

CITY OF HORNELL, NEW YORK

*Basic Financial Statements and
Required Supplementary Information
for the Year Ended
March 31, 2026 and Independent Auditors' Reports*

CITY OF HORNELL, NEW YORK
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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Common Council of
the City of Hornell, New York:

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Hornell, New York (the "City"), as of and for the year ended March 31, 2026, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of March 31, 2026, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards* ("GAS"), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement issuance date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2026 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of 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* in considering the City's internal control over financial reporting and compliance.

Drescher & Malecki LLP

September 18, 2026

CITY OF HORNELL, NEW YORK
Management's Discussion and Analysis
Year Ended March 31, 2026

As management of the City of Hornell, New York (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended March 31, 2026. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

- The assets and the deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$37,020,172 (*net position*). This consists of \$40,710,279 net investment in capital assets, \$777,820 restricted for specific purposes, offset by an unrestricted net position of \$(4,467,927).
- The City's total net position increased by \$1,723,705 during the year ended March 31, 2026.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$8,693,345, an increase of \$2,140,583 in comparison with the prior year's fund balance of \$6,552,762.
- At the end of the current fiscal year, *unassigned fund balance* for the General Fund was \$6,423,694 or approximately 36.7 percent of total General Fund expenditures and transfers out. This total amount is *available for spending* at the City's discretion and constitutes approximately 78.0 percent of the General Fund's total fund balance of \$8,231,610.
- During the year ended March 31, 2026, the City's total long-term bonds and notes outstanding increased \$2,807,070 as the result of the issuance of a statutory installment bond in the amount of \$311,814, the issuance of a public improvements bond in the amount of \$1,987,719 and the draw down of long-term Environmental Facilities Corporation ("EFC") notes payable in the amount of \$1,061,739, partially offset by scheduled principal payments of \$554,202.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements—The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets, liabilities and deferred outflows/inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover, all or a significant portion, of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government support, public safety, health, transportation, culture and recreation, home and community services and interest and other fiscal charges. The City does not engage in any business-type activities.

The government-wide financial statements can be found on pages 13-14 of this report.

Fund financial statements—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. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds—*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Water Fund, Community Development Fund, Library Fund and Capital Projects Fund, which are presented as major funds.

The basic governmental fund financial statements can be found on pages 15-18 of this report.

Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support City's own programs. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The City maintains one fiduciary fund, the Custodial Fund.

The fiduciary fund financial statements can be found on pages 19-20 of this report.

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 can be found on pages 21-44 of this report.

Other information—In addition to the basic financial statements and the accompanying notes, this report also presents *Required Supplementary Information* concerning the City’s net pension liability/(asset), the City’s progress in funding its obligation to provide postemployment benefits (“OPEB”) to its employees, and the City’s budgetary comparison for each major fund with a legally adopted budget. Required Supplementary Information and related notes to the Required Supplementary Information can be found on pages 45-53 of this report.

Government-wide Financial Analysis

As noted earlier, net position over time may serve as useful indicator of a government’s financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$37,020,172 at the close of the most recent fiscal year, as compared to \$35,296,467 at the close of the fiscal year ended March 31, 2025.

Table 1, shown below, presents condensed statements of net position as of March 31, 2026 and March 31, 2025.

Table 1—Condensed Statements of Net Position

	Governmental Activities	
	March 31,	
	2026	2025
Current assets	\$ 13,512,365	\$ 17,033,812
Noncurrent assets	56,220,641	54,373,299
Total assets	69,733,006	71,407,111
Deferred outflows of resources	6,128,660	6,569,305
Current liabilities	5,233,266	10,855,810
Noncurrent liabilities	31,783,912	27,457,132
Total liabilities	37,017,178	38,312,942
Deferred inflows of resources	1,824,316	4,667,007
Net position:		
Net investment in capital assets	40,710,279	38,493,951
Restricted	777,820	535,288
Unrestricted	(4,467,927)	(3,732,772)
Total net position	\$ 37,020,172	\$ 35,296,467

The largest portion of the City's net position, \$40,710,279, reflects its investment in capital assets (such as land, buildings, machinery and equipment, and infrastructure and right-to-use assets); net of accumulated depreciation/amortization and less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, \$777,820, represents resources that are subject to external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The remaining balance of net position, \$(4,467,927), is considered to be an unrestricted deficit. This deficit does not mean that the City does not have the resources available to meet its obligations in the ensuing year. Rather, it reflects liabilities not related to the County's capital assets and are not expected to be repaid from current resources. These long-term liabilities include OPEB obligations, bonds and notes payable, compensated absences, lease liability, and the net pension liability.

Table 2, as presented below, shows the changes in net position for the years ended March 31, 2026 and March 31, 2025.

Table 2—Condensed Statements of Changes in Net Position

	Governmental Activities	
	Year Ended March 31,	
	2026	2025
Program revenues:		
Charges for services	\$ 5,493,379	\$ 5,499,013
Operating grants and contributions	1,570,215	3,466,158
Capital grants and contributions	2,441,603	3,734,121
General revenues	13,373,554	12,849,421
Total revenues	<u>22,878,751</u>	<u>25,548,713</u>
Program expenses	<u>21,155,046</u>	<u>21,623,801</u>
Change in net position	1,723,705	3,924,912
Net position—beginning	<u>35,296,467</u>	<u>31,371,555</u>
Net position—ending	<u>\$ 37,020,172</u>	<u>\$ 35,296,467</u>

Overall revenues decreased 10.5 percent from the prior year. The decrease was primarily the result of decreases in operating and capital grants and contributions received in the current year. Total expenses decreased 2.2 percent from the prior year, which is primarily attributable to a decrease in culture and recreation expenses due to the City completing additional park improvements in the prior year.

A summary of sources of revenues for the years ended March 31, 2026 and March 31, 2025 is presented in Table 3 on the following page.

