

CITY OF CANANDAIGUA, NEW YORK

Basic Financial Statements and  
Required Supplementary Information

December 31, 2010  
(With Independent Auditors' Report Thereon)

CITY OF CANANDAIGUA, NEW YORK

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

555 INTERNATIONAL DR.  
WILLIAMSVILLE, NY 14221  
(716) 634-0700

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

INDEPENDENT AUDITORS' REPORT

City of Canandaigua  
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, 2010, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of December 31, 2010, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated April 21, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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 accounting principles generally accepted in the United States of America. 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 opinions on the financial statements that collectively comprise the City's basic financial statements. Schedules 1 and 2 as listed in the foregoing table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the City's management. 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  
April 21, 2011

CITY OF CANANDAIGUA, NEW YORK  
Management's Discussion and Analysis  
December 31, 2010

**INTRODUCTION**

The following is a discussion and analysis of the City of Canandaigua, New York's (the City) financial performance for the year ended December 31, 2010. This section of the report should be read in conjunction with the basic financial statements, which immediately follow this section, in order to provide an enhanced understanding of the City's financial performance.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Government-Wide Financial Statements**

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

- The statement of net assets which presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The statement of activities which presents information showing how the City's net assets changed during the most recent year. The primary governmental activities of the City as used in this statement include general government support, public safety, health, transportation, economic assistance, culture and recreation, home and community services, and interest on long-term debt. The business-type activities include the water and sewer fund. This statement calculates the cost of each functional activity as well as all resources available for that purpose.

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

**Fund Financial Statements**

In the governmental area, financial statements are organized around "funds." A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Funds are established to control and manage the money and budgets of certain governmental activities. Some funds are required to be set up by law, and others to meet state and federal government requirements. All the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

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

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are located following the basic financial statements section of this report.

**Other Supplementary Information**

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

**GOVERNMENT WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of the City's financial position. As of December 31, 2010 the total assets of the City exceeded liabilities by \$52,035,882.

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

**CONDENSED STATEMENTS OF NET ASSETS AT DECEMBER 31, 2010 AND 2009 FOR  
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES**

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2009 - 2010
	2010	2009	2010	2009	2010	2009	
Current and Other Assets	\$ 7,662,289	\$ 6,647,740	\$ 5,280,835	\$ 4,577,881	\$ 12,943,124	\$ 11,225,621	15.3 %
Capital Assets	39,637,221	40,278,886	19,244,694	20,022,206	58,881,915	60,301,092	(2.4)
Total Assets	\$ 47,299,510	\$ 46,926,626	\$ 24,525,529	\$ 24,600,087	\$ 71,825,039	\$ 71,526,713	0.4
Other Liabilities	\$ 1,209,707	\$ 966,632	\$ 251,142	\$ 608,919	\$ 1,460,849	\$ 1,575,551	(7.3)
Long-Term Liabilities	9,946,080	10,966,568	8,382,228	8,440,897	18,328,308	19,407,465	(5.6)
Total Liabilities	\$ 11,155,787	\$ 11,933,200	\$ 8,633,370	\$ 9,049,816	\$ 19,789,157	\$ 20,983,016	(5.7)
Net Assets							
Invested in capital Assets							
Net of Related Debt	\$ 32,070,446	\$ 32,237,711	\$ 11,043,065	\$ 11,405,257	\$ 43,113,511	\$ 43,642,968	(1.2)
Restricted	1,248,071	1,221,691	2,563,140	2,349,995	3,811,211	3,571,686	6.7
Unrestricted	2,825,206	1,534,024	2,285,954	1,795,019	5,111,160	3,329,043	53.5
Total Net Assets	\$ 36,143,723	\$ 34,993,426	\$ 15,892,159	\$ 15,550,271	\$ 52,035,882	\$ 50,543,697	3.0

The largest component of the City's net assets, \$43,113,511 or approximately 82.9%, 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 its citizens.

Approximately \$3,811,211 or 7.3% 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 \$5,111,160 balance of unrestricted net assets can be used to finance future operations.

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

**CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009  
FOR GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES**

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2009-2010
	2010	2009	2010	2009	2010	2009	
<b>Program Revenue:</b>							
Charges for service	\$ 2,113,244	\$ 1,934,450	\$ 5,399,258	\$ 5,237,253	\$ 7,512,502	\$ 7,171,703	4.8
Operating grants & contributions	188,857	196,963	-	-	188,857	196,963	(4.1)
Capital grants & contributions	547,974	928,140	-	-	547,974	928,140	(41.0)
<b>General Revenue:</b>							
Real property taxes	4,167,016	3,917,208	-	-	4,167,016	3,917,208	6.4
Non-property taxes	4,236,594	4,091,915	-	-	4,236,594	4,091,915	3.5
Unallocated State aid	1,142,147	1,215,633	-	-	1,142,147	1,215,633	(6.0)
Mortgage tax	250,177	222,571	-	-	250,177	222,571	12.4
Compensation for loss/sale of property	1,771,652	32,998	-	-	1,771,652	32,998	5,269.0
Use of money and property	230,527	304,663	18,792	33,901	249,319	338,564	(26.4)
Transfers	290,000	290,000	(290,000)	(290,000)	-	-	-
Miscellaneous revenues	108,653	106,395	33,511	22,684	142,164	129,079	10.1
<b>Total Revenue</b>	<b>15,046,841</b>	<b>13,240,936</b>	<b>5,161,561</b>	<b>5,003,838</b>	<b>20,208,402</b>	<b>18,244,774</b>	<b>10.8</b>
<b>Program Expenses</b>							
General government	2,481,733	2,231,888	-	-	2,481,733	2,231,888	11.2
Public safety	5,016,218	5,409,553	-	-	5,016,218	5,409,553	(7.3)
Transportation	2,613,789	2,658,244	-	-	2,613,789	2,658,244	(1.7)
Economic assistance and opportunity	195,466	225,269	-	-	195,466	225,269	(13.2)
Cultural and recreation	2,248,074	1,123,019	-	-	2,248,074	1,123,019	100.2
Home and community services	914,169	1,051,999	-	-	914,169	1,051,999	(13.1)
Interest on long-term debt	427,095	472,962	-	-	427,095	472,962	(9.7)
Business type activities	-	-	4,819,673	4,785,964	4,819,673	4,785,964	0.7
<b>Total Expenses</b>	<b>13,896,544</b>	<b>13,172,934</b>	<b>4,819,673</b>	<b>4,785,964</b>	<b>18,716,217</b>	<b>17,958,898</b>	<b>4.2</b>
Change in net assets	1,150,297	68,002	341,888	217,874	1,492,185	285,876	422.0
<b>Net Assets - Beginning</b>	<b>34,993,426</b>	<b>34,925,424</b>	<b>15,550,271</b>	<b>15,332,397</b>	<b>50,543,697</b>	<b>50,257,821</b>	<b>0.6</b>
<b>Net Assets - Ending</b>	<b>\$ 36,143,723</b>	<b>\$ 34,993,426</b>	<b>\$ 15,892,159</b>	<b>\$ 15,550,271</b>	<b>\$ 52,035,882</b>	<b>\$ 50,543,697</b>	<b>3.0</b>

The revenue and expense information was derived from the government-wide statement of activities and reflects how the City's net assets changed during the fiscal year. The City earned program revenues of \$8.25 million and general revenues of \$11.96 million for total revenues of \$20.21 million during fiscal year 2010. Expenses for the City during fiscal year 2010 were \$18.72 million. The financial activities of the City in 2010 increased the net assets by \$1.49 million, which represents a 400% increase over the prior year.

**Governmental Activities:** The net assets of governmental activities increased \$1.2 million in fiscal year 2010. Revenues for the governmental activities totaled approximately \$15.05 million, an increase of 13.6% over the prior year, while expenses totaled \$13.9 million, an increase of 5.5% over the prior year. Significant variances are as follows:

Revenue:

- Charges for services increased by 9.2% due to expense reimbursements for legal expenses, a 50% increase for building permits due to a large expansion project and increased revenue from Kershaw Beach.
- Operating grants and contributions experienced a slight decrease of 4.1% for 2010.

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

- Capital grants and contributions had a 41% decrease over the prior year. The City receives various grants from State and Federal agencies for certain projects. In 2010 and 2009, the City received a Federal FEMA grant for fire department equipment in the amount of \$48,189 and \$173,647 respectively. The City also received Federal stimulus funds for two projects totaling \$161,439 in 2010 and \$550,115 in 2009.
- Real property taxes increased by 6.4% over the prior year due to an increase in the tax rate.
- Non-property taxes increased by 3.5% over the prior year primarily driven by a collection of an occupancy tax which was put in place in 2010 and the slight increase in utilities tax and franchise tax.
- State Aid from New York State was decreased by 6% due to budget constraints.
- The City experienced an increase for a second year in the mortgage tax, due to increase in refinancing of 12.4% in 2010.
- Compensation for loss/sale of property saw a dramatic increase due to the sale of 3.317 acres of land for \$1.7 million to be used for development.
- Use of money and property experienced a decline of 24.3% due to continuation of low interest rates.

Expenditures:

- City employees received an increase in salaries of 2.5% in 2010.
- Employee benefits increased by 23.46% over the prior year. Insurance premiums increased more than 18% and retirement benefit rates dramatically increased by an average of 22-62% due to investment losses in the retirement systems' assets in 2009. The City also offered a targeted retirement incentive to the employees which resulted in additional expenses of \$169,700.
- General government increased by 11.2% primarily due to the increase in benefits and increased spending in technology.
- Public safety declined by 7.3% due to the restructuring of the fire department and the layoff of 5 firefighters.
- Economic assistance and opportunity decreased by 13.2% due to a decrease in funding for outside agencies because of a reduction in services provided.
- Culture and recreation expenditures doubled due to the purchase of 5.4 acres of land of which 3.317 was subsequently sold for development with the remaining land to be set aside for parkland expansion and additional parking.
- Home and community services decreased by 13.1% primarily due to the urban forestry function, originally part of home and community services was moved to culture and recreation.
- Interest on long-term debt decreased by 9.7% due to the payoff of bonds.

