

CITY OF CANANDAIGUA, NEW YORK

Basic Financial Statements and
Required Supplementary Information

December 31, 2008

(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
Canandaigua, New York:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Canandaigua, New York (the City) as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on the respective financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 of Canandaigua, New York as of December 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 6, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's discussion and analysis, as listed in the foregoing table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This information is the responsibility of the City's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming our opinion on the financial statements that collectively comprise the City's basic financial statements. Schedules 1 and 2 as listed in the foregoing table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the City's management. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Toski, Schaefer & Co. P.C.

Williamsville, New York
May 6, 2009

CITY OF CANANDAIGUA, NEW YORK

Management's Discussion and Analysis

December 31, 2008

INTRODUCTION

The following is a discussion and analysis of the City's financial performance for the year ended December 31, 2008. This section of the report should be read in conjunction with the basic financial statements, which immediately follow this section, in order to provide an enhanced understanding of the City's financial performance.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

- The Statement of Net Assets which presents information on all of the City's assets and liabilities, with the difference between the two reported as *NET ASSETS*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The Statement of Activities which presents information showing how the City's net assets *CHANGED* during the most recent year. The primary governmental activities of the City as used in this Statement include general government support, public safety, health, transportation, economic assistance, culture and recreation, home and community services, and interest on long-term debt. The business type activities include the water and sewer funds. 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 Revenue, Expenditures, and Changes in Fund Balances. Major funds consist of the General Fund, Capital Projects Fund and the Community Development Fund. Nonmajor funds, combined on the financial statements, consist of the Debt Service Fund, Watershed Program Fund, Parks & Open Spaces Fund 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 consists 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 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 financial statements are located following the basic financial statements section of this report.

Other Supplementary Information

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

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

GOVERNMENT WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the City's financial position. As of December 31, 2008 the total assets of the City exceeded liabilities by \$50,257,821 as compared to \$50,548,136 at December 31, 2007.

**CONDENSED STATEMENT OF NET ASSETS AT DECEMBER 31, 2008 AND 2007 FOR
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES**

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2007-2008
	2008	2007	2008	2007	2008	2007	
Current and Other Assets	\$ 7,496,479	7,858,111	4,132,799	4,897,595	11,629,278	12,755,706	(8.8)%
Capital Assets	<u>40,927,205</u>	<u>41,293,329</u>	<u>17,451,590</u>	<u>18,066,532</u>	<u>58,378,795</u>	<u>59,359,861</u>	(1.7)
Total Assets	<u>\$ 48,423,684</u>	<u>49,151,440</u>	<u>21,584,389</u>	<u>22,964,127</u>	<u>70,008,073</u>	<u>72,115,567</u>	(2.9)
Other Liabilities	\$ 1,230,942	1,353,461	173,338	700,187	1,404,280	2,053,648	(31.6)
Long-Term Liabilities	<u>12,267,318</u>	<u>13,024,448</u>	<u>6,078,654</u>	<u>6,489,335</u>	<u>18,345,972</u>	<u>19,513,783</u>	(6.0)
Total Liabilities	<u>\$ 13,498,260</u>	<u>14,377,909</u>	<u>6,251,992</u>	<u>7,189,522</u>	<u>19,750,252</u>	<u>21,567,431</u>	(8.4)
Net Assets:							
Invested in Capital Assets							
Net of Related Debt	\$ 31,117,500	31,224,752	11,549,562	11,752,978	42,667,062	42,977,730	(0.7)
Restricted	927,229	935,504	2,127,540	2,088,994	3,054,769	3,024,498	1.0
Unrestricted	<u>2,880,695</u>	<u>2,613,275</u>	<u>1,655,295</u>	<u>1,932,633</u>	<u>4,535,990</u>	<u>4,545,908</u>	(0.2)
Total Net Assets	<u>\$ 34,925,424</u>	<u>34,773,531</u>	<u>15,332,397</u>	<u>15,774,605</u>	<u>50,257,821</u>	<u>50,548,136</u>	(0.6)

The largest component of the City's net assets, \$42,667,062 or approximately 84.9%, reflects its investment in capital assets, less any related outstanding debt used to acquire or construct the assets. The City uses these capital assets to provide services to the citizens of the City.

Approximately \$3,054,769 or 6.1% of the total net assets are subject to external restrictions and are not available to finance the day-to-day operations of the City. The remaining \$4,535,990 balance of unrestricted net assets can be used to finance future operations.

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

**CHANGES IN NET ASSETS AT DECEMBER 31, 2008 AND 2007 FOR GOVERNMENTAL
AND BUSINESS-TYPE ACTIVITIES**

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2008	2007	2008	2007	2008	2007	2007-2008
Program Revenue:							
Charges for Services	\$ 1,904,058	1,659,752	4,318,459	4,231,258	6,222,517	5,891,010	5.6%
Operating Grants and Contributions	194,258	202,301	-	-	194,258	202,301	(4.0)
Capital Grants and Contributions	643,652	959,239	-	-	643,652	959,239	(32.9)
General Revenue:							
Real Property Taxes	3,782,371	3,513,619	-	-	3,782,371	3,513,619	7.6
Non-Property Taxes	4,291,142	4,188,579	-	-	4,291,142	4,188,579	2.4
Unallocated State Aid	1,215,633	1,180,226	-	-	1,215,633	1,180,226	3.0
Mortgage Tax	204,317	249,870	-	-	204,317	249,870	(18.2)
Compensation for Loss	235,543	58,080	-	-	235,543	58,080	305.5
Use of Money and Property Transfers	315,086	327,561	74,095	148,507	389,181	476,068	(18.3)
	290,000	290,000	(290,000)	(290,000)	-	-	-
Miscellaneous Revenue	118,345	150,027	20,338	159,026	138,683	309,053	(55.1)
Total Revenue	13,194,405	12,779,254	4,122,892	4,248,791	17,317,297	17,028,045	1.7
Program Expenses:							
General Government	2,255,824	2,030,273	-	-	2,255,824	2,030,273	11.1
Public Safety	5,419,290	5,381,148	-	-	5,419,290	5,381,148	0.7
Transportation	2,518,594	2,530,202	-	-	2,518,594	2,530,202	(0.5)
Economic Assistance and Opportunity	238,170	343,369	-	-	238,170	343,369	(30.6)
Cultural and Recreation	1,078,079	813,706	-	-	1,078,079	813,706	32.5
Home and Community Services	1,011,412	930,493	-	-	1,011,412	930,493	8.7
Interest on Long-Term Debt	521,143	450,686	-	-	521,143	450,686	15.6
Business Type Activities	-	-	4,565,100	4,324,745	4,565,100	4,324,745	5.6
Total Expenses	13,042,512	12,479,877	4,565,100	4,324,745	17,607,612	16,804,622	4.8
Change in Net Assets	151,893	299,377	(442,208)	(75,954)	(290,315)	223,423	(229.9)
Net Assets - Beginning	34,773,531	34,474,154	15,774,605	15,850,559	50,548,136	50,324,713	0.4
Net Assets - Ending	\$ 34,925,424	34,773,531	15,332,397	15,774,605	50,257,821	50,548,136	(0.6)

The revenue and expense information was derived from the government-wide statement of activities and reflects how the City's net assets changed during the fiscal year. Certain information for fiscal year 2007 has been restated for comparison purposes. The City earned program revenues of \$7.06 million and general revenue of \$10.26 million for total revenue of \$17.32 million during fiscal year 2008. Expenses for the City during fiscal year 2008 were \$17.61 million. The financial activities of the City in 2008 decreased the net assets by \$290,315, which represents a change of 0.6% over the prior year.

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

Governmental Activities - The net assets of governmental activities increased \$151,893 in fiscal year 2008. Revenue for the governmental activities totaled approximately \$13.19 million, an increase of 3.2% over the prior year, while expenses totaled \$13.04 million, an increase of 4.5% over the prior year. Significant variances are as follows:

Revenue:

- Charges for Services increased by 14.7% over the prior year primarily driven by additional revenue from other governments. Fire protection revenue from the Town of Canandaigua increased \$106,825 primarily due to contract restructuring. City of Canandaigua School District increased funding for the School Resource Officer and reimbursed the City for a share of expenses relating to Northeast Park which together total \$51,315. Other increases were a result of Planned Unit Development reimbursements of \$27,765 and repayment of an outstanding loan in the Community Development fund of \$64,713.
- Capital Grants & Contributions had a 32.9% decrease over the prior year. The City receives various grants from State and Federal Agencies for certain projects. In 2007, the City received HUD grants for Lagoon Park and the NY Wine & Culinary Center and from New York State sources we received a Records Management Grant and Consolidated Highway Improvement Program funding. In 2007, the City also accepted a street with all its utilities, lights and trees at a donated value of \$376,460, of which \$250,170 related to governmental activities.
- Compensation for loss, which includes sale of property, increased by 305.5% due primarily to a sale of real estate of \$100,000 and an increase of insurance recoveries of \$73,718.
- A declining housing market and declining interest rates accounted for decreases of 18.2% and 3.8% in Mortgage Tax and Use of Money and Property, respectively.
- The 21.1% decrease in Miscellaneous Revenue was a result of reimbursements of prior year expenses received in 2007.

Expenses:

- City employees received a 3.5% increase in salaries for 2008.
- Employee Benefits increased 6% over 2007 due to increased health insurance premiums.
- Gas and oil prices have continued to remain high, resulting in a 34% increase over 2007.
- General Government increased by 11.1% over the prior year mainly due to the allocation of employee benefits which have been charged to specific departments based on actual data.
- Economic Assistance and Opportunity decreased by 30.6% due to a decrease in grant expenditures of \$103,000 for the CDBG Rehab Grant.
- Culture and Recreation expenditures increased by 32.5% due to capitalization of park improvements in the prior year.
- Interest on Long-Term Debt increased due to the new bond issues in 2008 and 2007 and the lease purchase of two trucks in the Department of Public Works and a Fire Receiver in the Fire Department.