Table 3—Summary of Sources of Revenues – Governmental Activities

	Year Ended March 31,		Increase/(Decrease)	
	2026	2025	Dollar (\$)	Percent (%)
Program revenues:				
Charges for services	\$ 5,493,379	\$ 5,499,013	\$ (5,634)	(0.1)
Operating grants and contributions	1,570,215	3,466,158	(1,895,943)	(54.7)
Capital grants and contributions	2,441,603	3,734,121	(1,292,518)	(34.6)
General revenues:				
Real property taxes and other tax items	5,310,313	5,237,747	72,566	1.4
Sales tax	4,967,720	4,847,307	120,413	2.5
Mortgage tax	122,005	77,207	44,798	58.0
Use of money and property	432,581	609,446	(176,865)	(29.0)
Sale of property and compensation for loss	560,587	180,168	380,419	211.1
Miscellaneous	217,780	225,833	(8,053)	(3.6)
State aid—unrestricted	1,762,568	1,671,713	90,855	5.4
Total revenues	<u>\$ 22,878,751</u>	<u>\$ 25,548,713</u>	<u>\$ (2,669,962)</u>	(10.5)

The City's most significant sources of revenues for the year ended March 31, 2026 were charges for services of \$5,493,379, or 24.0 percent of total revenues, real property taxes and other tax items of \$5,310,313, or 23.2 percent of total revenues, and sales tax of \$4,967,720, or 21.7 percent of total revenues. For the year ended March 31, 2025 the most significant sources of revenues were charges for services of \$5,499,013, or 21.5 percent of total revenues, real property taxes and other tax items of \$5,237,747, or 20.5 percent of total revenues, and sales tax of \$4,847,307, or 19.0 percent of total revenues.

A summary of program expenses for the years ended March 31, 2026 and March 31, 2025 is presented below in Table 4.

Table 4 – Summary of Program Expenses – Governmental Activities

	Year Ended March 31,		Increase/(Decrease)	
	2026	2025	Dollars (\$)	Percent (%)
General government support	\$ 2,730,354	\$ 2,438,691	\$ 291,663	12.0
Public safety	6,976,820	6,288,298	688,522	10.9
Health	1,334,856	2,118,921	(784,065)	(37.0)
Transportation	2,662,315	2,545,430	116,885	4.6
Culture and recreation	1,440,803	2,832,315	(1,391,512)	(49.1)
Home and community services	5,462,910	5,169,056	293,854	5.7
Interest and other fiscal charges	546,988	231,090	315,898	136.7
Total expenses	<u>\$ 21,155,046</u>	<u>\$ 21,623,801</u>	<u>\$ (468,755)</u>	(2.2)

The City's most significant expenses for the year ended March 31, 2026 were public safety of \$6,967,089, or 33.0 percent of total expenses, home and community services of \$5,462,910, or 25.8 percent of total expenses, and general government support of \$2,730,354, or 12.9 percent of total expenses. For the year ended March 31, 2025 the most significant expenses were public safety of \$6,288,298, or 29.1 percent of total expenses, home and community services of \$5,169,056, or 23.9 percent of total expenses, and culture and recreation of \$2,832,315, or 13.1 percent of total expenses.

Financial Analysis of the Governmental Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds—The focus of the City’s *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City’s financing requirements. In particular, *unassigned fund balance* and *fund balance assigned to a specific use* in special revenue funds may serve as a useful measure of a government’s net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Common Council.

At March 31, 2026, the City’s governmental funds reported combined ending fund balances of \$8,693,345, an increase of \$2,140,583 in comparison with the prior year. Approximately 65.5 percent, or \$5,696,377, of this fund balance constitutes *unassigned fund balance* which is available for spending at the City’s discretion. The remainder of fund balance is *restricted, committed or assigned* to indicate that it is 1) restricted for particular purposes, \$777,820, 2) committed to a particular purpose, \$182,030, or 3) assigned for particular purposes, \$2,037,118.

The General Fund is the chief operating fund of the City. At March 31, 2026, the *unassigned fund balance* of the General Fund was \$6,423,694, while the total fund balance decreased to \$8,231,610. As a measure of the General Fund’s liquidity, it may be useful to compare both the *unassigned fund balance* and total fund balances to total fund expenditures and transfers out. *Unassigned fund balance* represents approximately 36.7 percent of total General Fund expenditures and transfers out, while total fund balance represents approximately 47.0 percent of that same amount. The total fund balance of the General Fund decreased by \$109,276 during the current fiscal year, due to an increase in transportation related expenditures. This compares favorably to the planned use of \$1,914,297 of fund balance included with the original budget, which included an appropriated use of restricted fund balance.

The City’s Water Fund ending fund balance was \$968,036. Approximately 30.6 percent, \$296,084, of this amount is reported as specific Water Fund use. The fund balance of the Water Fund increased by \$122,986 during the year ended March 31, 2026 due to an increase in miscellaneous revenue from water pollution settlements.

The City’s Community Development Fund ending fund balance was \$221,016. All of the reported fund balance is restricted for specific Community Development Fund use. The fund balance of the Community Development Fund decreased by \$14,706 during the year ended March 31, 2026 due to a decrease in federal aid received.

The City’s Library Fund ending fund balance was \$0. The fund balance of the Library Fund decreased \$217,615 during the year ended March 31, 2026. The decrease was planned during the budget process and is primarily due to the library requesting to separate from the City after the current year end.

The City’s Capital Projects Fund ending fund balance deficit was \$727,317 at March 31, 2026. During the year ended March 31, 2026, the fund balance increased \$2,359,194 primarily due to the issuance of \$3,361,272 in long term debt. The remaining deficit will be eliminated as resources are obtained to make the scheduled debt service principal and interest payments on the BANs or retire the BANs.

General Fund Budgetary Highlights

The City's General Fund budget generally contains budget amendments during the year. The budget is allowed to be amended upward (increased) for prior year's encumbrances since the funds were allocated under the previous year's budget, and the City has appropriately assigned an equal amount of fund balance at year-end for this purpose. Furthermore, the budget is allowed to be amended upward (increased) for additional current year appropriations supported by an increase in budgeted revenues. A budgetary comparison schedule within the required supplementary information section of this report has been provided to demonstrate compliance with their budget.

A summary of the General Fund results of operations for the year ended March 31, 2026 is presented below in Table 5.