Business-Type Activities: The net assets of business-type activities increased by \$314,888 in fiscal year 2010. Revenues for business-type activities totaled approximately \$5.2 million, an increase of 3.2% over the prior year, while expenses totaled \$4.8 million, an increase of 0.7% 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 revenue of 13% and a 2.93% water rate increase, and a 7.44% sewer rate increase in 2010.

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

- Sewer Services - Other Governments increased by 17.5% over 2009 due to an increase in the revenue from Ontario County for their 41% share of the Waste Water Treatment Facility. The reimbursement is dependent on actual expenditures and the County flow percentage.
- Expenditures experienced a slight increase of 0.7%.

**FINANCIAL ANALYSIS OF CITY FUNDS**

**Governmental Funds**

At the end of the current fiscal year, the City reported a combined fund balance of \$5.07 million, an increase of \$868,832 from the prior year. Of the total combined fund balance, \$4.4 million constitutes unreserved fund balance, of which \$739,744 has been designated for subsequent year's expenditures and represents the amount estimated for use in the 2011 budget, while the balance of \$3.6 million is available for spending at the City's discretion. Of the \$3.6 million, \$5,788 is for capital projects, \$458,245 for nonmajor funds and \$385,575 for community development. The remainder of the fund balance is reserved for: encumbrances - \$43,227, reserve for insurance - \$184,501, reserve for capital - \$404,251, a reserve for Kershaw Park - \$81,345 and miscellaneous reserves of \$8,281.

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 68.9% of the adopted 2010 City budget. Some of the services provided by the general fund are:

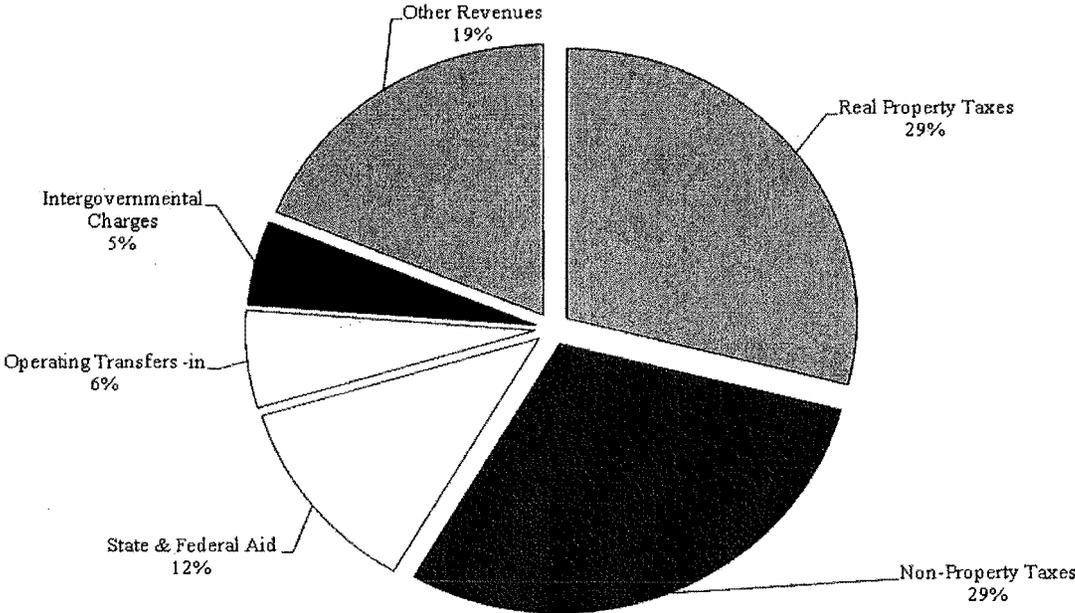
- Issuing and maintaining vital records (birth, death, and marriage certificates) and issuing various state and local licenses and permits;
- Providing public safety services, including police and fire protection and code enforcement;
- Building and maintaining roads and bridges, including snow and ice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

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

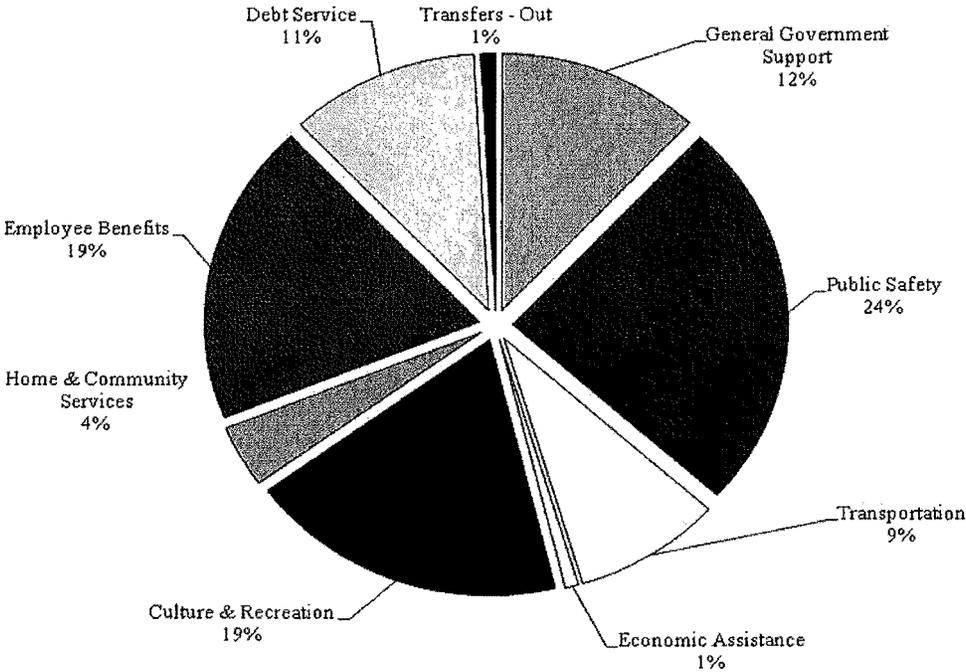
As indicated on the following graphs, the City relies upon a number of important revenue sources to fund its operating expenses. Property taxes, sales taxes and State aid are the most significant sources of general fund revenue, while public safety (police and fire services), public works operations,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

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

**2010 General Fund Revenue Categories**



**2010 General Fund Expenditures by Program**



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

The amended general fund budget in the amount of \$14.75 million anticipated the use of \$381,667 of fund balance and reserves. However, actual results of operations showed an overall increase to fund balance of \$586,856, which resulted in a net increase to fund balance (net of encumbrances) of \$929,259, comparing the actual results to the budget.

General fund revenue overall had a positive variance of .13% as compared to budget. The largest variances were:

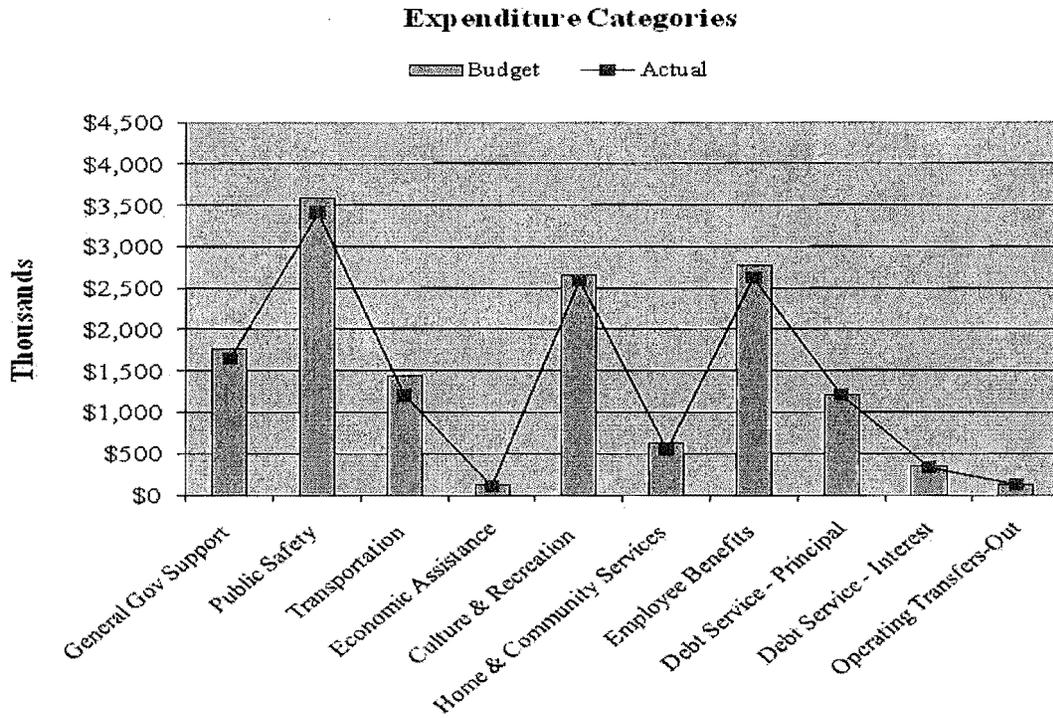
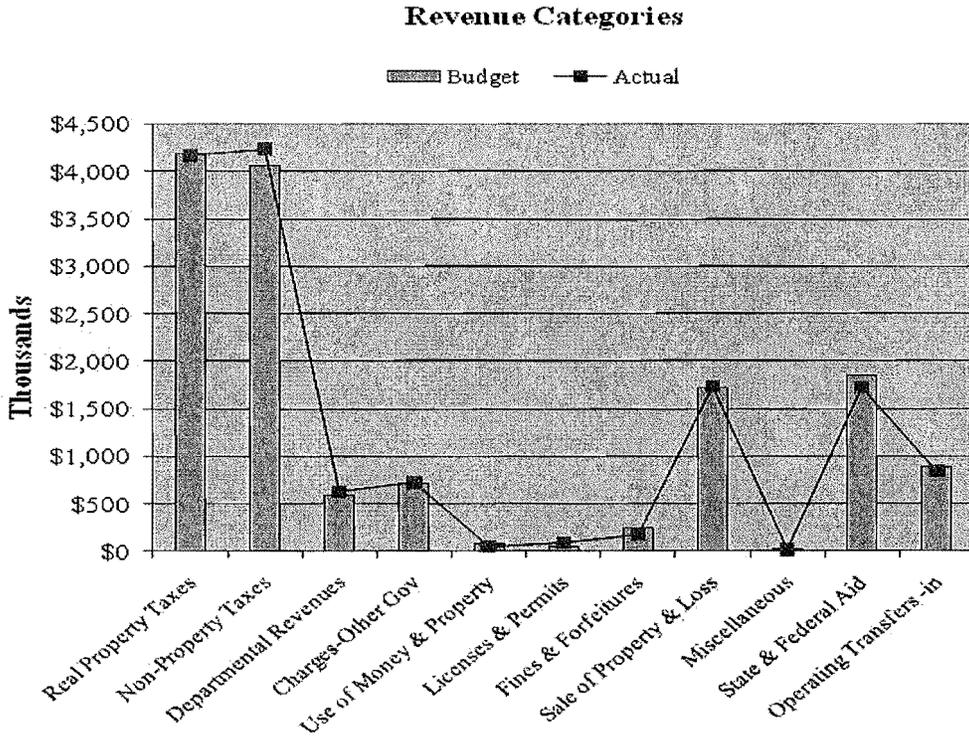
- Other non-property taxes: Sales tax revenue had a strong fourth quarter for an overall increase of 3.42% of budget. Occupancy tax fell short by 10% of budget in the first year of enactment, while utilities tax and cable franchise tax were above budgeted estimates by 26.78% and 12.05% respectively.
- Departmental fees: Code violations, rental housing inspection fees, Kershaw Beach park fees and special event fees saw an increase from budget which was offset by a decrease in the fire inspection fees due to restructuring and refuse fee due to unanticipated exemptions to certain property owners.
- Charges to other governments: Increase in budgeted reimbursement with the school district for the school resource officer (SRO) at 5.52%. This is a reimbursement of actual expenditures incurred by the City for this police officer.
- Interest remained at record low rates throughout the year and therefore interest income was 44% below budget.
- Licenses and permits: Building permit fees doubled in 2010 due to a large building project.
- Fines and forfeitures: Fines and forfeited bail which is received from City court, was 30% below budget for 2010.
- State and federal aid: Revenue sharing from NYS was 4.3% higher than expected while mortgage tax revenue increased 28.3% due to homeowners taking advantage of low mortgage rates. CHIPS funding (which corresponds with offsetting expenditures) was down due to anticipated capital projects not done in 2010.

General fund expenditures reflected an overall positive variance as compared to budget in the amount of \$910,070. The largest variances were:

- Salaries and wages were under budget by 2.7% primarily due to savings in public safety overtime and training pay.
- Capital equipment was under budget by 10.47% due to projects that were not done in 2010 such as street resurfacing. Originally \$65,000 was budgeted for Kershaw Park bathrooms, however assets were redirected to a new roof on the bathhouse at a cost of \$33,925 resulting in unused budget of \$33,075. Certain projects were completed with in-house labor which resulted in lower budgeted expenditures and a Leaf Machine originally budgeted in 2010 was carried over to the 2011 budget.
- Materials and supplies were under budget by 11.75% due to lower than anticipated fuel prices.
- Contractual costs for utilities, landfill charges and street maintenance contributed to a positive variance of 9.36% as compared to the 2010 budget. We obtained a 20.1% savings in our liability insurance compared to the budget.
- Employee benefits were under budget by 4.9% due in part to a lower than estimated unemployment insurance for the fire department restructuring. Estimated savings in NYS ERS retirement contributions of \$41,518.

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

The following table summarizes the 2010 budget as compared to actual results:



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

**Proprietary Funds**

The other two major "funds" of the City are the water fund and the sewer fund, which comprised 16.7% and 14.4% of the 2010 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 \$15.89 million, an increase of \$341,888 in comparison with the prior year. Of the total net assets, \$11.04 million is recorded as an investment in capital assets net of related debt, \$2.56 million is restricted for capital reserves and debt service and the remaining \$2.29 million is unrestricted.

Water Fund - This fund finished the current fiscal year with a net income of \$21,928. The unrestricted fund balance is \$1.23 million, with an amount reserved for capital expenditures and debt service of \$533,294.

Sewer Fund - This fund finished the current fiscal year with net income of \$319,960. The unrestricted fund balance is \$1.05 million, with an amount reserved for capital expenditures and debt service of \$2.03 million.

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

At December 31, 2010, the City has \$58,881,915 (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 2009 and 2010 is reflected below:

**Capital Assets, Net of Depreciation, as of December 31**

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land and land improvements	\$ 9,414,927	\$ 8,791,602	\$ 177,941	\$ 180,810	\$ 9,592,868	\$ 8,972,412
Buildings and improvements	4,098,931	4,291,608	13,091,710	10,170,558	17,190,641	14,462,166
Machinery and equipment	2,434,813	2,606,611	841,951	879,772	3,276,764	3,486,383
Infrastructure	23,542,190	23,902,903	5,052,286	5,101,505	28,594,476	29,004,408
Construction in progress	146,360	686,162	80,806	3,689,561	227,166	4,375,723
<b>Total Capital Assets</b>	<b>\$ 39,637,221</b>	<b>\$ 40,278,886</b>	<b>\$ 19,244,694</b>	<b>\$ 20,022,206</b>	<b>\$ 58,881,915</b>	<b>\$ 60,301,092</b>

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

Government-Wide Capital Assets - The primary reason for the increase in capital assets during the current fiscal year was the completion of two ARRA projects, police station improvements, land acquisition, and the purchase of equipment and vehicles. In 2010, additional land was purchased totaling \$741,760, \$265,656 was added to construction in progress while \$805,458 was capitalized. Other asset additions totaled \$1,112,165. Depreciation for the year totaled \$1,955,788.

Business-Type Activities Capital Assets - The primary reason for the increase in capital assets during the current fiscal year was the completion of a water storage tank for \$2.98 million, water distribution system totaling \$369,000 and a sewer treatment plant holding tank for \$563,000 as well as equipment and vehicle purchases of \$111,000. During the current year, \$3.6 million was capitalized from work in process. Depreciation for the year totaled \$1,174,289.

**LONG-TERM DEBT**

At December 31, 2010, the City had \$18.33 million in general obligation and other long-term debt outstanding as follows:

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Serial bonds	\$ 7,638,370	\$ 8,280,440	\$ 8,201,630	\$ 8,279,560	\$ 15,840,000	\$ 16,560,000
Capital leases	89,844	310,849	-	-	89,844	310,849
Compensated absences	624,131	712,025	146,534	139,456	770,665	851,481
HUD 108 - serial bond	1,450,000	1,555,000	-	-	1,450,000	1,555,000
Other postemployment benefits	143,735	108,254	34,064	21,881	177,799	130,135
<b>Total Long-Term Debt</b>	<b>\$ 9,946,080</b>	<b>\$ 10,966,568</b>	<b>\$ 8,382,228</b>	<b>\$ 8,440,897</b>	<b>\$ 18,328,308</b>	<b>\$ 19,407,465</b>

At December 31, 2010, debt of \$9.09 million is subject to the debt limit of \$41.7 million for the City. This represents 21.79% of debt limit exhausted. The water fund debt is constitutionally excluded from the debt limit, and the sewer fund debt prior to 2010 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 \$725,000. Additionally, the City paid back outstanding bonds, notes and capital leases totaling \$1,312,875 for governmental activities and \$458,130 for business-type activities.

**CREDIT RATING**

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

**FUTURE FINANCIAL IMPLICATIONS**

The 2011 budget for the City of Canandaigua for general, capital, water and sewer funds totaled \$22,378,446.

Revenue Highlights:

- Property tax rates increased to \$6.31 per thousand which represents a 5.1% increase in the tax levy.
- Sales tax revenues were kept flat for 2011.

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

- A lodging tax was passed in 2010 authorizing the City to impose a 3% tax on the occupancy of hotel or motel rooms. This tax was reduced to 1.5% in 2011 with expected revenue at \$50,000.
- The use of money and property decreased by 50% due to the decline in interest rates.
- State aid decreased by 6% in 2010 and the same is estimated for 2011 while mortgage tax revenue was unchanged from 2010.
- Revenue from fire protection services has been reduced by 40% due to the recent amendment to the fire services agreement. This revenue reduction is offset by a corresponding expenditure reduction for fire services.
- Debt service payments have been offset in past years by transfers from the debt service fund. This fund was depleted in 2010.
- The 2011 budget calls for a transfer of \$374,745 from the capital equipment reserve.
- The water rate remains flat for 2011. A City resident will be charged a rate of \$2.81/1000 gallons.
- The sewer rate has increased by 30.77% for 2011. This rate is based on the gallons of water used and for a City resident it is \$3.40/1000 gallons. This rate increase is due to a major sewer treatment capital project initiating in 2011 which will be bonded over 20 years.