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

Business-Type Activities - The net assets of business-type activities decreased by \$442,208 in fiscal year 2008. Revenue for business-type activities totaled approximately \$4.12 million, a decrease of 3.0% over the prior year, while expenses totaled \$4.56 million, an increase of 5.6% from the prior year. Significant variances are as follows:

- There was an overall increase in Charges for Services primarily driven by an increase in the liquid waste agreements for 2008 of \$172,973. There was a 12% water rate increase, but the sewer rate remained unchanged for 2008.
- Interest earnings decreased 50% due to a declining interest rate and a decrease in the allocation based on the amount of cash available for investing.
- Miscellaneous revenue decreased by 87%. In 2007, the City accepted a street with all its utilities valued at approximately \$126,000.
- Interest expense increased by \$116,396 due to the full year of financing on the 2007 Water tank bonding.

FINANCIAL ANALYSIS OF CITY FUNDS

Governmental Funds

At the end of the current fiscal year, the City reported a combined fund balance of \$4.70 million, a decrease of \$0.2 million from the prior year. Of the total combined fund balance, \$3.71 million constitutes unreserved fund balance, of which \$513,520 has been designated for subsequent year's expenditures and represents the amount estimated for use in the 2009 budget, while the balance of \$3.20 million is available for spending at the City's discretion. Of the \$3.20 million, \$54,234 is earmarked for Capital projects, \$344,423 for Nonmajor funds and \$420,532 for Community Development. The remainder of the fund balance is reserved for: encumbrances - \$56,592, reserve for insurance - \$666,381, reserve for debt - \$153,121, a reserve for Kershaw Park - \$101,963 and miscellaneous reserves of \$14,258.

Funds with significant changes in fund balance are discussed below:

General Fund

The City's *GENERAL FUND* is the largest "fund" of the City comprising 69% of the adopted 2008 City Budget. Some of the services provided by the general fund are:

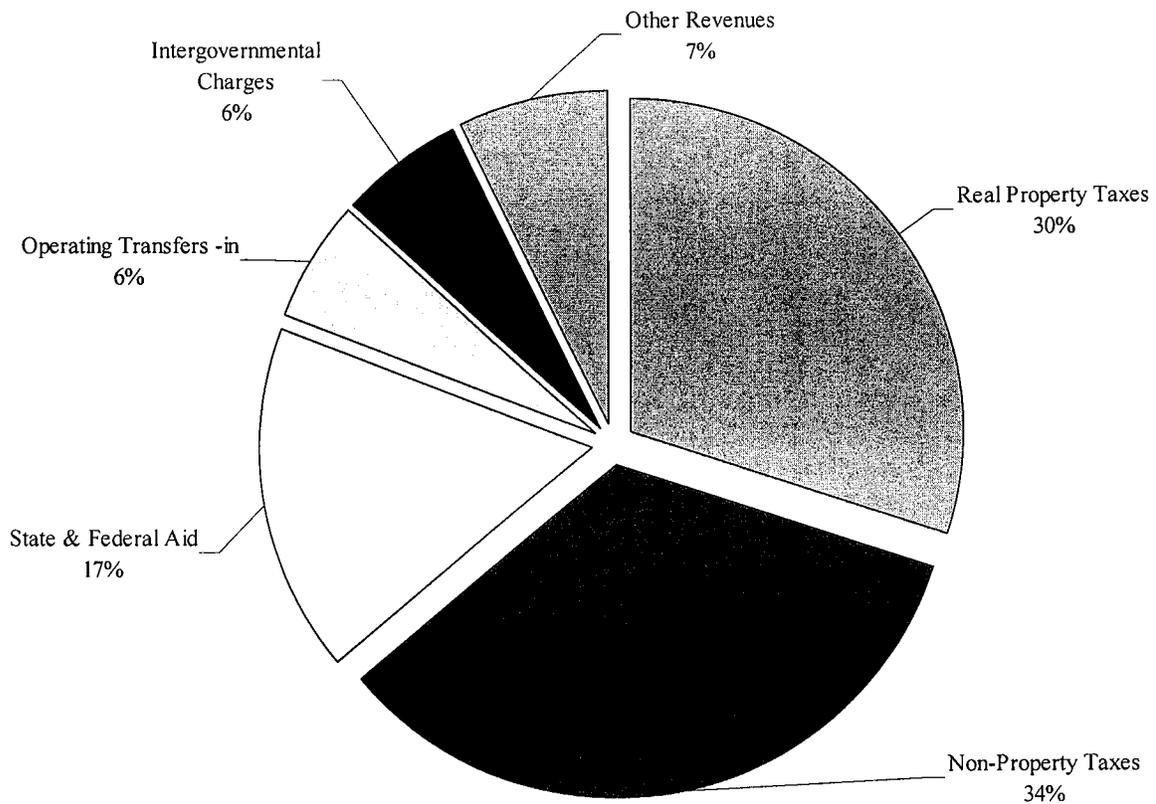
- Issuing and maintaining vital records (birth, death, and marriage certificates) and issuing various state and local licenses and permits;
- Providing public safety services, including police and fire protection and code enforcement;
- Building and maintaining roads and bridges, including snow and ice 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.

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

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.

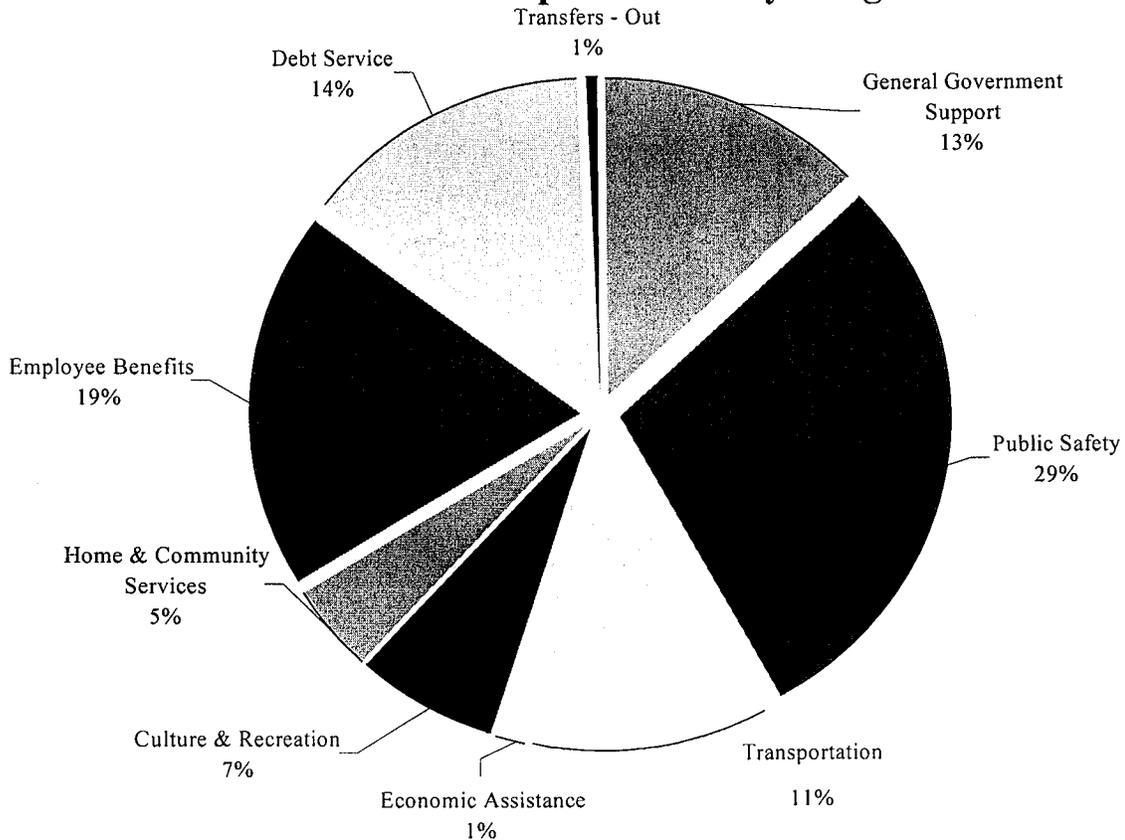
As indicated on the following graphs, the City relies upon a number of important revenue sources to fund its operating expenses. Property taxes, sales taxes and State Aid are the most significant sources of General Fund revenue, while public safety (police and fire services), public works operations, debt service, and employee benefits and other undistributed expenses are the most significant sources of General Fund expense.

2008 General Fund Revenue Categories



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

2008 General Fund Expenditures by Program



The amended General Fund Budget in the amount of \$13.09 million anticipated the use of \$681,548 of fund balance and reserves. However, actual results of operations showed an overall decrease to fund balance of \$10,310, which resulted in a net increase to fund balance (net of encumbrances) of \$634,816, comparing the actual results to the budget.

General Fund revenue overall had a slight positive balance of 1.17%. While most categories reflected positive variances as compared to budget, there were areas that produced below budget expectation. The largest variances were:

- Use of money and property had a negative variance of 40.63% due to the lower than expected interest rate for investments.
- Sale of property and compensation for loss had an increase of \$165,096 due to a sale of real property of \$100,000 and an increase in insurance recoveries.
- State Aid increased over 2007 due to the receipt of unbudgeted CHIPS state aid reimbursements and was offset by lower than projected mortgage tax due to a decline in the housing market.