Table 5—General Fund Budget

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues and other financing sources	\$ 17,096,362	\$ 17,296,736	\$ 17,400,289	\$ 103,553
Expenditures and other financing sources	<u>19,010,659</u>	<u>19,658,118</u>	<u>17,509,565</u>	<u>2,148,553</u>
Excess (deficiency) of revenues over Expenditures and other financing sources	<u>\$ (1,914,297)</u>	<u>\$ (2,361,382)</u>	<u>\$ (109,276)</u>	<u>\$ 2,252,106</u>

Original budget compared to final budget—During the year, there was a \$647,459 net increase between the original and final amended budget appropriations within the General Fund. This increase was primarily due to an increase in appropriations related to home and community services that were funded through additional federal aid and appropriated fund balance.

Final budget compared to actual results—A review of actual revenues and expenditures compared to the estimated revenues and appropriations in the final budget yields a variance in General Fund expenditures and transfers out of \$2,148,553 and a variance in General Fund revenues and other financing sources of \$103,553. The following are the main components of the variances:

- Transportation expenditures were \$1,016,336 less than the final budget primarily due to the lack of supply on anticipated equipment purchases.
- Public safety expenditures were \$249,584 less than the final budget primarily due to less than anticipated personnel costs.

Capital Assets and Debt Administration

Capital assets—The City’s investment in capital assets for its governmental activities as of March 31, 2026, amounted to \$56,220,641 (net of accumulated depreciation/amortization). This investment in capital assets includes land, construction in progress, land improvements, buildings, machinery and equipment, infrastructure, and right-to-use assets. All depreciable capital assets were depreciated/amortized by taking their historical cost, less any residual value, and dividing by the estimated life. One half of the annual depreciation/amortization is expensed in the year of acquisition, regardless of the actual purchase date, as outlined in the City’s capital asset policy.

Capital assets, net of accumulated depreciation/amortization, for the governmental activities, at the years ended March 31, 2026 and 2025 are presented below in Table 6.

Table 6—Summary Capital Assets (Net of Accumulated Depreciation/Amortization)

	Governmental Activities	
	March 31,	
	2026	2025
Land	\$ 669,498	\$ 669,498
Construction in progress	7,649,114	9,094,408
Land improvements	11,155,855	7,083,355
Buildings	12,884,731	13,333,651
Machinery and equipment	5,386,466	4,735,732
Infrastructure	18,197,189	19,012,518
Right-to-use assets	277,788	444,137
Total	<u>\$ 56,220,641</u>	<u>\$ 54,373,299</u>

Additional information on the City’s capital assets can be found in Note 4 to the financial statements.

Long-term liabilities—At March 31, 2026, the City had total long-term liabilities outstanding of \$31,783,912, as compared to \$27,457,132 at March 31, 2025. Of the total long-term debt outstanding at March 31, 2026, \$12,879,646 represents serial bonds and notes issued by the City. A summary of the City’s long-term outstanding liabilities is presented in Table 7 below.

Table 7—Summary of Long-Term Liabilities

	Governmental Activities	
	March 31,	
	2026	2025
Serial bonds and notes	\$ 12,879,646	\$ 10,072,576
Premium on bonds	30,063	-
Lease liability	-	179,109
Compensated absences	453,892	397,408
OPEB obligation	11,954,974	11,662,991
Net pension liability	6,465,337	5,145,048
Total	<u>\$ 31,783,912</u>	<u>\$ 27,457,132</u>

The City’s most recent bond rating from Standard and Poor’s is A+. Additional information on the City’s long-term debt can be found in Note 11 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the year ending March 31, 2026, there are many other factors outside the City's control that exert significant influence on the budget. Some of these factors are as follows:

- The unemployment rate (not seasonally adjusted) for the County of Steuben, which encompasses the City, was 4.8 percent at March 31, 2026. This rate is higher than New York State's rate of 4.4 and higher than the national rate of 4.3 percent.
- During the City's budget process for the 2026-2027 fiscal year, the City's General Fund appropriated a total of \$1,320,000 of fund balance. This amount is reported as assigned to subsequent year's expenditures as of March 31, 2026.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Chamberlain's Office, City of Hornell, 82 Main Street, Hornell, New York 14843.

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BASIC FINANCIAL STATEMENTS

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CITY OF HORNELL, NEW YORK
Statement of Net Position
March 31, 2026

	Primary Government Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 5,580,176
Restricted cash and cash equivalents	3,646,662
Receivables (net of allowance for uncollectibles)	638,321
Taxes receivable	276,497
Loans receivable	90,487
Intergovernmental receivables	3,280,222
Capital assets not being depreciated/amortized	8,318,612
Capital assets, net of accumulated depreciation/amortization	47,902,029
Total assets	<u>69,733,006</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows—relating to pensions	4,932,880
Deferred outflows—relating to OPEB	1,195,780
Total deferred outflows of resources	<u>6,128,660</u>
LIABILITIES	
Accounts payable	709,841
Retainage payable	383,166
Accrued liabilities	76,480
Intergovernmental payable	318,079
Other liabilities	3,000
Bond anticipation notes	3,742,700
Noncurrent liabilities:	
Due within one year	911,753
Due within more than one year	30,872,159
Total liabilities	<u>37,017,178</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows—relating to pensions	373,433
Deferred inflows—relating to OPEB	1,450,883
Total deferred inflows of resources	<u>1,824,316</u>
NET POSITION	
Net investment in capital assets	40,710,279
Restricted for:	
Public safety	83,758
Parklands/playgrounds	14,922
Repairs	366,483
Debt	14,679
Community development	221,016
Special purpose	65,941
Tax stabilization	11,021
Unrestricted	(4,467,927)
Total net position	<u>\$ 37,020,172</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HORNELL, NEW YORK
Statement of Activities
Year Ended March 31, 2026

					Net (Expense) Revenue and Changes in Net Position
Function/Program	Expenses	Program Revenues			Primary Government
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary government:					
Governmental activities:					
General government support	\$ 2,730,354	\$ 85,067	\$ -	\$ -	\$ (2,645,287)
Public safety	6,976,820	145,425	220,422	-	(6,610,973)
Health	1,334,856	2,092,351	-	-	757,495
Transportation	2,662,315	114,327	1,214,055	488,870	(845,063)
Culture and recreation	1,440,803	6,696	-	10,000	(1,424,107)
Home and community services	5,462,910	3,049,513	135,738	1,942,733	(334,926)
Interest and other fiscal charges	546,988	-	-	-	(546,988)
Total primary government	<u>\$ 21,155,046</u>	<u>\$ 5,493,379</u>	<u>\$ 1,570,215</u>	<u>\$ 2,441,603</u>	<u>(11,649,849)</u>
General revenues:					
					5,310,313
					5,089,725
					432,581
					560,587
					217,780
					1,762,568
					<u>13,373,554</u>
					1,723,705
					<u>35,296,467</u>
					<u>\$ 37,020,172</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HORNELL, NEW YORK
Balance Sheet-Governmental Funds
March 31, 2026