Expenditure Highlights:

- The general fund budget decreased by 1.46% from the 2010 budget while the water fund budget increased by 10.82% and sewer fund budget increased by 35.27%.
- There were no wage and salary increases for employees in 2011.
- The fire department was significantly restructured in 2010 and these changes were successful in achieving the desired personnel cost savings. These changes have been challenged by the firefighter's union, and an administrative law judge has ruled in favor of the union. The City has appealed the ruling to the Public Employment Relations Board. Pending the final outcome of the legal challenge, the 2011 budget assumes the continued staffing of six firefighter positions. No additional reductions in staffing levels are proposed in the 2011 budget, however there will be a "hold" on filling vacancies so that a careful analysis of the position and all options for replacing can be considered.
- All non-union employees began contributing 5% of the cost of health insurance in 2010 and members of the firefighters union also began contributing fixed amounts per week toward health insurance. PBA agreed to a lower cost health insurance plan and will begin contributing in 2012. GBC will begin contributing 5% toward health insurance in 2011.
- Capital improvements of \$2,804,035 are included in the 2011 budget of which \$1,619,000 will be funded from the issuance of general obligation bonds, \$738,990 will be funded by grants and State aid, \$387,745 by transfers from the capital reserve fund and \$58,300 will be funded by general revenues.
- The contingency fund was increased to \$750,000, more than triple its 2010 funding, due to the pending legal action surrounding the restructuring of the fire department. Other considerations and concerns are the possibility of further reductions in State aid due the New York State's fiscal struggles, the sluggish economy and anticipated increases in costs for gasoline, diesel fuel, natural gas and electricity.
- Expenditures for the water fund increase by 10.8% mainly due to transfers to the reserve funds.

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

- The sewer fund expenditures have increased by 35.7% over the 2010 budget. This increase is attributable to increases in capital project funding, debt service payments and expenses for employee benefits.

In the general fund the City elected to use \$739,744 of unreserved fund balance at December 31, 2010 to balance the fiscal year 2011 budget. The water fund budgeted \$347,344 of unreserved fund balance for 2011 and the sewer fund budgeted \$1,208 of unreserved fund balance to balance the 2011 budget.

In 2011, wages and benefits are budgeted to comprise 62% of the City's general fund budget and 49% 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 systems 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, 2011 the cost to the City was 16.8% of payroll for police and fire, and 11.2% of payroll for other employees. It is currently estimated that the cost for the March 31, 2012 retirement plan year would be approximately 20.9% of the City payroll for police and fire and 16.8% 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. The majority of employees have started to contribute toward health insurance in 2011 and all employees will be contributing in 2012. We are currently working toward becoming a member of the Finger Lakes Municipal Health Insurance Trust which has contracted with MVP for certain health plans. These plans are the same or better in all areas of coverage and the cost for the core plan is lower than all the plans we currently offer. The trust has also negotiated "not to exceed" maximum increases to these plans for the next two years. We are currently negotiating with the unions to move all members to these plans.

The City is continuing to look for ways to improve our operations. The City has obtained a local government efficiency grant to complete a feasibility study on intermunicipal cooperation, consolidation, or contracting of City and County vehicle maintenance operations.

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

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

**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, 2010

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental</u> <u>activities</u>	<u>Business-type</u> <u>activities</u>	
Assets:			
Current assets:			
Cash and cash equivalents	\$ 4,337,405	3,667,199	8,004,604
Accounts receivable, net	1,060,919	1,198,170	2,259,089
Due from other governments	497,019	370,230	867,249
Due from other funds	7,872	-	7,872
State and Federal aid receivable	85,661	-	85,661
Prepaid items	223,413	45,236	268,649
Total current assets	<u>6,212,289</u>	<u>5,280,835</u>	<u>11,493,124</u>
Long-term assets:			
Accounts receivable, net	1,450,000	-	1,450,000
Capital assets:			
Land	4,224,298	164,072	4,388,370
Work in progress	146,360	80,806	227,166
Other capital assets, net of depreciation	35,266,563	18,999,816	54,266,379
Total long-term assets	<u>41,087,221</u>	<u>19,244,694</u>	<u>60,331,915</u>
Total assets	<u>47,299,510</u>	<u>24,525,529</u>	<u>71,825,039</u>
Liabilities:			
Accounts payable and other current liabilities	392,151	154,270	546,421
Accrued liabilities	366,610	96,872	463,482
Due to other governments	14,190	-	14,190
Deferred revenue	436,756	-	436,756
Long-term liabilities:			
Due in one year	1,330,957	481,554	1,812,511
Due in more than one year	8,615,123	7,900,674	16,515,797
Total liabilities	<u>11,155,787</u>	<u>8,633,370</u>	<u>19,789,157</u>
Net Assets:			
Invested in capital assets, net of related debt	32,070,446	11,043,065	43,113,511
Restricted for:			
Capital reserves	404,251	2,505,658	2,909,909
Debt service	-	57,482	57,482
Special districts	843,820	-	843,820
Unrestricted	2,825,206	2,285,954	5,111,160
Total net assets	<u>\$ 36,143,723</u>	<u>15,892,159</u>	<u>52,035,882</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK  
Statement of Activities  
Year ended December 31, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for services	Operating grants and contributions	Capital grants and contributions	Primary Government		Total
					Governmental activities	Business-type activities	
<b>Primary government:</b>							
Governmental activities:							
General government support	\$ 2,481,733	526,092	23,602	-	(1,932,039)	-	(1,932,039)
Public safety	5,016,218	1,060,620	46,382	48,189	(3,861,027)	-	(3,861,027)
Transportation	2,613,789	-	118,873	355,675	(2,139,241)	-	(2,139,241)
Economic assistance and opportunity	195,466	-	-	85,000	(110,466)	-	(110,466)
Culture and recreation	2,248,074	218,836	-	7,357	(2,021,881)	-	(2,021,881)
Home and community services	914,169	307,696	-	51,753	(554,720)	-	(554,720)
Interest on long-term debt	427,095	-	-	-	(427,095)	-	(427,095)
Total governmental activities	<u>13,896,544</u>	<u>2,113,244</u>	<u>188,857</u>	<u>547,974</u>	<u>(11,046,469)</u>	<u>-</u>	<u>(11,046,469)</u>
Business - type activities:							
Water fund	2,699,589	2,971,770	-	-	-	272,181	272,181
Sewer fund	2,120,084	2,427,488	-	-	-	307,404	307,404
Total business - type activities	<u>4,819,673</u>	<u>5,399,258</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>579,585</u>	<u>579,585</u>
Total primary government	<u>\$ 18,716,217</u>	<u>7,512,502</u>	<u>188,857</u>	<u>547,974</u>	<u>(11,046,469)</u>	<u>579,585</u>	<u>(10,466,884)</u>
<b>General revenues:</b>							
Taxes:							
Property taxes					\$ 4,167,016	-	4,167,016
Non-property taxes					4,236,594	-	4,236,594
Mortgage tax					250,177	-	250,177
Unallocated State aid					1,142,147	-	1,142,147
Sale of property and compensation for loss					1,771,652	-	1,771,652
Investment earnings					230,527	18,792	249,319
Transfers					290,000	(290,000)	-
Miscellaneous					108,653	33,511	142,164
Total general revenues					<u>12,196,766</u>	<u>(237,697)</u>	<u>11,959,069</u>
Change in net assets					1,150,297	341,888	1,492,185
Net assets at beginning of year					<u>34,993,426</u>	<u>15,550,271</u>	<u>50,543,697</u>
Net assets at end of year					<u>\$ 36,143,723</u>	<u>15,892,159</u>	<u>52,035,882</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK  
Balance Sheet - Governmental Funds  
December 31, 2010

	<u>General fund</u>	<u>Capital projects fund</u>	<u>Community development fund</u>	<u>Nonmajor governmental funds</u>	<u>Total funds</u>
<b>Assets:</b>					
Cash and cash equivalents	\$ 3,492,938	-	386,920	457,547	4,337,405
Receivables	383,929	161,439	512,086	3,465	1,060,919
Due from other funds	159,920	-	-	-	159,920
Due from other governments	497,019	-	-	-	497,019
State and Federal aid receivable	85,661	-	-	-	85,661
Prepaid items	<u>219,278</u>	<u>-</u>	<u>-</u>	<u>4,135</u>	<u>223,413</u>
Total assets	<u>\$ 4,838,745</u>	<u>161,439</u>	<u>899,006</u>	<u>465,147</u>	<u>6,364,337</u>
<b>Liabilities and fund balances:</b>					
<b>Liabilities:</b>					
Accounts payables and other current liabilities	283,996	-	-	5,049	289,045
Accrued liabilities	291,184	-	1,345	1,853	294,382
Due to other funds	360	151,688	-	-	152,048
Due to other governments	14,190	-	-	-	14,190
Collections in advance	-	-	103,106	-	103,106
Deferred revenue	<u>27,776</u>	<u>-</u>	<u>408,980</u>	<u>-</u>	<u>436,756</u>
Total liabilities	<u>617,506</u>	<u>151,688</u>	<u>513,431</u>	<u>6,902</u>	<u>1,289,527</u>
<b>Fund balances:</b>					
<b>Reserved for:</b>					
Insurance reserve	184,501	-	-	-	184,501
Capital reserve	404,251	-	-	-	404,251
Encumbrances	39,264	3,963	-	-	43,227
Kershaw Park reserve	81,345	-	-	-	81,345
Miscellaneous reserve	8,281	-	-	-	8,281
<b>Unreserved:</b>					
Appropriated for subsequent year	739,744	-	-	-	739,744
Unappropriated	<u>2,763,853</u>	<u>5,788</u>	<u>385,575</u>	<u>458,245</u>	<u>3,613,461</u>
Total fund balances	<u>4,221,239</u>	<u>9,751</u>	<u>385,575</u>	<u>458,245</u>	<u>5,074,810</u>
Total liabilities and fund balances	<u>\$ 4,838,745</u>	<u>161,439</u>	<u>899,006</u>	<u>465,147</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 39,637,221