General Fund expenditures reflected an overall positive variance as compared to budget in the amount of \$488,946. The largest variances were:

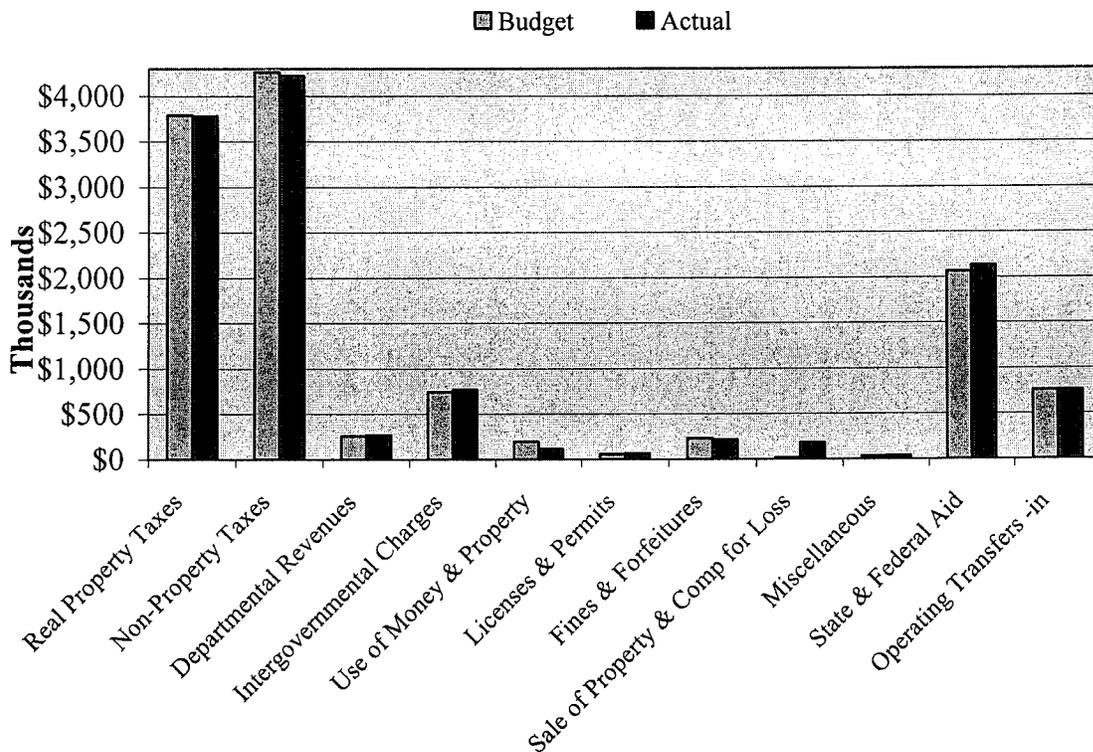
- General Government was under budget by 2.12% primarily due to a vacant position in the City Managers office.

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

- Public Safety was under budget by 4.75% primarily due to savings in personnel due to the vacancy of the Police Chief position and two police officers.
- Transportation was under budget by 9.72% due to the fact that certain capital projects were moved to 2009. Although CHIPS reimbursements increased for projects originally not budgeted, anticipated 2008 projects budgeted to be done with CHIPS such as street resurfacing were not done.
- Employee benefits was under budget by 1.50% due in part to a slightly lower than estimated retirement payment and medical and benefits payments.
- Interest expense was under budget by 3.91% because bond interest budgeted on the 2008 bond issue will not begin until 2009 .

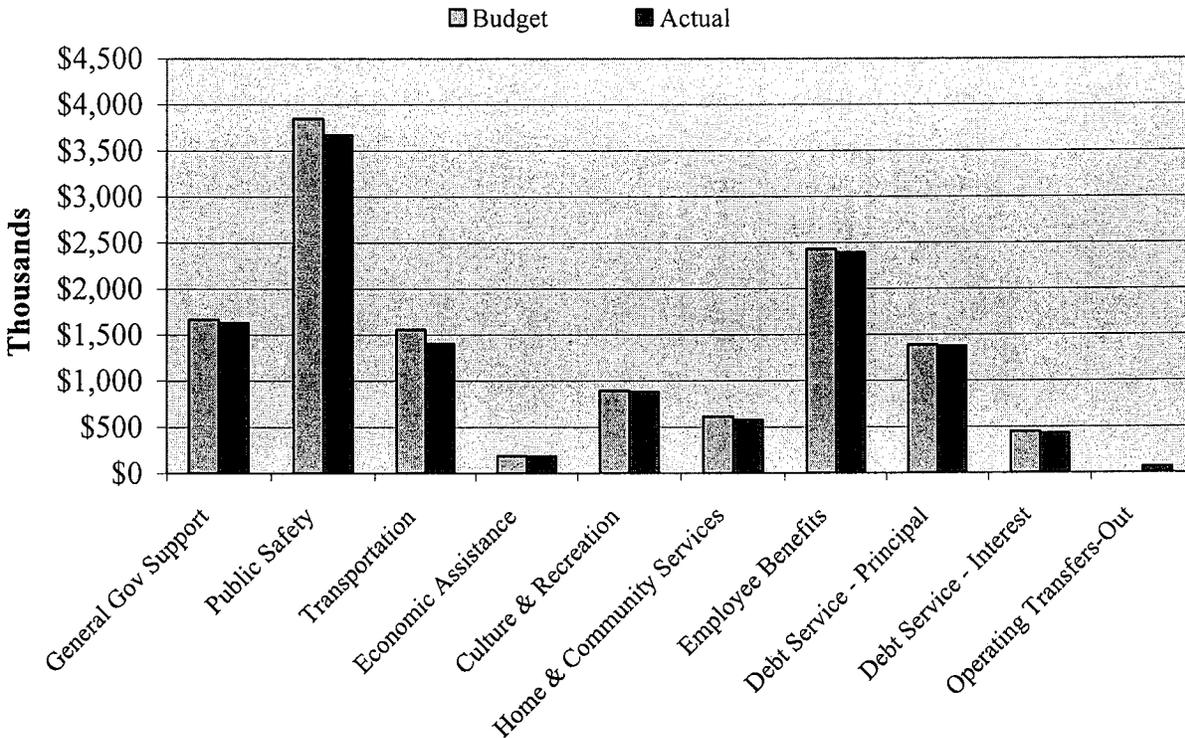
The following table summarizes the 2008 budget as compared to actual results:

Revenue Categories



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

Expenditure Categories



Proprietary Funds

The other two major “funds” of the City are the *WATER FUND* and the *SEWER FUND*, which comprised 15% and 12% of the 2008 adopted City Budget, respectively. The services provided by these enterprise funds are:

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

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

At the end of the current fiscal year, the City reported total net assets for its enterprise funds of \$15.33 million, a decrease of \$442,208 in comparison with the prior year. Of the total net assets, \$11.55 million is recorded as an investment in capital assets, net of related debt, \$2.13 million is restricted for capital reserves and debt service and the remaining \$1.66 million is unrestricted.

Water Fund - This fund finished the current fiscal year with a net loss of \$137,324. The unrestricted fund balance is \$841,436 with an amount reserved for capital expenditures of \$549,583.

Sewer Fund - This fund finished the current fiscal year with net loss of \$304,884. The unrestricted fund balance is \$813,859, with an amount reserved for capital expenditures of \$1,577,957.

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

GOVERNMENT-WIDE CAPITAL ASSET AND DEBT ADMINISTRATION

At December 31, 2008, the City has \$58,378,795 (after depreciation is deducted) in a broad range of capital assets including land, buildings, and machinery and equipment. The change in the City's net assets between 2007 and 2008 is reflected below:

Capital Assets, Net of Depreciation, as of December 31

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land and Land Improvements	\$ 8,747,517	8,573,098	183,680	186,550	8,931,197	8,759,648
Buildings and Improvements	4,096,685	4,235,799	10,757,340	8,296,239	14,854,025	12,532,038
Machinery and Equipment	2,734,043	2,546,342	971,546	1,090,260	3,705,589	3,636,602
Infrastructure	25,012,643	23,204,657	5,511,120	4,957,154	30,523,763	28,161,811
Construction in Progress	336,317	2,733,433	27,904	3,536,329	364,221	6,269,762
Total Capital Assets	\$ 40,927,205	41,293,329	17,451,590	18,066,532	58,378,795	59,359,861

Government-Wide Capital Assets - The primary changes in capital assets during the current fiscal year was the completion of a major street reconstruction started in 2007 and the purchase of two large trucks for public works. During the current year \$.88 million was added to Construction in Progress while \$3.3 million was capitalized along with other fixed asset additions of \$.7 million. Net deletions for 2008 amounted to 104,696. Depreciation for the year totaled \$1,829,049.

Business-Type Activities Capital Assets - The primary changes in capital assets during the current fiscal year was a result of two major street projects and a new water tank. During the current year \$.4 million was added to Construction in Progress while \$3.9 million was capitalized along with other fixed asset additions of \$60,949. Depreciation for the year totaled \$1,103,944.

LONG TERM DEBT

At December 31, 2008, the City had \$18.3 million in general obligation and other long-term debt outstanding as follows:

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Serial Bonds	\$ 9,354,165	10,117,494	5,869,495	6,250,010	15,223,660	16,367,504
Capital Leases	616,101	566,789	32,534	63,544	648,635	630,333
Compensated Absences	647,052	605,165	176,625	175,781	823,677	780,946
HUD 108 - Serial Bond	1,650,000	1,735,000	-	-	1,650,000	1,735,000
Total Long-Term Debt	\$ 12,267,318	13,024,448	6,078,654	6,489,335	18,345,972	19,513,783

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

At December 31, 2008, debt of \$11.0 million is subject to the debt limit of \$37.9 million for the City. This represents 29.0% of the debt limit exhausted. The Water Fund debt is constitutionally excluded from the debt limit, and the Sewer Fund debt prior to 2003 is excluded from the debt limit pursuant to Section 124.10 of the Local Finance Law.