	Special Revenue					Total
	General	Water	Community Development	Library	Capital Projects	Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 5,183,126	\$ 397,050	\$ -	\$ -	\$ -	\$ 5,580,176
Restricted cash and cash equivalents	190,321	366,483	167,200	-	2,922,658	3,646,662
Receivables:						
Accounts (net of allowance for uncollectibles)	392,042	246,279	-	-	-	638,321
Taxes	276,497	-	-	-	-	276,497
Loans	-	-	90,487	-	-	90,487
Due from other funds	161,868	-	-	-	-	161,868
Intergovernmental receivables	2,599,560	-	-	-	680,662	3,280,222
Total assets	<u>\$ 8,803,414</u>	<u>\$ 1,009,812</u>	<u>\$ 257,687</u>	<u>\$ -</u>	<u>\$ 3,603,320</u>	<u>\$ 13,674,233</u>
LIABILITIES						
Accounts payable	\$ 218,117	\$ 36,635	\$ 780	\$ -	\$ 454,309	\$ 709,841
Accrued liabilities	40,259	5,141	-	-	-	45,400
Due to other funds	-	-	31,240	-	130,628	161,868
Intergovernmental payable	313,428	-	4,651	-	-	318,079
Other liabilities	-	-	-	-	3,000	3,000
Bond anticipation notes	-	-	-	-	3,742,700	3,742,700
Total liabilities	<u>571,804</u>	<u>41,776</u>	<u>36,671</u>	<u>-</u>	<u>4,330,637</u>	<u>4,980,888</u>
FUND BALANCES (DEFICIT)						
Restricted	190,321	366,483	221,016	-	-	777,820
Committed	182,030	-	-	-	-	182,030
Assigned	1,435,565	601,553	-	-	-	2,037,118
Unassigned	6,423,694	-	-	-	(727,317)	5,696,377
Total fund balances (deficit)	<u>8,231,610</u>	<u>968,036</u>	<u>221,016</u>	<u>-</u>	<u>(727,317)</u>	<u>8,693,345</u>
Total liabilities and fund balances (deficit)	<u>\$ 8,803,414</u>	<u>\$ 1,009,812</u>	<u>\$ 257,687</u>	<u>\$ -</u>	<u>\$ 3,603,320</u>	<u>\$ 13,674,233</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HORNELL, NEW YORK
Reconciliation of the Balance Sheet—Governmental Funds
to the Government-wide Statement of Net Position
March 31, 2026

Amounts reported for governmental activities in the statement of net position (page 13) are different because:

Total fund balances (deficit)—governmental funds (page 15)	\$	8,693,345	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund statements. The cost of the assets is \$145,032,234 and the accumulated depreciation/amortization is \$88,811,593.			56,220,641
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the fund statements:			
Deferred outflows related to employer contributions	\$	1,646,301	
Deferred outflows related to experience, changes of assumptions, investment earnings, and changes in proportion		3,286,579	
Deferred inflows of resources related to pensions		<u>(373,433)</u>	4,559,447
Deferred outflows and inflows of resources related to other postemployment benefits ("OPEB") are applicable to future periods and, therefore, are not reported in the fund statements:			
Deferred outflows of resources related to OPEB	\$	1,195,780	
Deferred inflows of resources related to OPEB		<u>(1,450,883)</u>	(255,103)
Retained percentages are not a current liability and, therefore, are not reported in the fund statements.			(383,166)
Net accrued interest expense for serial bonds is not reported in the fund statements.			(31,080)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the fund statements. The effects of these items are:			
Bonds and notes payable	\$	(12,879,646)	
Premium on bonds		(30,063)	
Compensated absences		(453,892)	
OPEB obligation		(11,954,974)	
Net pension liability		<u>(6,465,337)</u>	<u>(31,783,912)</u>
Net position of governmental activities	\$		<u><u>37,020,172</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF HORNELL, NEW YORK
Statement of Revenues, Expenditures, and Changes in
Fund Balances (Deficit)—Governmental Funds
Year Ended March 31, 2026

	Special Revenue				Capital Projects	Total Governmental Funds
	General	Water	Community Development	Library		
REVENUES						
Real property taxes	\$ 4,336,894	\$ -	\$ -	\$ 407,382	\$ -	\$ 4,744,276
Other tax items	566,037	-	-	-	-	566,037
Non-property tax items	5,089,725	-	-	-	-	5,089,725
Departmental income	3,242,802	2,168,039	912	3,571	-	5,415,324
Use of money and property	297,784	36,147	369	5,486	92,795	432,581
Licenses and permits	52,838	-	-	-	-	52,838
Fines and forfeitures	25,217	-	-	-	-	25,217
Sale of property and compensation for loss	53,627	281,265	-	-	225,695	560,587
Miscellaneous	187,160	-	-	3,373	27,247	217,780
State aid	3,019,644	-	-	-	698,019	3,717,663
Federal aid	455,053	-	135,738	-	1,465,932	2,056,723
Total revenues	<u>17,326,781</u>	<u>2,485,451</u>	<u>137,019</u>	<u>419,812</u>	<u>2,509,688</u>	<u>22,878,751</u>
EXPENDITURES						
Current:						
General government support	1,742,268	113,630	-	8,120	-	1,864,018
Public safety	4,486,234	-	-	-	-	4,486,234
Health	901,420	-	-	-	-	901,420
Transportation	2,901,170	-	-	-	-	2,901,170
Culture and recreation	417,360	-	-	524,142	-	941,502
Home and community service	1,969,269	1,569,931	120,485	-	-	3,659,685
Employee benefits	3,900,454	423,644	-	62,897	-	4,386,995
Debt service:						
Principal	478,051	255,260	-	-	-	733,311
Interest	544,182	-	-	-	-	544,182
Capital outlay	-	-	-	-	3,713,491	3,713,491
Total expenditures	<u>17,340,408</u>	<u>2,362,465</u>	<u>120,485</u>	<u>595,159</u>	<u>3,713,491</u>	<u>24,132,008</u>
Excess (deficiency) of revenues over expenditures	<u>(13,627)</u>	<u>122,986</u>	<u>16,534</u>	<u>(175,347)</u>	<u>(1,203,803)</u>	<u>(1,253,257)</u>
OTHER FINANCING SOURCES (USES)						
Serial bonds issued	-	-	-	-	3,361,272	3,361,272
Premium on serial bonds	-	-	-	-	32,568	32,568
Transfers in	73,508	-	-	-	169,157	242,665
Transfers out	(169,157)	-	(31,240)	(42,268)	-	(242,665)
Total other financing sources (uses)	<u>(95,649)</u>	<u>-</u>	<u>(31,240)</u>	<u>(42,268)</u>	<u>3,562,997</u>	<u>3,393,840</u>
Net change in fund balances	(109,276)	122,986	(14,706)	(217,615)	2,359,194	2,140,583
Fund balances (deficit)—beginning	<u>8,340,886</u>	<u>845,050</u>	<u>235,722</u>	<u>217,615</u>	<u>(3,086,511)</u>	<u>6,552,762</u>
Fund balances (deficit)—ending	<u>\$ 8,231,610</u>	<u>\$ 968,036</u>	<u>\$ 221,016</u>	<u>\$ -</u>	<u>\$ (727,317)</u>	<u>\$ 8,693,345</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HORNELL, NEW YORK
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances (Deficit)—Governmental Funds to the Government-wide Statement of Activities
Year Ended March 31, 2026