Long-term liabilities, including serial bonds payable, are not due in the current period and therefore are not reported in the funds. (9,178,214)

Accounts receivable - HUD108 1,450,000

Interest is accrued on outstanding bonds in the statement of net assets but not in the funds. (72,228)

Other postemployment benefits are not reported in the funds under fund accounting but are expensed as the liability is incurred in the statement of net assets. (143,735)

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. (624,131)

\$36,143,723

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, 2010

	General fund	Capital projects fund	Community development fund	Nonmajor governmental funds	Total funds
Revenue:					
Real property and tax items	\$4,167,016	-	-	-	4,167,016
Non-property taxes	4,236,594	-	-	-	4,236,594
Departmental income	635,160	-	-	7,000	642,160
Intergovernmental charges	724,544	-	-	74,076	798,620
Use of money and property	50,505	111	413	188,579	239,608
Licenses and permits	90,459	-	-	-	90,459
Fines and forfeitures	183,201	-	-	-	183,201
Sale of property and compensation for loss	1,771,652	-	-	-	1,771,652
Miscellaneous	16,267	99,808	202,249	4,020	322,344
Interfund revenues	329,100	-	-	-	329,100
State and County aid	1,647,210	-	85,000	51,753	1,783,963
Federal aid	75,488	161,439	60,197	-	297,124
Total revenue	<u>13,927,196</u>	<u>261,358</u>	<u>347,859</u>	<u>325,428</u>	<u>14,861,841</u>
Expenditures:					
Current:					
General governmental support	1,680,659	-	-	176,729	1,857,388
Public safety	3,411,706	46,777	-	-	3,458,483
Transportation	1,203,844	240,572	-	-	1,444,416
Economic assistance and opportunity	108,712	-	85,000	-	193,712
Culture and recreation	2,595,795	13,808	-	-	2,609,603
Home and community services	542,975	-	26,718	94,837	664,530
Employee benefits	2,627,695	-	-	24,371	2,652,066
Debt service:					
Principal	1,207,875	-	105,000	-	1,312,875
Interest and other charges	333,648	3,839	97,249	-	434,736
Total expenditures	<u>13,712,909</u>	<u>304,996</u>	<u>313,967</u>	<u>295,937</u>	<u>14,627,809</u>
Excess (deficiency) of revenue over expenditures	<u>214,287</u>	<u>(43,638)</u>	<u>33,892</u>	<u>29,491</u>	<u>234,032</u>
Other financing sources and uses:					
Operating transfers	377,059	(15,760)	-	(71,299)	290,000
Serial bonds issued	-	344,800	-	-	344,800
Total other financing sources and uses	<u>377,059</u>	<u>329,040</u>	<u>-</u>	<u>(71,299)</u>	<u>634,800</u>
Net change in fund balances	591,346	285,402	33,892	(41,808)	868,832
Fund balances (deficits) at beginning of year	<u>3,629,893</u>	<u>(275,651)</u>	<u>351,683</u>	<u>500,053</u>	<u>4,205,978</u>
Fund balances at end of year	<u>\$4,221,239</u>	<u>9,751</u>	<u>385,575</u>	<u>458,245</u>	<u>5,074,810</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK  
 Reconciliation of the Statement of Revenue, Expenditures and  
 Change in Fund Balances of Governmental Funds to  
 the Statement of Activities  
 Year ended December 31, 2010

Net change in fund balances - total governmental funds		\$ 868,832
Amounts reported for governmental activities in the statement of activities are different because:		
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.</p>		
Capital outlay	\$ 265,656	
Additions of assets, net of disposals	1,048,468	
Depreciation	<u>(1,955,788)</u>	(641,664)
<p>Bond proceeds and capital leases provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayments of bond principal and leases are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
		863,075
<p>Compensated absences represent the value of the earned and unused portion of the liability for the vacation and compensatory time. They are reported in the statement of activities but do not require the use of the current financial resources and therefore are not reported as expenditures in the governmental funds. This is the net change of compensated absences.</p>		
		87,894
<p>In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditure is reported when due.</p>		
		7,641
<p>Other postemployment benefits represent the value of the unfunded portion of the cost of benefits for current employees upon retirement. They are reported in the statement of activities but do not require the use of the current financial resources and therefore are not reported as expenditures in the governmental funds.</p>		
		<u>(35,481)</u>
Change in net assets of governmental activities		<u>\$1,150,297</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK  
Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual  
(Non-GAAP Basis of Budgeting) - General Fund  
Year Ended December 31, 2010

	Original budget (incl. carryover encumbrances)	Budget (amended)	Actual	Encumbrances	Variances
Revenue and other sources:					
Revenue:					
Real property and tax items	\$ 4,181,430	4,181,430	4,167,016	-	(14,414)
Non-property taxes	4,061,000	4,061,000	4,236,594	-	175,594
Departmental income	361,350	585,910	627,602	-	41,692
Intergovernmental charges	711,990	711,990	724,544	-	12,554
Use of money and property	73,250	73,250	47,605	-	(25,645)
Licenses and permits	53,100	53,100	90,459	-	37,359
Fines and forfeitures	242,600	242,600	183,201	-	(59,399)
Sale of property and compensation for loss	-	1,724,575	1,736,339	-	11,764
Miscellaneous	7,150	16,550	16,176	-	(374)
Interfund revenues	329,100	329,100	329,100	-	-
State and County aid	1,728,860	1,751,311	1,647,210	-	(104,101)
Federal aid	41,060	91,505	75,488	-	(16,017)
Total revenue	<u>11,790,890</u>	<u>13,822,321</u>	<u>13,881,334</u>	-	59,013
Other sources - operating transfers	472,700	550,200	510,376	-	(39,824)
Total revenue and other sources	<u>12,263,590</u>	<u>14,372,521</u>	<u>14,391,710</u>	-	19,189
Expenditures:					
Current:					
General governmental support	1,568,539	1,768,080	1,647,604	14,101	106,375
Public safety	3,451,314	3,576,791	3,411,706	-	165,085
Transportation	1,411,580	1,437,300	1,203,844	25,163	208,293
Economic assistance and opportunity	118,000	118,000	108,712	-	9,288
Culture and recreation	865,110	2,665,125	2,595,795	-	69,330
Home and community services	543,690	633,304	542,975	-	90,329
Employee benefits	2,755,670	2,764,210	2,627,695	-	136,515
Debt service:					
Principal	1,209,706	1,209,706	1,207,875	-	1,831
Interest and other charges	346,776	346,776	333,648	-	13,128
Total expenditures	<u>12,270,385</u>	<u>14,519,292</u>	<u>13,679,854</u>	39,264	800,174
Other uses:					
Operating transfers	125,000	125,000	125,000	-	-
Contingency	242,000	109,896	-	-	109,896
Total expenditures and other uses	<u>12,637,385</u>	<u>14,754,188</u>	<u>13,804,854</u>	39,264	910,070
Revenue and other sources over (under) expenditures and other uses	(373,795)	(381,667)	586,856	(39,264)	<u>\$929,259</u>
Revenue and other sources over (under) expenditures and other uses:					
Insurance reserve fund	-	-	(6,049)	-	-
Kershaw Park reserve fund	-	-	(23,757)	-	-
Capital reserve	-	-	34,296	-	-
	<u>(373,795)</u>	<u>(381,667)</u>	<u>591,346</u>	-	-
Fund balance at beginning of year	<u>2,964,286</u>	<u>2,964,286</u>	<u>3,710,631</u>	-	-
Fund balance at end of year	<u>\$ 2,590,491</u>	<u>2,582,619</u>	<u>4,301,977</u>	<u>(39,264)</u>	-

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK  
Statement of Net Assets -  
Proprietary Funds  
December 31, 2010

	<u>Business Type Activities - Enterprise Funds</u>		
Assets:	<u>Water fund</u>	<u>Sewer fund</u>	<u>Total</u>
Cash	\$1,288,070	2,379,129	3,667,199
Accounts receivable (net)	715,666	482,504	1,198,170
Due from other governments	2,715	367,515	370,230
Prepaid items	26,175	19,061	45,236
Capital assets:			
Land	40,736	123,336	164,072
Work in progress	4,667	76,139	80,806
Other capital assets, net of depreciation	<u>10,317,535</u>	<u>8,682,281</u>	<u>18,999,816</u>
Total assets	<u>12,395,564</u>	<u>12,129,965</u>	<u>24,525,529</u>
 Liabilities:			
Accounts payable and other current liabilities	77,000	77,270	154,270
Accrued liabilities	64,041	32,831	96,872
Noncurrent liabilities:			
Due in one year	288,549	193,005	481,554
Due in more than one year	<u>5,731,210</u>	<u>2,169,464</u>	<u>7,900,674</u>
Total liabilities	<u>6,160,800</u>	<u>2,472,570</u>	<u>8,633,370</u>
 Net assets:			
Invested in capital assets, net of related debt	4,467,838	6,575,227	11,043,065
Restricted for - capital reserves	485,206	2,020,452	2,505,658
Restricted for - debt service	48,088	9,394	57,482
Unrestricted	<u>1,233,632</u>	<u>1,052,322</u>	<u>2,285,954</u>
Total net assets	<u>\$6,234,764</u>	<u>9,657,395</u>	<u>15,892,159</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK  
Statement of Revenue, Expenditures, and Changes in  
Fund Balances - Proprietary Funds  
Year ended December 31, 2010