During the year, the City issued Public Improvement (Serial) Bonds in the amount of \$288,660 to provide for the capital improvements and had an increase of \$418,866 in installment purchase contracts.

The City paid back outstanding bonds, notes and capital leases totaling \$1,500,543 for Governmental Activities and \$417,525 for Business-Type Activities during the year.

CREDIT RATING

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

FUTURE FINANCIAL IMPLICATIONS

The 2009 Budget for the City of Canandaigua for General, Water and Sewer Funds totaled \$18,483,560.

Revenue Highlights:

- Property Tax rate increased to \$5.91 per thousand which represents a 2.58% increase in the tax levy.
- Sales Tax revenues are expected to increase by only 1.37% over the 2008 budget based on uncertainty of the economy.
- The Use of Money and Property decreased by 37.26% due to the decline in interest rates.
- State Aid is projected to increase by 13.84% due to the funding of capital projects in the amount of \$274,000, which is offset by the same amount of expenditures.
- Transfers from Reserves has increased by 16.56% due to the restructuring of the Insurance Reserve to move excess funds into a Capital Reserve from which \$111,200 of capital purchases will be funded for 2009.
- Other Revenue Categories remain the same or show modest increases.
- The Water Rate has increased by 6.22% and is now measured per 1000 gallons. A city resident will be charged a rate of \$2.73/1000 gallons.
- The Sewer Rate has increased by 11.52% for 2009. This rate is based on the gallons of water used and for a city resident it is \$2.42/1000 gallons.

Expenditure Highlights:

- The General Fund budget increased by 5.28% over 2008 budget while the Water Fund budget increased by 8.06% and Sewer Fund budgets increased by 3.69%.
- Cost of living increases of 2.5% for all full-time employees have been included in the 2009 budget, although all four union agreements expired in 2007 and 2008 are currently being negotiated.
- In 2009, there are budgeted layoffs of two DPW workers unless union concessions can be made to fund the positions.
- For the first time a contingency account has been set up in the 2009 Budget funded by one time revenue from 2008, and can only be used with permission from City Council.

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

In the General Fund, the City elected to use \$513,520 of unreserved fund balance at December 31, 2008 to balance the fiscal year 2009 budget. The Water and Sewer budgets have also used unreserved fund balance to balance the 2009 budgets in the amounts of \$41,730 and \$129,710 respectively.

Together in 2009, wages and benefits are budgeted to comprise 61% of the City's General Fund budget and 53% of the General, Water and Sewer Budgets combined. The City continues to monitor employee benefits, which are largely outside of our control, and which could have a material effect on future tax levies. Since the year 2000 employee benefits for current and retired employees have risen over 150%. The City has focused on two main areas of employee benefits:

- The first is retirement expense paid on behalf of our employees. Between 1998 and 2002 the cost was negligible to municipal governments. However, due to the retirement system experiencing a significant loss of asset value on their investments, local governments are being asked to make up the difference. For the plan year ending March 31, 2009, the cost to the City was 14.5% of payroll for police and fire, and 7.9% of payroll for other employees. It is currently estimated that the cost for the March 31, 2010 retirement plan year would be approximately 13.8% of the City payroll for police and fire and 6.9% for other employees. Due to the economic climate and falling investment earnings we expect to see a rise in the contribution rate in future years.
- The second is rising costs for medical and dental insurance costs for our employees. The City continues to experience double digit increases in health insurance premiums. Two labor agreements expired in 2007 and the remaining two expired in 2008, and negotiations will focus on ways to reduce the cost of health insurance. We obtained a shared services grant with the City of Geneva to investigate the experience related plans to see if it would be beneficial to the City.

The City has also been affected by the high price of gas and oil. We are continually finding ways to reduce consumption and investigating long term solutions for the future.

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:

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

CITY OF CANANDAIGUA, NEW YORK
Statement of Net Assets
December 31, 2008

	<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 equivalents	\$ 4,393,979	2,922,149	7,316,128
Accounts receivable, net	630,118	976,116	1,606,234
Due from other governments	456,682	191,328	648,010
State and Federal aid receivable	151,362	-	151,362
Prepaid items	214,338	43,206	257,544
Total current assets	<u>5,846,479</u>	<u>4,132,799</u>	<u>9,979,278</u>
Long-term assets:			
Accounts receivable, net	1,650,000	-	1,650,000
Capital assets:			
Land	3,482,538	164,072	3,646,610
Work in progress	336,317	27,902	364,219
Other capital assets, net of depreciation	37,108,350	17,259,616	54,367,966
Total long-term assets	<u>42,577,205</u>	<u>17,451,590</u>	<u>60,028,795</u>
Total assets	<u>48,423,684</u>	<u>21,584,389</u>	<u>70,008,073</u>
Liabilities:			
Accounts payable and other current liabilities	385,832	94,548	480,380
Accrued liabilities	379,752	78,790	458,542
Due to other governments	31,087	-	31,087
Due to other funds	165	-	165
Deferred revenue	434,106	-	434,106
Long-term liabilities:			
Due in one year	1,635,739	466,414	2,102,153
Due in more than one year	10,631,579	5,612,240	16,243,819
Total liabilities	<u>13,498,260</u>	<u>6,251,992</u>	<u>19,750,252</u>
Net assets:			
Invested in capital assets, net of related debt	31,117,500	11,549,562	42,667,062
Restricted for:			
Capital reserves	-	2,106,513	2,106,513
Debt service	153,121	21,027	174,148
Special districts	774,108	-	774,108
Unrestricted	2,880,695	1,655,295	4,535,990
Total net assets	<u>\$ 34,925,424</u>	<u>15,332,397</u>	<u>50,257,821</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK
Statement of Activities
Year ended December 31, 2008

Functions/programs Primary government:	Program revenue			Net (expense) revenue and changes in net assets		
	Expenses	Charges for	Operating	Capital	Business-type Activities	Total
		Services	Contributions	Grants and Contributions		
Governmental activities:						
General government support	\$ 2,255,824	380,590	48,200	-	(1,827,034)	(1,827,034)
Public safety	5,419,290	1,071,524	18,271	-	(4,329,495)	(4,329,495)
Transportation	2,518,594	-	127,787	487,004	(1,903,803)	(1,903,803)
Economic assistance and opportunity	238,170	-	-	37,000	(201,170)	(201,170)
Culture and recreation	1,078,079	184,997	-	31,476	(861,606)	(861,606)
Home and community services	1,011,412	266,947	-	88,172	(656,293)	(656,293)
Interest on long-term debt	521,143	-	-	-	(521,143)	(521,143)
Total governmental activities	<u>13,042,512</u>	<u>1,904,058</u>	<u>194,258</u>	<u>643,652</u>	<u>(10,300,544)</u>	<u>(10,300,544)</u>
Business-type activities:						
Water fund	2,471,279	2,576,854	-	-	105,575	105,575
Sewer fund	2,093,821	1,741,605	-	-	(352,216)	(352,216)
Total business-type activities	<u>4,565,100</u>	<u>4,318,459</u>	<u>-</u>	<u>-</u>	<u>(246,641)</u>	<u>(246,641)</u>
Total primary government	<u>\$ 17,607,612</u>	<u>6,222,517</u>	<u>194,258</u>	<u>643,652</u>	<u>(10,300,544)</u>	<u>(10,547,185)</u>
General revenue:						
Taxes:						
Property taxes		\$ 3,782,371			-	3,782,371
Non-property taxes		4,291,142			-	4,291,142
Mortgage tax		204,317			-	204,317
Unallocated State aid		1,215,633			-	1,215,633
Compensation for loss		235,543			-	235,543
Investment earnings		315,086			74,095	389,181
Transfers		290,000			(290,000)	-
Miscellaneous		118,345			20,338	138,683
Total general revenue		<u>10,452,437</u>			<u>(195,567)</u>	<u>10,256,870</u>
Change in net assets		151,893			(442,208)	(290,315)
Net assets at beginning of year		34,773,531			15,774,605	50,548,136
Net assets at end of year		<u>\$ 34,925,424</u>			<u>15,332,397</u>	<u>50,257,821</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK
Balance Sheet - Governmental Funds
December 31, 2008

	General Fund	Capital Projects Fund	Community Development Fund	Nonmajor Governmental Funds	Total Funds
Assets:					
Cash and equivalents	\$ 3,245,341	160,561	509,447	478,630	4,393,979
Receivables	211,918	-	413,369	4,831	630,118
Due from other funds	2,153	-	-	52,944	55,097
Due from other governments	456,682	-	-	-	456,682
State and Federal aid receivable	151,362	-	-	-	151,362
Prepaid items	209,361	-	-	4,977	214,338
Total assets	<u>\$ 4,276,817</u>	<u>160,561</u>	<u>922,816</u>	<u>541,382</u>	<u>5,901,576</u>
Liabilities and fund balance:					
Liabilities:					
Accounts payables and other current liabilities	228,065	42,365	-	1,886	272,316
Accrued liabilities	286,132	-	4,415	1,631	292,178
Due to other funds	165	52,944	2,153	-	55,262
Due to other governments	31,087	-	-	-	31,087
Collections in advance	-	-	82,348	31,168	113,516
Deferred revenue	20,738	-	413,368	-	434,106
Total liabilities	<u>566,187</u>	<u>95,309</u>	<u>502,284</u>	<u>34,685</u>	<u>1,198,465</u>
Fund balances:					
Reserved for:					
Insurance reserve	666,381	-	-	-	666,381
Encumbrances	36,421	11,018	-	9,153	56,592
Reserve for debt	-	-	-	153,121	153,121
Kershaw Park reserve	101,963	-	-	-	101,963
Miscellaneous reserve	14,258	-	-	-	14,258
Unreserved:					
Appropriated for subsequent year	513,520	-	-	-	513,520
Unappropriated	2,378,087	54,234	420,532	344,423	3,197,276
Total fund balances	<u>3,710,630</u>	<u>65,252</u>	<u>420,532</u>	<u>506,697</u>	4,703,111
Total liabilities and fund balances	<u>\$ 4,276,817</u>	<u>160,561</u>	<u>922,816</u>	<u>541,382</u>	