Amounts reported for governmental activities in the statement of activities (page 14) are different because:

Net change in fund balances (deficit)—total governmental funds (page 17) \$ 2,140,583

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation/amortization expense. This is the amount by which capital outlays exceeded depreciation/amortization expense in the current period.

Capital asset additions	\$ 4,470,163	
Depreciation/amortization expense	(2,622,821)	1,847,342

Net differences between pension contributions recognized on the fund financial statements and the government-wide financial statements are as follows:

Direct pension contributions	\$ 1,440,368	
Cost of benefits earned net of employee contributions	(1,284,719)	155,649

Deferred outflows and deferred inflows relating to OPEB result for actuarial changes in the census, changes in medical premiums that are different than expected healthcare cost trend rates, and changes in assumptions and other inputs. These amounts are shown net of current year amortization.

Changes of assumptions	\$ (77,651)	
Differences between expected and actual experience	703,759	626,108

Governmental funds report retained percentages expenditures on construction contracts when the retained percentage is paid. However, in the statement of activities retained percentages on construction contracts is reported as an expense as it accrues. (34,175)

In the statement of activities, interest expense is recognized as it accrues, regardless of when it is paid. (5,311)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Additionally, in the statement of activities, certain operating expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The net effect of these differences in the treatment of long-term debt and the related items

Bonds and notes issued	\$ (3,361,272)	
Premiums on bonds issued	(32,568)	
Amortization of bond premiums	2,505	
Repayment of bonds and notes	554,202	
Lease payments	179,109	
Change in compensated absences	(56,484)	
Change in OPEB obligation	(291,983)	(3,006,491)

Change in net position of governmental activities \$ 1,723,705

The notes to the financial statements are an integral part of this statement.

CITY OF HORNELL, NEW YORK
Statement of Fiduciary Net Position—Custodial Fund
March 31, 2026

	<u>Custodial Fund</u>
ASSETS	
Restricted cash and cash equivalents	\$ 111,406
Total assets	<u>111,406</u>
LIABILITIES	
Accounts payable	<u>44</u>
Total liabilities	<u>44</u>
NET POSITION	
Restricted for fire insurance	<u><u>\$ 111,362</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF HORNELL, NEW YORK
Statement of Changes in Fiduciary Net Position—Custodial Fund
Year Ended March 31, 2026

	<u>Custodial Fund</u>
ADDITIONS	
Interest income	\$ 298
Funds received on behalf of others	<u>19,921</u>
Total additions	<u>20,219</u>
 DEDUCTIONS	
Funds distributed on behalf of others	<u>27,269</u>
Total deductions	<u>27,269</u>
 Change in fiduciary net position	 (7,050)
 Net position—beginning	 <u>118,412</u>
Net position—ending	<u>\$ 111,362</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF HORNELL, NEW YORK
Notes to the Financial Statements
Year Ended March 31, 2026

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basis of financial statements of the City of Hornell, New York (the “City”) have been prepared in conformity with accounting principles generally accepted in the United States of America 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.

Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The City reports no business-type activities or component units.

Financial Reporting Entity

The City, which was incorporated in 1888, is governed by the Charter of the City of Hornell, the General City Law and other laws of the State of New York and various local laws and ordinances. The Common Council, which is the legislative body responsible for the overall operation of the City, consists of ten aldermen. The Mayor serves as chief executive officer and the Chamberlain serves as chief fiscal officer of the City.

The City provides the following basic services: police and law enforcement, fire protection, street maintenance, culture and recreation, sanitation, water facilities and community development.

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

Related Organizations—Although the following organizations, functions or activities are related to the City, they are not included in the City reporting entity.

The City of Hornell Industrial Development Agency (the “Agency”) is a Public Benefit Corporation created under Article 18-A, Title 1, of New York State General Municipal Law to promote the economic welfare, recreation opportunities and prosperity of the City’s inhabitants. Members of the Agency are appointed by the City Common Council. Agency members have complete responsibility for management of the Agency and accountability for fiscal matters. The City is not responsible for the Agency’s debt.

The City of Hornell Housing Authority (the “Housing Authority”) was established by the state legislature to provide for low rent housing in accordance with state and federal legislation. Housing Authority board members are approved by the City. Housing Authority members have complete responsibility for management and accountability for fiscal matters. The City is not responsible for the Housing Authority’s debt.