	<u>Business Type Activities - Enterprise Funds</u>		
	<u>Water fund</u>	<u>Sewer fund</u>	<u>Total</u>
Operating revenue:			
Contributions from operations	\$2,971,770	2,427,488	5,399,258
Rental of real property	5,920	-	5,920
Other revenue	<u>25,889</u>	<u>770</u>	<u>26,659</u>
Total operating revenue	<u>3,003,579</u>	<u>2,428,258</u>	<u>5,431,837</u>
Operating expenses:			
Judgments, claims, and insurance premiums	314,002	198,235	512,237
General services	1,634,694	982,096	2,616,790
Contractual expenses	13,903	177,697	191,600
Other professional services	2,781	6,928	9,709
Depreciation	<u>490,569</u>	<u>683,720</u>	<u>1,174,289</u>
Total operating expenses	<u>2,455,949</u>	<u>2,048,676</u>	<u>4,504,625</u>
Operating income	<u>547,630</u>	<u>379,582</u>	<u>927,212</u>
Nonoperating revenue (expense):			
Interest income	7,938	10,854	18,792
Interest expense	(243,640)	(71,408)	(315,048)
Interfund transfer	(290,000)	-	(290,000)
Other income	<u>-</u>	<u>932</u>	<u>932</u>
Total nonoperating expense	<u>(525,702)</u>	<u>(59,622)</u>	<u>(585,324)</u>
Net income	21,928	319,960	341,888
Net assets at beginning of year	<u>6,212,836</u>	<u>9,337,435</u>	<u>15,550,271</u>
Net assets at end of year	<u>\$6,234,764</u>	<u>9,657,395</u>	<u>15,892,159</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK  
Statement of Cash Flows  
Proprietary Funds  
Year ended December 31, 2010

	<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	\$ 3,055,638	2,161,323	5,216,961
Cash payments to insurance providers	(314,002)	(198,235)	(512,237)
Cash payments for contractual services	(1,913,947)	(1,242,725)	(3,156,672)
Other operating revenue	<u>31,809</u>	<u>770</u>	<u>32,579</u>
Net cash provided by operating activities	<u>859,498</u>	<u>721,133</u>	<u>1,580,631</u>
Cash flows from capital and related financing activities:			
Proceeds of debt (capital)	380,200	-	380,200
Principal payments of debt (capital)	(265,500)	(192,630)	(458,130)
Interest expense (capital)	(243,640)	(71,408)	(315,048)
Interfund transfer	(290,000)	-	(290,000)
Purchases of capital assets	(66,960)	(336,947)	(403,907)
Other receipts	<u>-</u>	<u>932</u>	<u>932</u>
Net cash used in capital and related financing activities	<u>(485,900)</u>	<u>(600,053)</u>	<u>(1,085,953)</u>
Cash flows from investing activities - investment income	<u>7,938</u>	<u>10,854</u>	<u>18,792</u>
Net increase in cash and cash equivalents	381,536	131,934	513,470
Cash and cash equivalents at beginning of year	<u>906,534</u>	<u>2,247,195</u>	<u>3,153,729</u>
Cash and cash equivalents at end of year	<u>\$ 1,288,070</u>	<u>2,379,129</u>	<u>3,667,199</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	547,630	379,582	927,212
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	490,569	683,720	1,174,289
Changes in:			
Accounts receivable	83,868	(266,165)	(182,297)
Prepaid expenses	(6,403)	(784)	(7,187)
Accounts payable and accrued liabilities	(272,660)	(77,987)	(350,647)
Compensated absences	4,312	2,767	7,079
Other postemployment benefits	<u>12,182</u>	<u>-</u>	<u>12,182</u>
Net cash provided by operating activities	<u>\$ 859,498</u>	<u>721,133</u>	<u>1,580,631</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK  
Statement of Fiduciary Net Assets -  
Fiduciary Funds  
December 31, 2010

	<u>Expendable</u> <u>trust</u>	<u>Agency</u> <u>funds</u>
Assets:		
Cash and cash equivalents	\$ 38,212	44,682
Accounts receivable (net)	-	1,165
Due from other funds	<u>360</u>	<u>-</u>
Total assets	<u>38,572</u>	<u>45,847</u>
Liabilities:		
Accounts payable	-	1,194
Tax sale surplus	-	16,042
Due to other funds	-	8,232
Other liabilities	<u>-</u>	<u>20,379</u>
Total liabilities	<u>-</u>	<u>45,847</u>
Net assets - unreserved	<u>\$ 38,572</u>	<u>-</u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK  
Statement of Changes in Fiduciary Net Assets -  
Fiduciary Funds  
Year ended December 31, 2010

	Expendable <u>trust</u>
Additions:	
Contributions	\$ 240
Investment earnings	<u>90</u>
Total additions	330
Deductions - culture and recreation	<u>-</u>
Change in net assets	330
Net assets at beginning of year	<u>38,242</u>
Net assets at end of year	<u><u>\$ 38,572</u></u>

See accompanying notes to financial statements.

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements

December 31, 2010

(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, refuge 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 transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

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

(1) Summary of Certain Significant Accounting Policies, Continued

(b) Basis of Presentation, Continued

(1) Government-Wide Statements, Continued

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

The City does not allocate indirect costs. An administrative service fee is charged by the general fund to the City's 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.

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

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

(1) Summary of Certain Significant Accounting Policies, Continued

(b) Basis of Presentation, Continued

(2) Fund Financial Statements, Continued

Watershed Program  
Parks & Open Spaces  
Technology

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

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

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

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

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

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

(c) Measurement Focus and Basis of Accounting

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

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(c) Measurement Focus and Basis of Accounting, Continued

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

(d) Property Tax Revenue Recognition

The City property taxes are levied annually no later than December 15 and become a lien on May 1. Taxes are collected during the period May 1 to 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, 2010, the City had a legal margin of approximately \$10,473,000.

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.

(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.

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(e) Budgets and Budgetary Data, Continued

(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 Cash Equivalents

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

(g) Investments

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

(h) Accounts Receivable

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

(i) Due To/From Other Funds

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

(j) Prepaid Items

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

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(k) Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. streets) are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost equal to or greater than \$10,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives is not capitalized. Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	40 Years
Water and Sewer System/Infrastructure	50 Years
Equipment	4-20 Years

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

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

(l) Compensated Absences

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

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

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

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(m) Postemployment Benefits

In addition to providing pension benefits, the City provides certain health care benefits to retired employees. Retired employees with at least 15 years of service are allowed to participate in the City's group medical insurance plan until they reach the age of 65. Retired employees reaching age 65 may continue participation in the plan but must reimburse the City for the premium. The City recognizes the cost of providing these benefits by expensing the annual insurance premiums which totaled \$420,112 for 28 retirees and/or their surviving spouses for the year ended December 31, 2010. Currently there are 28 retirees receiving employment benefits from the City.

(n) Deferred Revenue

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

(o) Long-Term Obligations

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

(p) 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 \$43,227 in encumbrances outstanding at December 31, 2010.

(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.

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(q) Restrictions, Reserves and Designations, Continued

- 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.

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. 54 - "Fund Balance Reporting and Governmental Fund Type Definitions," enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. The requirements of the statement are effective for periods beginning after June 15, 2010, which is the fiscal year beginning January 1, 2011 for the City. This statement is not expected to have a material effect on the financial statements of the City.

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

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(r) Future Impacts of Accounting Pronouncements, Continued

GASB Statement No. 59 - "Financial Instruments Omnibus" updates and improves existing standards regarding financial reporting of certain financial instruments and external investments and external investment pools. The requirements of this statement are effective for periods beginning after June 15, 2010. This statement is not expected to have a material effect on the financial statements of the City.

GASB Statement No. 60 - "Accounting and Financial Reporting for Service Concession Arrangements" addresses how to account for and report service concession arrangements, a type of public-private partnership. This statement provides guidance on whether the transferor or the operator should report the capital asset in its financial statements, when to recognize up-front payments from an operator as revenue and how to record any obligation of the transferor to the operator. The requirements of this statement are effective for periods beginning after December 15, 2011. This statement is not expected to have a material effect on the financial statements of the City.

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

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

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(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 100% of uninsured deposits and is composed of obligations of the United States and its agencies and obligations of the State of New York, its municipalities and school districts. The detail of cash and investments at December 31, 2010 consists of:

Petty cash	\$ 565
Deposits - checking and savings accounts	<u>8,086,933</u>
Total	<u>\$ 8,087,498</u>

Deposits at December 31, 2010 were entirely covered by federal depository insurance or by eligible securities held in the City's name by a third party custodial bank or the trading partner's trust department. Bank balances held are as follows at December 31, 2010:

FDIC Insurance	\$ 760,599
Collateral held by third party custodial bank	1,131,074
Collateral held by trading partner's trust department	<u>6,698,209</u>
Total	<u>\$ 8,589,882</u>

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

<u>Primary</u> <u>Government</u>	<u>Fiduciary</u> <u>Funds</u>	<u>Total</u>
\$ <u>8,004,604</u>	<u>82,894</u>	<u>8,087,498</u>

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(3) Receivables

Receivables at December 31, 2010 consisted of the following, which are net of an allowance for uncollectible amounts:

	<u>General</u>	<u>Capital projects</u>	<u>Community development</u>	<u>Nonmajor funds</u>	<u>Agency funds</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Current:								
Taxes	\$ 58,467	-	-	-	-	-	-	58,467
Accounts	190,653	-	103,106	-	1,165	412,659	642,170	1,349,753
Franchise fees	83,085	-	-	-	-	-	-	83,085
Utilities tax	12,777	-	-	-	-	-	-	12,777
Rents receivable	-	-	-	3,465	-	89,845	73,496	166,806
Refuse fee receivable	10,925	-	-	-	-	-	-	10,925
Parking tickets	37,730	-	-	-	-	-	-	37,730
Rehabilitation loans	-	-	408,980	-	-	-	-	408,980
Other governments	497,019	-	-	-	-	367,515	2,715	867,249
State and Federal aid	85,661	161,439	-	-	-	-	-	247,100
Less allowance for uncollectibles	(9,708)	-	-	-	-	(20,000)	-	(29,708)
Total current receivables, net	966,609	161,439	512,086	3,465	1,165	850,019	718,381	3,213,164
Noncurrent - Steamboat landing project, Section 108 HUD Loan	-	-	1,450,000	-	-	-	-	1,450,000
Total receivables	<u>\$966,609</u>	<u>161,439</u>	<u>1,962,086</u>	<u>3,465</u>	<u>1,165</u>	<u>850,019</u>	<u>718,381</u>	<u>4,663,164</u>

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

(4) Interfund Receivables and Payables

Interfund receivables and payables at December 31, 2010 were as follows:

<u>Fund</u>	<u>Interfund receivables</u>	<u>Interfund payables</u>
General fund	\$ 159,920	360
Capital projects fund	-	151,688
Trust and agency fund	<u>360</u>	<u>8,232</u>
Total	<u>\$ 160,280</u>	<u>160,280</u>

(5) Capital Assets

Capital assets activity for the year ended December 31, 2010 was as follows:

	<u>Balance at January 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at December 31, 2010</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,482,538	741,760	-	4,224,298
Work in process	<u>686,162</u>	<u>265,656</u>	<u>(805,458)</u>	<u>146,360</u>
Total capital assets not being depreciated	<u>4,168,700</u>	<u>1,007,416</u>	<u>(805,458)</u>	<u>4,370,658</u>

(Continued)

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

(5) Capital Assets, Continued

	Balance at January 1, <u>2009</u>	<u>Increases</u>	<u>Decreases</u>	Balance at December 31, <u>2010</u>
Capital assets, being depreciated:				
Land improvements	\$ 7,865,417	62,314	-	7,927,731
Infrastructure	53,409,643	754,353	-	54,163,996
Buildings and improvements	8,695,824	32,000	-	8,727,824
Machinery and equipment	<u>5,266,096</u>	<u>263,498</u>	<u>(14,613)</u>	<u>5,514,981</u>
Total capital assets being depreciated	<u>75,236,980</u>	<u>1,112,165</u>	<u>(14,613)</u>	<u>76,334,532</u>
Less accumulated depreciation for:				
Land improvements	2,556,353	180,749	-	2,737,102
Infrastructure	29,506,740	1,115,066	-	30,621,806
Buildings and improvements	4,404,216	224,677	-	4,628,893
Machinery and equipment	<u>2,659,485</u>	<u>435,296</u>	<u>(14,613)</u>	<u>3,080,168</u>
Total accumulated depreciation	<u>39,126,794</u>	<u>1,955,788</u>	<u>(14,613)</u>	<u>41,067,969</u>
Total capital assets being depreciated, net	<u>36,110,186</u>	<u>(843,623)</u>	<u>-</u>	<u>35,266,563</u>
Total	<u>\$40,278,886</u>	<u>163,793</u>	<u>(805,458)</u>	<u>39,637,221</u>

(Continued)

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(5) Capital Assets, Continued

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

Governmental activities:

General governmental support	\$ 141,000
Public safety	249,394
Transportation	1,277,052
Economic development	1,754
Culture and recreation	211,868
Home and community	74,720
	<u>\$ 1,955,788</u>

	Balance at January 1, 2009	Increases	Decreases	Balance at December 31, 2010
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 164,072	-	-	164,072
Work in process	3,689,561	-	(3,608,755)	80,806
Total capital assets not being depreciated	<u>3,853,633</u>	<u>-</u>	<u>(3,608,755)</u>	<u>244,878</u>
Capital assets, being depreciated:				
Land improvements	28,694	-	-	28,694
Infrastructure	18,886,331	369,004	-	19,255,335
Buildings and improvements	24,908,451	3,542,740	-	28,451,191
Machinery and equipment	3,373,107	110,593	(47,047)	3,436,653
Total capital assets being depreciated	<u>47,196,583</u>	<u>4,022,337</u>	<u>(47,047)</u>	<u>51,171,873</u>

(Continued)

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

(5) Capital Assets, Continued

	Balance at January 1, <u>2009</u>	<u>Increases</u>	<u>Decreases</u>	Balance at December 31, <u>2010</u>
Less accumulated depreciation for:				
Land improvements	\$ 11,956	2,869	-	14,825
Infrastructure	13,784,826	418,223	-	14,203,049
Buildings and improvements	14,737,893	621,588	-	15,359,481
Machinery and equipment	<u>2,493,335</u>	<u>131,609</u>	<u>(30,242)</u>	<u>2,594,702</u>
Total accumulated depreciation	<u>31,028,010</u>	<u>1,174,289</u>	<u>(30,242)</u>	<u>32,172,057</u>
Total capital assets being depreciated, net	<u>16,168,573</u>	<u>2,848,048</u>	<u>(16,805)</u>	<u>18,999,816</u>
Total	<u>\$20,022,206</u>	<u>2,848,048</u>	<u>(3,625,560)</u>	<u>19,244,694</u>

Depreciation expense amounting to \$1,174,289 was charged to the appropriate functions/programs.

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

(6) Retirement Plans

(a) Plan Description

The City participates in the New York State and Local Employees' Retirement System (ERS) and the New York State and Local Police and Fire Retirement System (PFRS) (collectively the Systems). These are cost sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute, and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their funds. The Systems issued a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, NY 12244.

(b) Funding Policy

The Systems are noncontributory except for the employees who joined the New York State and Local Employees' Retirement System after July 27, 1976, who contribute 3% of their salary for the first ten years of membership and employees who joined on or after January 1, 2010 (ERS) or January 9, 2010 (PFRS) who generally contribute 3% of their salary for the entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressed used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31.

The rates billed by the Comptroller for ERS ranged from 6.9% to 9.2% for April through December 2009, from 7.9% to 10.7% for April 2009 through March 2010, and from 8.8% to 12% for January through March 2011.

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

	<u>ERS</u>	<u>PFRS</u>
2010	\$ 371,866	438,408
2009	253,254	361,968
2008	286,973	426,487

(7) Other Postemployment Benefits

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

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(7) Other Postemployment Benefits, Continued

The Government Accounting Standard Board has issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions" which requires the accrual of these liabilities. The City has implemented this statement as of January 1, 2009. The cost to the City of providing health insurance benefits to retirees amounted to \$467,776 during the year ended December 31, 2010.

(a) Plan Description

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

(b) Funding Policy

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

(c) Actuarial Methods and Assumptions

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

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

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(7) Other Postemployment Benefits, Continued

(d) Annual OPEB cost at December 31, 2010

	<u>City-wide</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Normal cost	\$ 176,090	162,706	13,384
Amortization of unamortized actuarial liability (UAL)	279,852	249,068	30,784
Interest	<u>8,082</u>	<u>7,193</u>	<u>889</u>
Annual required contribution (ARC)	287,934	256,261	31,673
Interest on OPEB obligation	3,752	3,121	631
Adjustment to ARC	<u>-</u>	<u>-</u>	<u>-</u>
OPEB expense	<u>\$ 467,776</u>	<u>422,088</u>	<u>45,688</u>

(e) Reconciliation of Net OPEB obligation at  
December 31, 2010

Net OPEB obligation at the beginning of the year	\$ 130,135	108,254	21,881
OPEB expense	467,776	422,088	45,688
Net OPEB contributions made during the fiscal year	<u>(420,112)</u>	<u>(386,607)</u>	<u>(33,505)</u>
Net OPEB obligation at the end of the year	\$ <u>177,799</u>	<u>143,735</u>	<u>34,064</u>
Percentage of expense contributed	<u>70.26%</u>	<u>74.90%</u>	<u>49.55%</u>

(f) Schedule of funding process

Total actuarial accrued liability as of December 31, 2010	6,440,875	5,733,574	707,301
Actuarial value of plan assets	<u>-</u>	<u>-</u>	<u>-</u>
Unfunded actuarial accrued liability	<u>\$ 6,440,875</u>	<u>5,733,574</u>	<u>707,301</u>

(g) Number of participants as of December 31, 2010

Active employees	93	74	19
Retired employees	<u>28</u>	<u>24</u>	<u>4</u>
Total employees	<u>121</u>	<u>98</u>	<u>23</u>

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(8) Long-Term Debt

(a) Serial Bonds

The City borrows money in order to acquire land, high cost equipment or to construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These long-term liabilities are full faith and credit obligations of the City.