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

Capital assets used in governmental activities are not financial resource and therefore are not reported in the funds.	40,927,205
Long-term liabilities, including serial bonds payable, are not due in the current period and therefore are not reported in the funds.	(11,620,266)
Accounts receivable - HUD108	1,650,000
Interest is accrued on outstanding bonds in the statement of net assets but not in the funds.	(87,574)
Compensated absences are not reported in the funds under fund accounting but are expensed as the liability is incurred in the statement of net assets.	(647,052)
	<u>\$34,925,424</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK
Statement of Revenue, Expenditures, and Changes in
Fund Balances - Governmental Funds
Year ended December 31, 2008

	General Fund	Capital Projects Fund	Community Development Fund	Nonmajor Governmental Funds	Total Funds
Revenue:					
Real property and tax items	\$ 3,782,370	-	-	-	3,782,370
Non-property taxes	4,223,397	-	-	-	4,223,397
Departmental income	279,717	-	-	7,400	287,117
Intergovernmental charges	769,224	-	-	115,542	884,766
Use of money and property	133,082	3,195	669	178,141	315,087
Licenses and permits	65,668	-	-	-	65,668
Fines and forfeitures	216,575	-	-	-	216,575
Sale of property and compensation for loss	235,543	-	-	-	235,543
Miscellaneous	39,600	-	192,335	13,771	245,706
Interfund revenues	330,270	-	-	-	330,270
State and County aid	2,133,077	-	-	88,172	2,221,249
Federal aid	-	-	113,912	-	113,912
	<u>12,208,523</u>	<u>3,195</u>	<u>306,916</u>	<u>403,026</u>	<u>12,921,660</u>
Expenditures:					
Current:					
General governmental support	1,662,385	-	-	64,861	1,727,246
Public safety	3,659,174	64,226	-	-	3,723,400
Transportation	1,403,110	575,870	-	-	1,978,980
Economic assistance and opportunity	184,697	-	105,000	-	289,697
Culture and recreation	873,488	147,567	-	-	1,021,055
Home and community services	574,366	179,110	23,775	188,553	965,804
Employee benefits	2,391,538	-	-	15,638	2,407,176
Debt service:					
Principal	1,373,090	-	85,000	42,415	1,500,505
Interest and other charges	429,193	-	107,335	2,884	539,412
	<u>12,551,041</u>	<u>966,773</u>	<u>321,110</u>	<u>314,351</u>	<u>14,153,275</u>
Excess (deficiency) of revenue over expenditures	<u>(342,518)</u>	<u>(963,578)</u>	<u>(14,194)</u>	<u>88,675</u>	<u>(1,231,615)</u>
Other financing sources and uses:					
Operating transfers	360,340	12,416	-	(82,756)	290,000
Serial bonds	-	282,660	-	-	282,660
Increase in capital leases	-	418,866	-	-	418,866
	<u>360,340</u>	<u>713,942</u>	<u>-</u>	<u>(82,756)</u>	<u>991,526</u>
Net change in fund balances	17,822	(249,636)	(14,194)	5,919	(240,089)
Fund balances at beginning of year	<u>3,692,808</u>	<u>314,888</u>	<u>434,726</u>	<u>500,778</u>	<u>4,943,200</u>
Fund balances at end of year	<u>\$ 3,710,630</u>	<u>65,252</u>	<u>420,532</u>	<u>506,697</u>	<u>4,703,111</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK
 Reconciliation of the Statement of Revenue, Expenditures and
 Changes in Fund Balances of Governmental Funds to
 the Statement of Activities
 Year ended December 31, 2008

Net change in fund balance - total governmental funds \$(240,089)

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

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.

Capital outlay	\$ 878,004	
Additions of assets, net of disposals	584,921	
Depreciation	<u>(1,829,049)</u>	(366,124)

Bond proceeds and capital leases provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayments of bond principal and capital leases are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayment:

Debt repayments	1,500,543	
Proceeds of bond issuance	(282,660)	
Increase in capital leases	(418,866)	
Reduction in revenue for HUD 108	<u>(85,000)</u>	714,017

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. (41,887)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditure is reported when due. 18,231

To recognize change in liability recognized for non-property tax revenue received in 2005 in error that is deducted from current year revenue. 67,745

Change in net assets of governmental activities \$ 151,893

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK
Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual
(Non-GAAP Basis of Budgeting) - General Fund
Year ended December 31, 2008

	Original budget (including carryover <u>encumbrances</u>)	Budget (<u>amended</u>)	<u>Actual</u>	<u>Encumbrances</u>	<u>Variances</u>
Revenue and other sources:					
Revenue:					
Real property and tax items	\$ 3,789,270	3,789,270	3,782,370	-	(6,900)
Non-property taxes	4,260,000	4,260,000	4,223,397	-	(36,603)
Departmental income	246,880	258,880	270,345	-	11,465
Intergovernmental charges	711,370	742,980	769,224	-	26,244
Use of money and property	196,430	196,430	116,614	-	(79,816)
Licenses and permits	55,100	55,100	65,668	-	10,568
Fines and forfeitures	230,500	230,500	216,575	-	(13,925)
Sale of property and compensation for loss	16,900	16,900	181,996	-	165,096
Miscellaneous	6,700	36,650	39,525	-	2,875
Interfund revenues	330,270	330,270	330,270	-	-
State and County aid	<u>1,837,170</u>	<u>2,066,211</u>	<u>2,133,077</u>	-	<u>66,866</u>
Total revenue	11,680,590	11,983,191	12,129,061	-	145,870
Other sources - operating transfers	<u>425,700</u>	<u>425,700</u>	<u>425,700</u>	-	-
Total revenue and other sources	<u>12,106,290</u>	<u>12,408,891</u>	<u>12,554,761</u>	-	<u>145,870</u>
Expenditures:					
Current:					
General governmental support	1,619,097	1,667,312	1,611,056	20,885	35,371
Public safety	3,778,410	3,849,903	3,659,174	7,678	183,051
Transportation	1,557,002	1,555,742	1,403,110	1,458	151,174
Economic assistance and opportunity	142,674	185,596	184,697	-	899
Culture and recreation	844,440	895,090	873,488	6,400	15,202
Home and community services	613,312	611,798	574,366	-	37,432
Employee benefits	2,423,670	2,427,878	2,391,538	-	36,340
Debt service:					
Principal	1,385,120	1,385,120	1,373,090	-	12,030
Interest and other charges	<u>446,640</u>	<u>446,640</u>	<u>429,193</u>	-	<u>17,447</u>
Total expenditures	12,810,365	13,025,079	12,499,712	36,421	488,946
Other uses - operating transfers	<u>-</u>	<u>65,360</u>	<u>65,360</u>	-	-
Total expenditures and other uses	<u>12,810,365</u>	<u>13,090,439</u>	<u>12,565,072</u>	<u>36,421</u>	<u>488,946</u>
Revenue and other sources over (under) expenditures and other uses	(704,075)	(681,548)	(10,311)	(36,421)	<u>634,816</u>
Revenue and other sources over (under) expenditures and other uses:					
Insurance Reserve Fund	-	-	16,572	-	-
Kershaw Park Reserve Fund	-	-	11,561	-	-
	(704,075)	(681,548)	17,822	(36,421)	-
Fund balances at beginning of year	<u>3,692,808</u>	<u>3,692,808</u>	<u>3,692,808</u>	-	-
Fund balances at end of year	<u>\$ 2,988,733</u>	<u>3,011,260</u>	<u>3,710,630</u>	<u>(36,421)</u>	-

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK
Statement of Net Assets -
Proprietary Funds
December 31, 2008

	<u>Business Type Activities - Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Assets:			
Cash	\$ 881,660	2,040,489	2,922,149
Accounts receivable (net)	654,619	321,497	976,116
Due from other governments	-	191,328	191,328
Prepaid items	26,233	16,973	43,206
Capital assets:			
Land	40,736	123,336	164,072
Work in progress	21,888	6,014	27,902
Other capital assets, net of depreciation	<u>7,810,710</u>	<u>9,448,906</u>	<u>17,259,616</u>
Total assets	<u>9,435,846</u>	<u>12,148,543</u>	<u>21,584,389</u>
Liabilities:			
Accounts payable and other current liabilities	41,371	53,177	94,548
Accrued liabilities	34,409	44,381	78,790
Noncurrent liabilities:			
Due in one year	227,658	238,756	466,414
Due in more than one year	<u>3,050,085</u>	<u>2,562,155</u>	<u>5,612,240</u>
Total liabilities	<u>3,353,523</u>	<u>2,898,469</u>	<u>6,251,992</u>
Net assets:			
Invested in capital assets, net of related debt	4,691,304	6,858,258	11,549,562
Restricted for - capital reserves	537,830	1,568,683	2,106,513
Restricted for - debt service	11,753	9,274	21,027
Unrestricted	<u>841,436</u>	<u>813,859</u>	<u>1,655,295</u>
Total net assets	<u>\$6,082,323</u>	<u>9,250,074</u>	<u>15,332,397</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK
Statement of Revenue, Expenditures, and Changes in
Fund Balance - Proprietary Funds
Year ended December 31, 2008

