>1,445,093</u>	<u>7,792,310</u>

(Continued)

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

(8) Long Term Debt, Continued
(c) Summary of Debt, Continued

	Balance at January 1, 2012	Additions	Deletions	Balance at December 31, 2012	Classified As	
					Current	Non-current
<u>Enterprise funds:</u>						
Water:						
Serial bonds	\$ 5,629,200	335,000	272,900	5,691,300	291,900	5,399,400
Bond Anticipation Notes	345,000	-	345,000	-	-	-
Compensated absences	83,447	6,110	-	89,557	22,389	67,168
Other postemployment benefits	39,852	25,105	23,546	41,411	-	41,411
Sewer:						
Serial bonds	2,127,510	6,270,500	185,410	8,212,600	471,605	7,740,995
Bond Anticipation Notes	2,488,000	-	2,488,000	-	-	-
Compensated absences	60,863	1,444	-	62,307	15,577	46,730
Other postemployment benefits	-	20,521	20,521	-	-	-
Total enterprise funds	\$10,773,872	6,658,680	3,335,377	14,097,175	801,471	13,295,704

(d) Maturity Schedule

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

Purpose	Issue date	Rate of Interest	Amount outstanding at December 31, 2012	Final Maturity
General:				
Serial bonds	4/99	4.375% - 4.40%	\$ 344,400	04/14
Serial bonds	2/03	2.00% - 4.125%	1,380,000	03/16
Serial bonds	7/03	2.50% - 4.00%	631,000	12/21
Serial bonds	12/06	4.00% - 4.10%	870,000	12/26
Serial bonds	11/07	4.00% - 4.125%	2,033,100	12/27
Serial bonds	11/08	3.50% - 4.30%	186,000	12/18

(Continued)

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>	<u>Amount outstanding at December 31, 2012</u>	<u>Final Maturity</u>
General, continued:				
Serial bonds	8/10	2.00% - 3.4%	\$ 232,100	12/19
Serial bonds	12/12	1.25% - 2.125%	1,525,000	12/26
Total general			<u>7,201,600</u>	
Water:				
Serial bonds	7/03	2.50% - 4.00%	79,000	12/21
Serial bonds	11/07	4.00% - 4.625%	2,644,400	12/46
Serial bonds	4/09	3.50% - 4.50%	2,365,000	12/28
Serial bonds	8/10	2.00% - 3.4%	267,900	12/19
Serial bonds	12/12	1.25% - 2.50%	335,000	12/31
Total water			<u>5,691,300</u>	
Sewer:				
Serial bonds	4/99	4.375% - 4.40%	55,600	4/14
NYS Environmental Facilities Corporation bonds	7/03	0.721% - 4.50%	1,105,000	1/23
Serial bonds	12/06	4.00% - 4.10%	405,000	12/26
Serial bonds	11/07	4.00% - 4.125%	372,500	12/27
Serial bonds	11/08	3.50% - 4.30%	4,000	12/19
Serial bonds	12/12	1.25% - 2.50%	6,270,500	12/31
Total sewer			<u>8,212,600</u>	
Community Development - HUD 108 - Serial bond	8/01	1.32% - 2.05%	<u>1,210,000</u>	8/19
Total			<u>\$ 22,315,500</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, 2012:

<u>Year</u>	<u>Bonds</u>	<u>Interest</u>
2013	\$ 2,045,500	655,436
2014	2,060,000	601,272
2015	1,870,000	544,842
2016	1,915,000	490,174
2017	1,405,000	441,110
2018 - 22	6,160,000	1,621,122
2023 - 27	3,725,000	880,413
2028 - 46	<u>3,135,000</u>	<u>747,275</u>
Total	\$ <u>22,315,500</u>	<u>5,981,644</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 \$1,345,000 are considered to be defeased.

(9) Fund Balance Reservations

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

<u>Fund</u>	<u>Balance</u>
General fund:	
Reserved for insurance	\$ 186,636
Reserved for encumbrances	50,648
Kershaw Park reserve	57,600
Capital reserve	1,300,489
Miscellaneous reserve	<u>15,853</u>
Total general fund	\$ <u>1,611,226</u>
Capital projects fund - reserved for encumbrances	\$ <u>33,671</u>
Non-major governmental funds- reserved for encumbrances	\$ <u>141,071</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, 2012, designated for subsequent year's expenditures in the general fund amounted to \$1,004,998 which includes \$286,705 for prepaid expenditures.

(11) Net Position - Restricted

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

<u>Restricted Net Position</u>	<u>Restricted by</u>	<u>Amount</u>
Capital reserves - enterprise funds	Local law	\$ 3,563,837
Capital reserves - governmental funds	Local law	1,300,489
Debt service reserves - enterprise funds	State law	81,831
Debt service reserves – governmental funds	State Law	362,952
Special Districts:		
Community development	Local law	668,504
Parks and recreation	Local law	20,532
Technology	Local law	426,360
Watershed program	Local law	<u>92,163</u>
		<u>1,207,559</u>
Total restricted net position		<u>\$ 6,516,668</u>

(12) Labor Relations

City employees are represented by four bargaining units with the balance governed by City personnel policies and practices. All of the units have contracts that expire December 31, 2013.