(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, 2010:

	Balance at January 1, <u>2010</u>	<u>Additions</u>	<u>Deletions</u>	Balance at December 31, <u>2010</u>	<u>Classified as</u>	
					<u>Current</u>	<u>Non-current</u>
<u>Governmental Funds:</u>						
Serial bonds	\$ 8,280,440	344,800	986,870	7,638,370	970,080	6,668,290
Capital leases	310,849	-	221,005	89,844	89,844	-
HUD 108 - Serial bonds	1,555,000	-	105,000	1,450,000	115,000	1,335,000
Compensated absences	712,025	-	87,894	624,131	156,033	468,098
Other postemployment benefits	108,254	35,481	-	143,735	-	143,735
Total governmental funds	<u>\$ 10,966,568</u>	<u>380,281</u>	<u>1,400,769</u>	<u>9,946,080</u>	<u>1,330,957</u>	<u>8,615,123</u>

(Continued)

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(8) Long-Term Debt, Continued

(c) Summary of Debt, Continued

	Balance at	<u>Additions</u>	<u>Deletions</u>	Balance at	<u>Classified as</u>	
	January 1, <u>2010</u>			December 31, <u>2010</u>	<u>Current</u>	<u>Non-current</u>
Water:						
Serial bonds	5,780,400	380,200	265,500	5,895,100	265,900	5,629,200
Compensated absences	86,283	4,312	-	90,595	22,649	67,946
Other postemployment benefits	21,881	12,183	-	34,064	-	34,064
Sewer:						
Serial bonds	2,499,160	-	192,630	2,306,530	179,020	2,127,510
Compensated absences	53,173	2,766	-	55,939	13,985	41,954
Total enterprise funds	<u>\$ 8,440,897</u>	<u>399,461</u>	<u>458,130</u>	<u>8,382,228</u>	<u>481,554</u>	<u>7,900,674</u>

(Continued)

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(8) Long-Term Debt, Continued

(d) Maturity Schedule

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

<u>Purpose</u>	<u>Issue date</u>	<u>Rate of interest</u>	Amount outstanding at December 31, 2010	<u>Final Maturity</u>
General:				
Serial bonds	4/99	4.375% - 4.40%	\$ 662,970	04/14
Serial bonds	2/03	2.00% - 4.125%	2,000,000	03/16
Serial bonds	7/03	2.50% - 4.00%	976,000	12/21
Serial bonds	12/06	4.00% - 4.10%	1,030,000	12/26
Serial bonds	11/07	4.00% - 4.125%	2,426,100	12/27
Serial bonds	11/08	3.50% - 4.30%	235,000	12/18
Serial bonds	8/10	2.00% - 3.4%	<u>308,300</u>	12/19
Total general			<u>7,638,370</u>	
Water:				
Serial bonds	7/03	2.50% - 4.00%	94,000	12/21
Serial bonds	11/07	4.00% - 4.625%	2,804,400	12/46
Serial bonds	4/09	3.50% - 4.50%	2,655,000	12/28
Serial bonds	8/10	2.00% - 3.4%	<u>341,700</u>	12/19
Total water			<u>5,895,100</u>	

(Continued)

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(8) Long-Term Debt, Continued

(d) Maturity Schedule, Continued

<u>Purpose</u>	<u>Issue date</u>	<u>Rate of interest</u>	<u>Amount outstanding at December 31, 2010</u>	<u>Final maturity</u>
Sewer:				
Serial bonds	4/99	4.375% - 4.40%	\$ 107,030	4/14
NYS Environmental Facilities Corporation bonds	7/03	0.721% - 4.50%	1,300,000	1/23
Serial bonds	12/06	4.00% - 4.10%	475,000	12/26
Serial bonds	11/07	4.00% - 4.125%	419,500	12/27
Serial bonds	11/08	3.50% - 4.30%	<u>5,000</u>	12/18
Total sewer			<u>2,306,530</u>	
Community Development - HUD 108 - Serial bond	8/01	5.718% blended	<u>1,450,000</u>	8/19
Total			<u>\$ 17,290,000</u>	

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(8) Long-Term Debt, Continued

(e) Future Debt Service

The following table summarizes the City's future debt service requirements as of December 31, 2010:

<u>Year</u>	<u>Bonds</u>	<u>Interest</u>
2011	\$ 1,530,000	679,743
2012	1,575,000	622,870
2013	1,590,000	563,346
2014	1,605,000	501,967
2015	1,415,000	443,250
2016 - 20	5,050,000	1,489,635
2021 - 25	2,345,000	725,455
2026 - 46	<u>2,180,000</u>	<u>821,553</u>
Total	\$ <u>17,290,000</u>	<u>5,847,819</u>

(f) Defeasement

In prior years, the City defeased general obligations by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. Outstanding general obligation bonds of \$1,915,000 are considered to be defeased.

(9) Fund Balance Reservations

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

<u>Fund</u>	<u>Balance</u>
General fund:	
Reserved for insurance	\$ 184,501
Reserved for encumbrances	39,264
Kershaw Park reserve	81,345
Capital reserve	404,251
Miscellaneous reserve	<u>8,281</u>
Total general fund	\$ <u>717,642</u>
Capital projects fund - reserved for encumbrances	\$ <u>3,963</u>

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(10) Fund Balance Designations

Designations are not legally required segregations but are segregated for a specific purpose by the City. At December 31, 2010, designated for subsequent year's expenditures in the general fund amounted to \$739,744.

(11) Net Assets - Restricted

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

<u>Restricted Net Assets</u>	<u>Restricted by</u>	<u>Amount</u>
Capital reserves - enterprise funds	Local law	\$ 2,505,658
Capital reserves - governmental funds	Local law	404,251
Debt service reserves - enterprise funds	State law	57,482
Special Districts:		
Community development	Local law	385,575
Parks and recreation	Local law	20,400
Technology	Local law	321,303
Watershed program	Local law	<u>116,542</u>
		<u>843,820</u>
Total restricted net assets		\$ <u>3,811,211</u>

(12) Labor Relations

City employees are represented by four bargaining units with the balance governed by City personnel policies and practices. Two of the units have contracts that expire December 31, 2013. The remaining two units have contracts that expired December 31, 2010 and are currently being renegotiated.

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(13) Interfund Transfers

Cash transfers from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Operating transfers in, and operating transfers out, for the year ended December 31, 2010 for the primary government were as follows:

	<u>Operating transfers in</u>	<u>Operating transfers out</u>
General fund	\$ 377,059	-
Water fund	-	290,000
Capital projects fund	-	15,760
Nonmajor funds	<u>-</u>	<u>71,299</u>
Total	\$ <u>377,059</u>	<u>377,059</u>

(14) Insurance Reserve

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

There were no estimated accrued claims for the years ended December 31, 2010 and 2009 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 2010 totaled \$33,055. However, as referred to in note 9, the City has established and maintains an insurance reserve having a balance of \$184,501 at December 31, 2010.

(15) Workers' Compensation Plan

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

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

CITY OF CANANDAIGUA, NEW YORK

Notes to Financial Statements, Continued

(15) Workers' Compensation Plan, Continued

The Plan establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. However, because actual claims costs depend on complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Such claims are based on the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and claims that have been incurred but not reported. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. During the year ended December 31, 2010, the City incurred premiums or contribution expenditures totaling \$263,476, which were collected through the County's tax levy.

(16) 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 present values of the minimum lease payments as of December 31, 2010:

	Governmental activities
Minimum lease payment - capital leases	\$ 94,058
Less: Amount representing interest at incremental borrowing rate	<u>(4,214)</u>
Present value - minimum lease payments	\$ <u>89,844</u>

(17) Contingencies

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

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

CITY OF CANANDAIGUA, NEW YORK  
Combining Balance Sheet -  
Nonmajor Governmental Funds  
December 31, 2010

	<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>	
<b>Assets:</b>					
Cash and cash equivalents	\$ -	117,784	20,400	319,363	457,547
Receivables	-	-	-	3,465	3,465
Prepaid items	-	1,497	-	2,638	4,135
Total assets	<u>\$ -</u>	<u>119,281</u>	<u>20,400</u>	<u>325,466</u>	<u>465,147</u>
<b>Liabilities and fund balances:</b>					
<b>Liabilities:</b>					
Accounts payables and other current liabilities	-	886	-	4,163	5,049
Accrued liabilities	-	1,853	-	-	1,853
Total liabilities	<u>-</u>	<u>2,739</u>	<u>-</u>	<u>4,163</u>	<u>6,902</u>
<b>Fund balances:</b>					
Encumbrances - unreserved - unappropriated	-	116,542	20,400	321,303	458,245
Total liabilities and fund balances	<u>\$ -</u>	<u>119,281</u>	<u>20,400</u>	<u>325,466</u>	<u>465,147</u>

CITY OF CANANDAIGUA, NEW YORK  
Combining Statement of Revenue, Expenditures, and Changes in  
Fund Balance - Nonmajor Governmental Funds  
Year ended December 31, 2010

	<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	\$ -	-	7,000	-	7,000
Intergovernmental changes	-	74,076	-	-	74,076
Use of money and property	145	781	142	187,511	188,579
Miscellaneous	-	4,020	-	-	4,020
State and County aid	-	51,753	-	-	51,753
Total revenues	<u>145</u>	<u>130,630</u>	<u>7,142</u>	<u>187,511</u>	<u>325,428</u>
Expenditures:					
General governmental support	-	-	-	176,729	176,729
Home and community services	-	94,837	-	-	94,837
Employee benefits	-	23,756	-	615	24,371
Total expenditures	<u>-</u>	<u>118,593</u>	<u>-</u>	<u>177,344</u>	<u>295,937</u>
Excess of revenue over expenditures	<u>145</u>	<u>12,037</u>	<u>7,142</u>	<u>10,167</u>	<u>29,491</u>
Other financing uses -operating transfers	<u>(58,799)</u>	<u>-</u>	<u>(12,500)</u>	<u>-</u>	<u>(71,299)</u>
Net change in fund balances	(58,654)	12,037	(5,358)	10,167	(41,808)
Fund balances at beginning of year	<u>58,654</u>	<u>104,505</u>	<u>25,758</u>	<u>311,136</u>	<u>500,053</u>
Fund balances at end of year	<u>\$ -</u>	<u>116,542</u>	<u>20,400</u>	<u>321,303</u>	<u>458,245</u>

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

555 INTERNATIONAL DR.  
WILLIAMSVILLE, NY 14221  
(716) 634-0700

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

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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

### Compliance and Other Matters

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

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

*Toski, Schaefer & Co, P.C.*

Williamsville, New York  
April 21, 2011