Basis of Presentation—Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and its fiduciary fund, even though the latter is excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments and charges between the City's various functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Basis of Presentation—Fund Financial Statements

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

The City reports the following major governmental funds:

- *General Fund*—This fund constitutes the primary operating fund of the City and includes all operations not required to be recorded in other funds. The principal source of revenue for the General Fund is non-property tax items.
- *Water Fund*—This fund is used to record all revenues and expenditures related to operation and maintenance of the City's water system. The principal source of revenue for the Water Fund is departmental income.
- *Community Development Fund*—This fund is used to record all revenues and expenditures related to various development activities within the City. The principal source of revenue for the Community Development Fund is federal aid.
- *Library Fund*—During the year ended March 31, 2026, the Library Fund was closed out by the City. The public Library will maintain accounting activity beginning April 1, 2026 and going forward.
- *Capital Projects Fund*—This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities. The principal source of revenue for the Capital Projects Fund are federal and state grants, debt proceeds, and transfers from the City's operating funds.

Additionally, the City reports the following fund type:

- *Custodial Fund*—These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Trust funds account for resources received and disbursements made in accordance with trust agreements or applicable legislative enactments for each particular fund. Fiduciary funds include the *Custodial Fund*. Activities reported in the fiduciary funds include monies from outside entities, controlled and administered by the City for the benefit of others.

During the course of operations the City has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds. While these balances are reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In the fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide 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 when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, other postemployment benefits, claims and judgments, and pensions, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, non-property taxes, charges for services and state and federal aid associated with the current fiscal period are all considered susceptible to accrual and have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met and the amount is received during the period or within the period of availability. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements are met and amount is received during the period of availability. All other revenue items are considered to be measurable and available only when cash is received by the City.

The Custodial Fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

Cash and Cash Equivalents—Cash and cash equivalents include cash on hand, demand deposits, time deposits and short-term, highly liquid investments which are readily convertible to known amounts of cash and have an original maturity of 90 days or less.

Restricted Cash and Cash Equivalents—Represent unspent proceeds from debt, as well as restricted fund balances, and amounts held on behalf of others.

Investments—Permissible investments include obligations of the U.S. Treasury and U.S. agencies and repurchase agreements. There were no investments at March 31, 2026; however, it is the City’s policy to state investments at fair value, when applicable.

Receivables—Receivables are recorded and revenues are recognized as earned. Allowances are recorded when appropriate.

Capital Assets—Capital assets are tangible and intangible assets, which include land, land improvements, buildings, machinery and equipment, infrastructure (e.g. roads, bridges, drainage systems and similar items), and right-to-use assets are reported in the applicable governmental activities in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Right-to-use lease assets were initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs and are amortized on a straight-line basis over their useful lives.

Land and construction in progress are not depreciated. The other capital assets of the City are depreciated/amortized using the straight line method over the estimated useful lives presented below:

Assets	Years
Buildings	40
Land improvements	20
Machinery and equipment	5-20
Infrastructure:	
Dams and drainage systems	100
Water and sewer systems	50
Traffic control systems	40
Bridges and culverts	50
Roads	20
Right-to-use assets	5-20

The *capital outlays* character classification is employed only for expenditures reported in the Capital Projects Fund. Routine capital expenditures in other funds are included in the appropriate functional category (i.e. purchase of new highway equipment as part of *expenditures—transportation*). At times, amounts reported as *capital outlays* in the Capital Projects Fund will also include non-capitalized, project-related costs (i.e. furnishings).

Deferred Outflows/Inflows of Resources—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. At March 31, 2026, the City has two items that qualify for reporting in this category that are reported in the government-wide financial statements. The first item represents the effect of the net change in the City's proportion of the collective net pension liability, and the difference during the measurement period between the City's contributions and its proportionate share of the total contribution to the pension systems not included in the pension expense and any contributions made to the pension systems subsequent to the measurement date. The second item represents the effects of the change in the City's proportion of the collective OPEB liability and difference during the measurement period between certain employer's contributions and its proportionate share of the total of certain contributions from employers included in the collective OPEB liability.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. At March 31, 2026, the City has two items that qualify for reporting in this category. These items are reported in the government-wide financial statements. The first item represents the net change in the City's proportion of the collective net pension liability and the difference during the measurement periods between the City's contribution and its proportionate share of the total contributions to the pension system not included in the pension expense. The second item represents the effects of the change in the City's proportion of the collective OPEB liability and difference during the measurement period between certain employer's contributions and its proportionate share of the total of certain contributions from employers included in the collective OPEB liability.

Net Position Flow Assumption—Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amount to report as restricted—net position and unrestricted—net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

Fund Balance Flow Assumptions—Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balances in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balances. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies—Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification included amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The Common Council is the highest level of decision-making authority for the City that can, by resolution approved prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation remains in place until a similar action is taken to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The Common Council has by resolution authorized the Mayor to assign fund balance. The Common Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenses/Expenditures

Program Revenues—Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property Taxes—Steuben County prepares the levy, tax rolls and billings for the City of Hornell real property taxes. On April 1 of each year, or upon receipt of the tax warrant, property taxes become a lien on the property.

Tax payments are due within 30 days of delivery of the tax warrant without penalty; a 1% penalty is added for taxes paid the next fifteen days; 2% for the next 15 days; 6% for the next 15 days; 8% for the next 15 days and 10% thereafter. The City enforces all liens.

The Steuben County Legislature prepares its levy in late December of each year and the taxes are mailed January 1 and become due January 31. The tax roll is returned to the Steuben County Commissioner of Finance on April 1, at which time all unpaid taxes and penalties are payable to that office. The City has no further liability for collection of County taxes.

The City also collects property taxes for Steuben County and various school districts within the City's limits. School taxes are levied on October 1 each year and become due on October 31. The County of Steuben assumes full enforcement responsibility for taxes levied by the Hornell City School District on properties within the City.

Compensated Absences—Most City employees are granted vacation and sick leave and earn compensatory absences in varying amounts. Vacations and compensatory absences must be used by the end of the fiscal year in which they are earned. Employees may accumulate sick leave, but they are not entitled to receive payment for unused sick leave in the event of termination or upon retirement. The compensated absences liability for the City's governmental activities at March 31, 2026 totaled \$453,892, and is reported in the government-wide financial statements.

Payment of compensated absences recorded in the government-wide financial statements is dependent on many factors; therefore, the timing of future payments is not readily determinable. However, management believes that sufficient resources will be available for the payment of compensated absences when such payments become due.