	<u>Business Type Activities - Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating revenue:			
Contributions from operations	\$ 2,576,854	1,741,605	4,318,459
Rental of real property	8,827	-	8,827
Other revenue	10,341	1,170	11,511
Total operating revenue	<u>2,596,022</u>	<u>1,742,775</u>	<u>4,338,797</u>
Operating expenses:			
Judgments, claims, and insurance premiums	244,938	190,468	435,406
General services	1,620,337	971,938	2,592,275
Contractual expenses	28,619	164,287	192,906
Other professional services	5,820	6,450	12,270
Depreciation	427,527	676,417	1,103,944
Total operating expenses	<u>2,327,241</u>	<u>2,009,560</u>	<u>4,336,801</u>
Operating income (loss)	<u>268,781</u>	<u>(266,785)</u>	<u>1,996</u>
Nonoperating revenue (expense):			
Interest income	27,933	46,162	74,095
Interest expense	(144,038)	(84,261)	(228,299)
Interfund transfer	(290,000)	-	(290,000)
Total nonoperating expense	<u>(406,105)</u>	<u>(38,099)</u>	<u>(444,204)</u>
Net loss	(137,324)	(304,884)	(442,208)
Net assets at beginning of year	<u>6,219,647</u>	<u>9,554,958</u>	<u>15,774,605</u>
Net assets at end of year	<u>\$ 6,082,323</u>	<u>9,250,074</u>	<u>15,332,397</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK
Statement of Cash Flows -
Proprietary Funds
Year ended December 31, 2008

	<u>Business Type Activities - Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Receipts from services	\$2,598,657	1,801,813	4,400,470
Cash payments to insurance providers	(244,938)	(190,468)	(435,406)
Cash payments for contractual services	(2,193,742)	(1,125,645)	(3,319,387)
Other operating revenue	<u>19,168</u>	<u>1,170</u>	<u>20,338</u>
Net cash provided by operating activities	<u>179,145</u>	<u>486,870</u>	<u>666,015</u>
Cash flows from capital and related financing activities:			
Proceeds from serial bonds	-	6,000	6,000
Principal payments of debt	(203,067)	(214,458)	(417,525)
Interest paid	(144,039)	(84,260)	(228,299)
Interfund transfer	(290,000)	-	(290,000)
Purchases of capital assets	<u>(420,029)</u>	<u>(68,973)</u>	<u>(489,002)</u>
Net cash used in capital and related financing activities	<u>(1,057,135)</u>	<u>(361,691)</u>	<u>(1,418,826)</u>
Cash flows from investing activities - investment income	<u>27,933</u>	<u>46,162</u>	<u>74,095</u>
Net increase (decrease) in cash and equivalents	(850,057)	171,341	(678,716)
Cash and equivalents at beginning of year	<u>1,731,717</u>	<u>1,869,148</u>	<u>3,600,865</u>
Cash and equivalents at end of year	<u>\$ 881,660</u>	<u>2,040,489</u>	<u>2,922,149</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	268,781	(266,785)	1,996
Adjustments to reconcile income (loss) to net cash by operating activities:			
Depreciation	427,527	676,417	1,103,944
Changes in:			
Accounts receivable	21,803	60,208	82,011
Prepaid items	1,518	2,551	4,069
Accounts payable and accrued liabilities	(532,088)	5,239	(526,849)
Compensated absences	<u>(8,396)</u>	<u>9,240</u>	<u>844</u>
Net cash provided by operating activities	<u>\$ 179,145</u>	<u>486,870</u>	<u>666,015</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK
Statement of Fiduciary Net Assets -
Fiduciary Funds
December 31, 2008

	<u>Expendable Trust</u>	<u>Agency Funds</u>
Assets:		
Cash and equivalents	\$ 37,988	126,895
Accounts receivable (net)	-	475
Due from other funds	-	165
Total assets	37,988	127,535
 Liabilities:		
Accounts payable	-	81
Tax sale surplus	-	112,398
Other liabilities	-	15,056
Total liabilities	-	127,535
Net assets - unreserved	\$ 37,988	-

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK
Statement of Changes in Fiduciary Net Assets -
Fiduciary Funds
Year ended December 31, 2008

	Expendable <u>Trust</u>
Additions:	
Contributions	\$ 165
Investment earnings	<u>375</u>
Total additions	<u>540</u>
Change in net assets	540
Net assets - unreserved at beginning of year	<u>37,448</u>
Net assets - unreserved at end of year	<u><u>\$ 37,988</u></u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements

December 31, 2008

(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

(1) Government-Wide Statements

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

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

(1) Summary of Certain Significant Accounting Policies, Continued

(b) Basis of Presentation, Continued

(1) Government-Wide Statements, Continued

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 special district funds that is eliminated like a reimbursement (reducing the revenue and expense in the General Fund) to recover the direct costs of services provided (finance, personnel, purchasing, legal, technology, management, etc.)

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

(2) 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.

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

(1) Summary of Certain Significant Accounting Policies, Continued

(b) Basis of Presentation, Continued

(2) Fund Financial Statements, Continued

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 and Open Spaces
Technology

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

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

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

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

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

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

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(c) Measurement Focus and Basis of Accounting

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 December 18. Taxes which remain unpaid after the collection period are enforced pursuant to the tax sale provisions in the City charter.

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

The City is permitted by the Constitution of New York State to levy taxes up to 2% of the five-year average full assessed valuations for general governmental services other than the payment of debt service and capital expenditure. The City utilizes a full value system, assessing all properties at 100% of full market value. For the year ended December 31, 2008, the City had a legal margin of approximately \$8,891,000.

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.

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(e) Budgets and Budgetary Data

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

- (1) Annual budgets are adopted for the general and enterprise funds only. Formal annual budgets are not prepared for the City's special revenue, debt service and capital projects funds.
- (2) The budget policies are as follows:
 - a. 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.
 - b. After a public hearing is conducted to obtain citizens comments, no later than December 15, the City Council adopts the annual budget.
 - c. All revisions that alter total appropriations of any department or fund must be approved by the City Council.
 - d. Budgetary controls are established for the capital projects fund through resolutions authorizing individual projects.
- (3) 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 Equivalents

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

(g) Investments

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

(h) Accounts Receivable

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

(i) Due To/From Other Funds

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

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

(1) Summary of Certain Significant Accounting Policies, Continued

(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.

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. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The reporting of the City's retroactive infrastructure is concurrent with the implementation of the general provisions of GASB Statement No. 34.

GASB Statement No. 42 requires the City to properly report any actual or potential impairment in its capital assets with material carrying values, as well as any insurance recoveries. There were no such impairments reported by the City in 2008.

(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.

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(l) Compensated Absences, Continued

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 \$302,002 for 24 retirees and/or their surviving spouses for the year ended December 31, 2008.

(n) Deferred Revenue

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

(o) Long-Term Obligations

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

(p) 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 at year-end, exclusive of grant-related commitments, are presented for GAAP reporting purposes as reservations of fund balances, and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. The City had \$56,592 in encumbrances outstanding at December 31, 2008.

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(q) Restrictions, Reserves and Designations

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

- Invested in Capital Assets, Net of Related Debt - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted Net Assets - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets - This category represents net assets of the City not restricted for any project or purpose.

(r) Future Impacts of Accounting Pronouncements

GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans prescribes uniform financial reporting standards for other postemployment benefits (OPEB) plans. OPEB refers to postemployment benefits other than pension benefits and includes: (i) postemployment healthcare benefits and (ii) other types of postemployment benefits (e.g. life insurance) if provided separately from a pension plan. "Plans" refer to trust or other funds through which assets are accumulated to finance OPEB, and benefits are paid as they become due. Statement No. 43 is effective for the City's year ending December 31, 2009. This statement is not expected to have a material effect on future financial statements of the City, since the City only provides for OPEB on a pay-as-you-go basis and does not sponsor or participate in a formal OPEB plan.

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expense and related liabilities (assets), note disclosures, and, if applicable, required supplementary information. OPEB includes postemployment healthcare as well as other forms of postemployment benefits (e.g. life insurance) when provided separately from a pension. The approach followed in the statement generally is consistent with the approach adopted in Statement No. 27, Accounting for Pensions by State and Local Government Employers, with modifications to reflect differences between pension benefits and OPEB. Statement No. 45 improves the relevance and usefulness of financial reporting by: (i) recognizing the cost of benefits in periods when the related services are received by the employer; (ii) providing information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded; and (iii) providing information useful in assessing potential demands on the employer's future cash flows.

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

The City will be required to implement Statement No. 45 in the year ending December 31, 2009. While earlier application of the statement is encouraged, the City has not completed the task of estimating the impact of Statement No. 45 on its financial statements. However, the City anticipates that implementation of Statement No. 45 will result in significant additional expenses and liabilities being recorded in the government-wide financial statements.

GASB Technical Bulletin No. 2004-2, Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers. The technical bulletin clarifies the requirements of statement No. 27, Accounting for Pensions by State and Local Governmental Employers and statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions for recognition of pension and other postemployment benefit expense and liabilities by the City. This technical bulletin requires the City to recognize OPEB expense equal to their contractual required contributions for the financial reporting period and a liability to the plan for contributions due and unpaid at the end of that period. This statement is not expected to have a material effect on future financial statements of the City, since the City only provides for OPEB on a pay-as-you-go basis and does not sponsor or participate in a formal OPEB plan.