(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, 2012 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	\$ -	357,144
Water fund	-	290,000
Capital projects fund	289,992	-
Nonmajor funds	<u>357,152</u>	<u>-</u>
Total	\$ <u>647,144</u>	<u>647,144</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, 2012 and 2011 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 2012 totaled \$1,553. However, as referred to in note 9, the City has established and maintains an insurance reserve having a balance of \$186,636 at December 31, 2012.

(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, 2012, the City incurred premiums or contribution expenditures totaling \$250,759.

(16) Contingencies

The City is subject to lawsuits in the ordinary conduct of its affairs. There are four 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. An arbitrator has issued a final and binding decision that is favorable to the City and although the issue of possible damages is still open, the City does not believe that any damages, if any, 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.

(17) Prior Period Adjustment

A prior year adjustment was recorded to beginning net position to recognize previously deferred revenue amounts related to the loan program maintained by the City in the amount of \$402,475 which was reevaluated by management in the implementation of GASB Statement No. 65 in 2012.

CITY OF CANANDAIGUA, NEW YORK
 Required Supplementary Information
 Scheduling of Funding Progress for Other Postemployment Benefits (OPEB)
 December 31, 2012

The schedule of funding progress presents the results of OPEB valuations for the past three years. All determined information has been calculated in accordance with the actuarial assumptions and methods reflected in the actuarial valuations as of the indicated actuarial valuation date.

<u>For Year Ended</u>	<u>Valuation Date</u>	<u>Actual Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Ratio UAAL to Budget Covered Payroll</u>
12/31/12	09/01/2012	\$ -	\$5,692,006	\$5,692,006	0.0%	\$5,050,414	112.70%
12/31/11	06/01/2009	\$ -	\$6,440,875	\$6,440,875	0.0%	\$5,470,667	117.73%
12/31/10	06/01/2009	\$ -	\$6,440,875	\$6,440,875	0.0%	\$5,470,667	117.73%

CITY OF CANANDAIGUA, NEW YORK
Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2012

	<u>Special Revenue Funds</u>				
	<u>Debt</u>	<u>Watershed</u>	<u>Parks and</u>	<u>Open</u>	
	<u>Service</u>	<u>Program</u>	<u>Spaces</u>	<u>Technology</u>	<u>Total</u>
Assets:					
Cash and cash equivalents	\$362,952	93,095	20,532	394,815	871,394
Receivables	-	-	-	36,737	36,737
Prepaid items	-	2,190	-	136	2,326
Total assets	<u>\$362,952</u>	<u>95,285</u>	<u>20,532</u>	<u>431,688</u>	<u>910,457</u>
Liabilities and fund balance:					
Liabilities:					
Accounts payables and other current liabilities	-	1,755	-	5,328	7,083
Accrued liabilities	-	1,367	-	-	1,367
Total liabilities	<u>-</u>	<u>3,122</u>	<u>-</u>	<u>5,328</u>	<u>8,450</u>
Fund balances:					
Nonspendable	-	2,190	-	136	2,326
Restricted	362,952	-	-	-	362,952
Assigned	-	89,973	20,532	426,224	536,729
Total fund balances	<u>362,952</u>	<u>92,163</u>	<u>20,532</u>	<u>426,360</u>	<u>902,007</u>
Total liabilities and fund balances	<u>\$362,952</u>	<u>95,285</u>	<u>20,532</u>	<u>431,688</u>	<u>910,457</u>

CITY OF CANANDAIGUA, NEW YORK
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balance - Nonmajor Governmental Funds
Year ended December 31, 2012

	<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>	
Revenues:					
Departmental income	\$ -	-	4,000	-	4,000
Intergovernmental changes	-	90,498	-	-	90,498
Use of money and property	-	350	50	168,761	169,161
Miscellaneous	-	3,273	-	-	3,273
State and County aid	-	32,850	-	-	32,850
Total revenues	<u>-</u>	<u>126,971</u>	<u>4,050</u>	<u>168,761</u>	<u>299,782</u>
Expenditures:					
General governmental support	-	-	-	115,889	115,889
Home and community services	-	99,823	-	-	99,823
Employee benefits	-	26,218	-	769	26,987
Total expenditures	<u>-</u>	<u>126,041</u>	<u>-</u>	<u>116,658</u>	<u>242,699</u>
Excess of revenues over expenditures	<u>-</u>	<u>930</u>	<u>4,050</u>	<u>52,103</u>	<u>57,083</u>
Other financing sources and uses - operating transfers	<u>357,152</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>357,152</u>
Net change in fund balances	357,152	930	4,050	52,103	414,235
Fund balances at beginning of year	<u>5,800</u>	<u>91,233</u>	<u>16,482</u>	<u>374,257</u>	<u>487,772</u>
Fund balances at end of year	<u>\$362,952</u>	<u>92,163</u>	<u>20,532</u>	<u>426,360</u>	<u>902,007</u>

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City's financial statements are free from 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.

Purpose of this Report

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

Toski & Co., CPAs, P.C.

Williamsville, New York
June 25, 2013