Pensions—The City is mandated by New York State law to participate in the New York State Local Employees' Retirement System ("ERS") and the New York State Police and Fire Retirement System ("PFRS"). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit pension plans, and changes thereof, have been determined on the same basis as they are reported by the respective defined benefit pension plans. For this purpose, benefit payments (including

refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. More information regarding pensions is included in Note 6.

Other Postemployment Benefits—In addition to providing pension benefits, the City provides health insurance coverage and/or payments for fractional values of unused sick leave for certain retired employees at the time of retirement as discussed in Note 7.

Other

Estimates—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States required management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred outflows of resources and deferred inflows of resources and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expense/expenditures during the reporting period. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncements—During the year ended March 31, 2026, the City implemented GASB Statement No. 102, *Certain Risk Disclosures*. GASB Statement No. 102 provides users with timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. The implementation of GASB Statement No. 102 did not have a material impact on the City's financial position or results from operations.

Future Impacts of Accounting Pronouncements—The City has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 103, *Financial Reporting Model Improvements*; and No. 104, *Disclosure of Certain Capital Assets*, effective for the year ending March 31, 2027, and No. 105, *Subsequent Events*, effective for the year ending March 31, 2028. The City is, therefore, unable to disclose the impact that adopting GASB Statements No. 103, 104, and 105 will have on its financial position and results of operations when such statements are adopted.

Stewardship, Compliance and Accountability

Legal Compliance—Budgets—The City follows these procedures in establishing most of the budgetary data reflected in the financial statements:

- On the first day of February in each year, department heads submit their tentative departmental budgets to the Common Council for the fiscal year commencing the following April 1. The Common Council has the power to reduce any estimate submitted to them.
- After public hearings are conducted to obtain taxpayer comments, the Common Council adopts the budget no later than March 31 of each year. Notices of the original estimates along with revisions are published in the official newspaper.
- Formal annual budgetary accounts are adopted and employed for control of the General, Water and Library Funds detailed to the department level. These budgets are adopted on a basis consistent with generally accepted accounting principles accepted in the United States of America. A form of encumbrance accounting is employed as an extension of budgetary control in all governmental funds, under which certain contracts and other commitments outstanding at year-end for the expenditure of monies (encumbrances) are recorded as an assignment of fund balance. All unencumbered appropriations lapse at the end of the fiscal year. On January 1, encumbrance assignments outstanding at year-end are reappropriated to the ensuring year's original budget.

- Capital Projects Fund and Community Development Fund appropriations are not included in the City's annual budget. Instead appropriations are approved through Common Council resolution at the projects' inception and lapse upon termination of the project.

Deficit Fund Balances—At March 31, 2026, the Capital Projects Fund, a major governmental fund, has a deficit fund balance of \$727,317. The primary reason for this deficit is that the City issued bond anticipation notes ("BANs"), which do not qualify for treatment as a long-term liability. Accordingly, the BANs are reported as a fund liability in the Capital Projects Fund balance sheet (rather than an inflow on the statement of revenues, expenditures, and changes in fund balances). When the cash from the BANs is spent, expenditures are reported and fund balance is reduced. Since the BANs are the main source of resources for the fund, the result is an overall fund deficit. This deficit will be eliminated as resources are obtained (e.g., from revenues, long-term debt issuances, and transfers in) to make the scheduled debt service principal and interest payments on the BANs or retire the BANs.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

The City's investment policies are governed by New York State statutes. The City may use FDIC-insured commercial banks or trust companies located within the State. The City Chamberlain is authorized to use demand accounts and certificates of deposit. Investments with maturities of less than three months are considered to be cash equivalents.

Collateral is required for demand deposits and certificates of deposit in an amount equal to or greater than the amount of all deposits not covered by federal deposit insurance. The City has entered into custodial agreements with the various banks which hold their deposits. These agreements authorize the obligations that may be pledged as collateral. Obligations that may be pledged as collateral are outlined in Chapter 623 of the laws of the State of New York.

Cash and cash equivalents and restricted cash and cash equivalents at March 31, 2026 are as follows:

	Governmental Activities	Fiduciary Fund	Total
Petty cash (uncollateralized)	\$ 810	\$ -	\$ 810
Deposits	9,226,028	111,406	9,337,434
Total	<u>\$ 9,226,838</u>	<u>\$ 111,406</u>	<u>\$ 9,338,244</u>

Deposits—All deposits are carried at fair value and are classified by custodial risk at March 31, 2026 as follows:

	Bank Balance	Carrying Amount
FDIC insured	\$ 250,000	\$ 250,000
Uninsured:		
Collateral held by pledging bank's agent in the City's name	10,283,912	9,087,434
Total deposits	<u>\$ 10,533,912</u>	<u>\$ 9,337,434</u>

Custodial Credit Risk—Deposits—In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. As noted above, by State statute all deposits in excess of FDIC insurance coverage must be collateralized. At March 31, 2026, all uninsured bank deposits were fully collateralized with securities held by the pledging financial institution’s trust department or agent in the City’s name.

Restricted Cash and Cash Equivalents—The City’s governmental activities report unspent proceeds of debt, and amounts to support restricted fund balances as restricted cash and cash equivalents totaling \$3,646,662. The City also reports restricted cash of \$111,406 for cash that is restricted for purposes of the Custodial Fund.

Investments—The City had no investments at March 31, 2026.

Interest Rate Risk—In accordance with its investment policy, the City manages exposure by limiting investments to low risk type investments governed by New York State statute.

3. RECEIVABLES

Revenues accrued by the City at March 31, 2026 consisted of the following:

Accounts Receivable—Accounts receivable and their respective allowance for doubtful accounts, of the City at March 31, 2026 consisted of the following:

General Fund:			
Ambulance billings	\$	1,052,363	
Allowance for doubtful accounts		(853,902)	
Garbage billings		42,243	
Sewer billings		13,535	
Other		<u>137,803</u>	\$ 392,042
Water Fund:			
Water billings			<u>246,279</u>
Total governmental funds			<u>\$ 638,321</u>

Taxes Receivable—Represents unpaid taxes collected on behalf of Steuben County. At March 31, 2026, the General Fund reported taxes receivable of \$276,497. These amounts are offset by a corresponding intergovernmental payable within the General Fund.