GASB Statement No. 47, Accounting for Termination Benefits provides guidance for measuring, recognizing, and reporting liabilities and expense related to all termination benefits, including voluntary termination benefits (e.g. early-retirement incentives), without limitation as to the period of time during which the benefits are offered, and involuntary termination benefits (e.g. severance benefits). Statement No. 47 excludes postemployment benefits (pensions and other postemployment benefits) which are part of the compensation that is offered in exchange for services received because they differ in nature from termination benefits. This statement is not expected to have a material effect on future financial statements of the City, since the City only provides for OPEB on a pay-as-you-go basis and does not sponsor or participate in a formal OPEB plan.

GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications that can be more consistently applied. The City will be required to implement Statement No. 54 in the year ending December 31, 2011. The city has not yet made a determination as to the potential impact of Statement No. 54 on its financial statements.

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(2) Cash and Investments

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

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

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

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 102% of uninsured deposits and is composed of obligations of the United States and its agencies and obligations of the State of New York, its municipalities and school districts. The detail of cash and investments at December 31, 2008 consists of:

Petty cash	\$ 715
Deposits - checking and savings accounts	<u>7,480,296</u>
Total	\$ <u>7,481,011</u>

Deposits at December 31, 2008 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. All deposits are carried at costs and consist of:

<u>Fund</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Primary Government:		
General fund	\$ 3,287,324	3,245,341
Capital project fund	160,800	160,561
Community development fund	509,447	509,447
Nonmajor funds	484,049	478,630
Water fund	896,279	881,660
Sewer fund	2,046,002	2,040,489
Fiduciary fund - agency fund	163,694	126,895
Fiduciary fund - expendable trust	<u>37,988</u>	<u>37,988</u>
Total	\$ <u>7,585,583</u>	<u>7,481,011</u>

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(2) Cash and Investments, Continued

Collateralized as follows:

FDIC Insurance	\$ 1,010,584
Collateral held by third party custodial bank	1,124,346
Collateral held by trading partner's trust department	<u>6,145,096</u>
Total	\$ <u>8,280,026</u>

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

(3) Receivables

Receivables at December 31, 2008 consisted of the following, which are net of an allowance for uncollectible amounts:

	<u>General</u>	<u>Community development</u>	<u>Nonmajor funds</u>	<u>Agency funds</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Current:							
Taxes	\$ 63,918	-	-	-	-	-	63,918
Accounts	37,116	-	-	475	257,038	562,002	856,631
Franchise fees	76,157	-	-	-	-	-	76,157
Rents receivable	-	-	4,831	-	84,459	92,617	181,907
Parking tickets	44,436	-	-	-	-	-	44,436
Rehabilitation loans	-	413,369	-	-	-	-	413,369
Other governments	456,682	-	-	-	191,328	-	648,010
State and Federal aid	151,362	-	-	-	-	-	151,362
Less allowance for uncollectibles	<u>(9,709)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20,000)</u>	<u>-</u>	<u>(29,709)</u>
Total current receivables, net	819,962	413,369	4,831	475	512,825	654,619	2,406,081
Noncurrent - Steamboat Landing project, Section 108 HUD Loan	<u>-</u>	<u>1,650,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,650,000</u>
Total receivables	<u>\$ 819,962</u>	<u>2,063,369</u>	<u>4,831</u>	<u>475</u>	<u>512,825</u>	<u>654,619</u>	<u>4,056,081</u>

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

(4) Interfund Receivables and Payables

Interfund receivables and payables at December 31, 2008 were as follows:

<u>Fund</u>	<u>Interfund receivables</u>	<u>Interfund payables</u>
General fund	\$ 2,153	165
Capital projects fund	-	52,944
Community development fund	-	2,153
Debt service fund	52,944	-
Trust and agency fund	165	-
Total	<u>\$ 55,262</u>	<u>55,262</u>

(5) Capital Assets

Capital assets activity for the year ended December 31, 2008 was as follows:

	<u>Balance at January 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at December 31, 2008</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,510,258	-	(27,720)	3,482,538
Work in process	2,733,433	878,004	(3,275,120)	336,317
Total capital assets not being depreciated	<u>6,243,691</u>	<u>878,004</u>	<u>(3,302,840)</u>	<u>3,818,855</u>
Capital assets, being depreciated:				
Land improvements	7,284,746	361,657	-	7,646,403
Infrastructure	50,564,672	2,844,971	-	53,409,643
Buildings and improvements	8,160,138	98,524	-	8,258,662
Machinery and equipment	4,946,395	659,585	(502,803)	5,103,177
Total capital assets being depreciated	<u>70,955,951</u>	<u>3,964,737</u>	<u>(502,803)</u>	<u>74,417,885</u>

(Continued)

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

(5) Capital Assets, Continued

	Balance at January 1, 2008	<u>Increases</u>	<u>Decreases</u>	Balance at December 31, 2008
Less accumulated depreciation for:				
Land improvements	\$ 2,221,906	159,518	-	2,381,424
Infrastructure	27,360,015	1,036,985	-	28,397,000
Buildings and improvements	3,924,339	237,638	-	4,161,977
Machinery and equipment	2,400,053	394,908	(425,827)	2,369,134
Total accumulated depreciation	<u>35,906,313</u>	<u>1,829,049</u>	<u>(425,827)</u>	<u>37,309,535</u>
Total capital assets being depreciated, net	35,049,638	2,135,688	(76,976)	37,108,350
Total	<u>\$41,293,329</u>	<u>3,013,692</u>	<u>(3,379,816)</u>	<u>40,927,205</u>

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

<u>Governmental activities:</u>	
General governmental support	\$ 165,387
Public safety	234,710
Transportation	1,152,997
Economic development	856
Home and community	72,699
Culture and recreation	202,400
	<u>\$ 1,829,049</u>

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

(5) Capital Assets, Continued

	Balance at January 1, 2008	Increases	Decreases	Balance at December 31, 2008
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 164,072	-	-	164,072
Work in process	3,536,329	428,053	(3,936,480)	27,902
Total capital assets not being depreciated	<u>3,700,401</u>	<u>428,053</u>	<u>(3,936,480)</u>	<u>191,974</u>
Capital assets, being depreciated:				
Land improvements	28,694	-	-	28,694
Infrastructure	17,959,811	926,520	-	18,886,331
Buildings and improvements	21,870,587	3,009,960	-	24,880,547
Machinery and equipment	3,452,233	60,949	(101,561)	3,411,621
Total capital assets being depreciated	<u>43,311,325</u>	<u>3,997,429</u>	<u>(101,561)</u>	<u>47,207,193</u>
Less accumulated depreciation for:				
Land improvements	6,216	2,869	-	9,085
Infrastructure	13,002,657	372,554	-	13,375,211
Buildings and improvements	13,574,348	548,859	-	14,123,207
Machinery and equipment	2,361,973	179,662	(101,561)	2,440,074
Total accumulated depreciation	<u>28,945,194</u>	<u>1,103,944</u>	<u>(101,561)</u>	<u>29,947,577</u>
Total capital assets being depreciated, net	<u>14,366,131</u>	<u>2,893,485</u>	<u>-</u>	<u>17,259,616</u>
Total	<u>\$18,066,532</u>	<u>3,321,538</u>	<u>(3,936,480)</u>	<u>17,451,590</u>

Depreciation expense amounting to \$1,103,944 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). 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 employee who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary. Employees in the System more than ten years are no longer required to contribute. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund. The City is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were as follows:

	<u>ERS</u>	<u>PFRS</u>
2008	\$ 286,973	426,487
2007	327,028	367,891
2006	328,937	398,743

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

(7) 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 capital leases and compensated absences.

(c) Summary of Debt

The following is a summary of obligations outstanding at December 31, 2008:

	<u>Balance at</u> <u>1/1/08</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>12/31/08</u>	<u>Classified as</u>	
					<u>Current</u>	<u>Non-current</u>
<u>Governmental Funds:</u>						
Serial bonds	\$ 10,117,494	282,660	1,045,989	9,354,165	1,073,725	8,280,440
Capital leases	566,789	418,866	369,554	616,101	305,251	310,850
HUD 108 - Serial bonds	1,735,000	-	85,000	1,650,000	95,000	1,555,000
Compensated absences	605,165	41,887	-	647,052	161,763	485,289
Total governmental funds	<u>\$ 13,024,448</u>	<u>743,413</u>	<u>1,500,543</u>	<u>12,267,318</u>	<u>1,635,739</u>	<u>10,631,579</u>

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

(7) Long Term Debt, Continued

(c) Summary of Debt, Continued

<u>Enterprise funds:</u>	<u>Balance at</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u>	<u>Classified as</u>	
	<u>1/1/08</u>			<u>12/31/08</u>	<u>Current</u>	<u>Non-current</u>
Water:						
Serial bonds	\$ 3,348,710	-	185,310	3,163,400	183,000	2,980,400
Capital leases	36,388	-	17,757	18,631	18,631	-
Compensated absences	104,108		8,396	95,712	26,027	69,685
Sewer:						
Serial bonds	2,901,300	6,000	201,205	2,706,095	206,935	2,499,160
Capital leases	27,156	-	13,253	13,903	13,903	-
Compensated absences	71,673	9,240	-	80,913	17,918	62,995
Total enterprise funds	<u>\$ 6,489,335</u>	<u>15,240</u>	<u>425,921</u>	<u>6,078,654</u>	<u>466,414</u>	<u>5,612,240</u>

(d) Maturity Schedule

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

<u>Purpose</u>	<u>Issue</u>	<u>Rate of</u>	<u>Amount</u>	<u>Final</u>
	<u>date</u>	<u>interest</u>	<u>outstanding at</u>	<u>maturity</u>
			<u>12/31/08</u>	
General:				
Serial bonds	5/90	7.35%	\$ 146,000	05/09
Serial bonds	3/92	6.20%	115,000	05/10
Serial bonds	4/99	4.375% - 4.40%	951,405	04/14
Serial bonds	2/03	2.00% - 4.125%	2,585,000	03/16
Serial bonds	7/03	2.50% - 4.00%	1,307,000	12/21
Serial bonds	12/06	4.00% - 4.10%	1,190,000	12/26
Serial bonds	11/07	4.00% - 4.125%	2,777,100	12/27
Serial bonds	11/08	3.50% - 4.30%	282,660	12/18
Total general			<u>9,354,165</u>	

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

(7) Long Term Debt.

(d) Maturity Schedule, Continued

<u>Purpose</u>	<u>Issue date</u>	<u>Rate of interest</u>	<u>Amount outstanding at 12/31/08</u>	<u>Final maturity</u>
Water:				
Serial bonds	5/90	7.35%	\$ 89,000	5/09
Serial bonds	3/92	6.20%	10,000	5/10
Serial bonds	7/03	2.50% - 4.00%	108,000	12/21
Serial bonds	11/07	4.00% - 4.625%	<u>2,956,400</u>	12/46
Total water			<u>3,163,400</u>	
Sewer:				
Serial bonds	5/90	7.35%	15,000	5/09
Serial bonds	3/92	6.20%	30,000	5/10
Serial bonds	4/99	4.375% - 4.40%	153,595	4/14
NYS Environmental Facilities Corporation bonds	7/03	0.721% - 4.50%	1,490,000	1/23
Serial bonds	12/06	4.00% - 4.10%	545,000	12/26
Serial bonds	11/07	4.00% - 4.125%	466,500	12/27
Serial bonds	11/08	3.50% - 4.30%	<u>6,000</u>	12/18
Total sewer			<u>2,706,095</u>	
Community Development - HUD 108 - Serial bond	8/01	5.718% blended	<u>1,650,000</u>	8/19
Total			<u>\$ 16,873,660</u>	

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(7) Long Term Debt, Continued

(e) Future Debt Service

The following table summarizes the City's future debt service requirements as of December 31, 2008:

<u>Year</u>	<u>Bonds</u>	<u>Interest</u>
2009	\$ 1,558,660	665,747
2010	1,330,000	606,691
2011	1,310,000	558,095
2012	1,355,000	507,978
2013	1,370,000	455,504
2014 - 18	5,305,000	1,536,425
2019 - 23	2,485,000	707,803
2024 - 46	<u>2,160,000</u>	<u>960,426</u>
Total	\$ <u>16,873,660</u>	<u>5,998,669</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 \$2,435,000 are considered to be defeased.

(8) Fund Balance Reservations

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

<u>Fund</u>	<u>Balance</u>
General fund:	
Reserved for insurance reserve	\$ 666,381
Reserved for encumbrances	36,421
Kershaw Park reserve	101,963
Miscellaneous reserve	<u>14,258</u>
Total general fund	\$ <u>819,023</u>
Capital projects fund - reserved for encumbrances	\$ <u>11,018</u>
Nonmajor funds - reserved for encumbrances	\$ <u>9,153</u>
Debt service fund - reserved for debt	\$ <u>153,121</u>

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(9) Fund Balance Designations

Designations are not legally required segregations but are segregated for a specific purpose by the City. At December 31, 2008, designated for subsequent years expenditures in the General Fund amounted to \$513,520.

(10) Net Assets - Restricted

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

<u>Restricted Net Assets</u>	<u>Restricted by</u>	<u>Amount</u>
Capital reserves - enterprise funds	Local law	\$ 2,106,513
Debt service reserves - enterprise funds	State Law	21,027
Debt service fund - governmental funds	State law	153,121
Special Districts:		
Community development	Local law	420,532
Parks and recreation	Local law	21,567
Technology	Local law	198,552
Watershed program	Local law	<u>133,457</u>
		<u>774,108</u>
	Total restricted net assets	\$ <u>3,054,769</u>

(11) Labor Relations

City employees are represented by four bargaining units with the balance governed by City personnel policies and practices. One of the units has a contract that expires December 31, 2009. One of the units has a contract that expired December 31, 2007 and two units contracts expired on December 31, 2008. These contracts are currently being renegotiated.

(12) 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, 2008 for the primary government were as follows:

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(12) Interfund Transfers, Continued

	Operating transfers <u>in</u>	Operating transfers <u>out</u>
General fund	\$ 425,700	65,360
Water fund	-	290,000
Capital Projects fund	65,360	52,944
Nonmajor funds	<u>52,944</u>	<u>135,700</u>
Total	\$ <u>544,004</u>	<u>544,004</u>

(13) 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, 2008 and 2007 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 2008 totaled \$51,330. However, as referred to in note 8, the City has established and maintains an insurance reserve having a balance of \$666,381 at December 31, 2008.

(14) 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.

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 years ended December 31, 2008 and 2007, the City incurred premiums or contribution expenditures totaling \$365,347 and 281,036, respectively, which were collected through the County's tax levy.

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(15) Commitments

The City is obligated under certain leases accounted for as capital leases. The leased assets related to obligations are accounted for in the government-wide statement of net assets. The following is a schedule of future minimum lease payments under capital leases, together with the new present values of the minimum lease payments as of December 31, 2008:

	<u>Governmental activities</u>	<u>Business-type activities</u>
2009	\$ 305,251	32,534
2010	221,005	-
2011	<u>89,845</u>	<u>-</u>
Minimum lease payment - capital leases	616,101	32,534
Less amount representing interest incremental borrowing rate	<u>(46,611)</u>	<u>(1,226)</u>
Present Value - minimum lease payments	\$ <u>569,490</u>	<u>31,308</u>

(16) Contingencies

The City is subject to lawsuits in the ordinary conduct of its affairs. The City does not believe, however, that such suits, individually or in the aggregate, are likely to have a material adverse effect on the financial condition of the City. There are also seven cases pending relating to reduction in tax assessments. The outcome of these cases cannot be determined at this time.

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

CITY OF CANANDAIGUA, NEW YORK
Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2008

	Special revenue funds				<u>Total</u>
	<u>Debt Service</u>	<u>Watershed Program</u>	<u>Parks and Open Space</u>	<u>Technology</u>	
Assets:					
Cash and equivalents	\$ 100,177	134,111	21,567	222,775	478,630
Receivables	-	-	-	4,831	4,831
Due from other funds	52,944	-	-	-	52,944
Prepaid items	-	977	-	4,000	4,977
Total assets	<u>\$ 153,121</u>	<u>135,088</u>	<u>21,567</u>	<u>231,606</u>	<u>541,382</u>
Liabilities and fund balance:					
Liabilities:					
Accounts payables and other current liabilities	-	-	-	1,886	1,886
Accrued liabilities	-	1,631	-	-	1,631
Deferred revenue	-	-	-	31,168	31,168
Total liabilities	<u>-</u>	<u>1,631</u>	<u>-</u>	<u>33,054</u>	<u>34,685</u>
Fund balances:					
Encumbrances	-	-	-	9,153	9,153
Reserve for debt	153,121	-	-	-	153,121
Unreserved - unappropriated	-	133,457	21,567	189,399	344,423
Total fund balances	<u>153,121</u>	<u>133,457</u>	<u>21,567</u>	<u>198,552</u>	<u>506,697</u>
Total liabilities and fund balances	<u>\$ 153,121</u>	<u>135,088</u>	<u>21,567</u>	<u>231,606</u>	<u>541,382</u>

CITY OF CANANDAIGUA, NEW YORK
Combining Statement of Revenue, Expenditures, and Changes in
Fund Balances - Nonmajor Governmental Funds
Year ended December 31, 2008

	<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>	
Revenue:					
Departmental income	\$ -	-	7,400	-	7,400
Intergovernmental changes	-	115,542	-	-	115,542
Use of money and property	2,963	3,191	381	171,606	178,141
Miscellaneous	-	5,800	-	7,971	13,771
State and County aid	-	88,172	-	-	88,172
Total revenue	<u>2,963</u>	<u>212,705</u>	<u>7,781</u>	<u>179,577</u>	<u>403,026</u>
Expenditures:					
General governmental support	-	-	-	64,861	64,861
Home and community services	-	188,553	-	-	188,553
Employee benefits	-	15,383	-	255	15,638
Debt service:					
Principal	-	-	-	42,415	42,415
Interest and other charges	-	-	-	2,884	2,884
Total expenditures	<u>-</u>	<u>203,936</u>	<u>-</u>	<u>110,415</u>	<u>314,351</u>
Excess of revenue over expenditures	2,963	8,769	7,781	69,162	88,675
Other financing sources and uses - operating transfers	<u>(82,756)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(82,756)</u>
Net change in fund balance	(79,793)	8,769	7,781	69,162	5,919
Fund balances at beginning of year	<u>232,914</u>	<u>124,688</u>	<u>13,786</u>	<u>129,390</u>	<u>500,778</u>
Fund balances at end of year	<u>\$ 153,121</u>	<u>133,457</u>	<u>21,567</u>	<u>198,552</u>	<u>506,697</u>

TOSKI, SCHAEFER & CO., P.C.

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Canandaigua, New York (the City) as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 6, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Canandaigua in a separate letter dated May 6, 2009.

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

Toski, Schaefer & Co., P.C.

Williamsville, New York
May 6, 2009