Loans Receivable—Represents outstanding loans made by the City’s Department of Community Development under the Community Development Block Grant (“CDBG”). These loans are made to local businesses for economic development and to local homeowners living in areas of blight for the rehabilitation of their homes. Principal balances outstanding at March 31, 2026 amounted to \$90,487.

Loans receivable are offset by restricted fund balance as they represent funds which are legally or contractually required to be maintained intact. Undisbursed funds associated with CDBG loans are maintained in a separate interest bearing bank account and reported as restricted cash in the Community Development Fund. The restricted cash balance on undisbursed CDBG loans is also offset by restricted fund balance as it represents funds which are subject to externally enforceable legal restrictions.

Intergovernmental Receivables—Represents amounts due from other units of government, such as Federal, New York State, County of Steuben or other local governments. Intergovernmental receivables at March 31, 2026 are shown below:

Governmental funds:

General Fund:

Hornell Area Transit CARES Act	\$ 57,234	
Steuben County - property and sales tax	1,938,863	
State Transit Operating Assistance	99,137	
Unpaid City Taxes	431,536	
Mortgage Taxes	49,443	
NYS Court Aid	<u>23,347</u>	\$ 2,599,560

Capital Projects Fund:

Downtown Revitalization Initiative Pay Requests	\$ 519,742	
Bridge Grant - Church Street Bridge	125,342	
Downtown Revitalization Initiative Small Grant Fund	30,292	
Bridge Grant - Canisteo Bridge	<u>5,286</u>	<u>680,662</u>
Total governmental funds		<u>\$ 3,280,222</u>

4. CAPITAL ASSETS

Capital asset activity for the City's governmental activities for the year ended March 31, 2026 is as follows:

	Balance 4/1/2025	Increases	Decreases	Balance 3/31/2026
Capital assets, not being depreciated/amortized:				
Land	\$ 669,498	\$ -	\$ -	\$ 669,498
Construction in progress	<u>9,094,408</u>	<u>3,099,044</u>	<u>4,544,338</u>	<u>7,649,114</u>
Total capital assets, not being depreciated/amortized	<u>9,763,906</u>	<u>3,099,044</u>	<u>4,544,338</u>	<u>8,318,612</u>
Capital assets, being depreciated/amortized				
Land improvements	11,358,114	4,482,838	-	15,840,952
Buildings	21,019,117	87,830	-	21,106,947
Machinery and equipment	17,437,430	1,344,789	725,274	18,056,945
Infrastructure	80,575,443	-	-	80,575,443
Right-to-use assets	<u>1,133,335</u>	<u>-</u>	<u>-</u>	<u>1,133,335</u>
Total capital assets, being depreciated/amortized	<u>131,523,439</u>	<u>5,915,457</u>	<u>725,274</u>	<u>136,713,622</u>
Less accumulated depreciation/amortization for:				
Land improvements	4,274,759	410,338	-	4,685,097
Buildings	7,685,466	536,750	-	8,222,216
Machinery and equipment	12,701,698	694,055	725,274	12,670,479
Infrastructure	61,562,925	815,329	-	62,378,254
Right-to-use assets	<u>689,198</u>	<u>166,349</u>	<u>-</u>	<u>855,547</u>
Total accumulated depreciation/amortization	<u>86,914,046</u>	<u>2,622,821</u>	<u>725,274</u>	<u>88,811,593</u>
Total capital assets, being depreciated/amortized, net	<u>44,609,393</u>	<u>3,292,636</u>	<u>-</u>	<u>47,902,029</u>
Governmental activities capital assets, net	<u>\$ 54,373,299</u>	<u>\$ 6,391,680</u>	<u>\$ 4,544,338</u>	<u>\$ 56,220,641</u>

Depreciation/amortization expense was charged to the functions and programs of the governmental activities as follows:

General government support	\$ 331,366
Public safety	797,517
Health	160,245
Transportation	515,740
Culture and recreation	167,371
Home and community service	650,582
Total	<u>\$ 2,622,821</u>

5. ACCRUED LIABILITIES

Accrued liabilities reported by the City's governmental funds at March 31, 2026 were as follows:

	General	Water	Governmental Funds
Salaries and employee benefits	\$ 40,259	\$ 5,141	\$ 45,400
Total accrued liabilities	<u>\$ 40,259</u>	<u>\$ 5,141</u>	<u>\$ 45,400</u>

6. PENSION PLANS

Plan Descriptions and Benefits Provided

Police and Fire Retirement System ("PFRS") and Employees' Retirement System ("ERS")—The City participates in the PFRS and ERS (the "Systems"). The Systems provide retirement benefits as well as death and disability benefits. The net position of the Systems are held in the New York State Common Retirement Fund (the "Fund"), which was established to hold all assets and record changes in fiduciary net position allocated to the Systems. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the Systems. System benefits are established under the provisions of the New York State Retirement and Social Security Law ("NYSRSSL"). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The City also participates in the Public Employees' Group Life Insurance Plan ("GLIP"), which provides death benefits in the form of life insurance. The Systems are included in the State's financial report as a pension trust fund. That report, including information with regards to benefits provided, may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

The Systems are noncontributory, except for employees who joined the ERS after July 27, 1976 who contribute three percent (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 three percent (3%) to three and one half percent (3.5%) of their salary for their entire length of service. In addition, employee contribution rates under ERS Tier VI vary based on a sliding salary scale. The Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the System's fiscal year ending March 31.

Pension Liability, Pension Expense, and Deferred Outflows of Resources and Inflows of Resources Related to Pensions—At March 31, 2026, the City reported the following liabilities for its proportionate share of the net pension liability for PFRS and ERS. The net pension liability were measured as of March 31, 2025. The total pension liability used to calculate the net pension liability were determined by actuarial valuations as of April 1, 2024, with update procedures used to roll forward the total net pension liability to the measurement date. The City's proportion of the net pension liabilities were based on projections of the City's long-term share of contributions to the System relative to the projected contributions of all participating members, actuarially determined. This information was provided by the System in reports provided to the City.

	<u>PFRS</u>	<u>ERS</u>
Measurement date	March 31, 2025	March 31, 2025
Net pension liability	\$ 5,155,051	\$ 1,310,286
City's portion of the Plan's total net pension liability	0.0848308%	0.0076421%

For the year ended March 31, 2026, the City recognized pension expenses of \$1,170,222 and \$313,043, respectively, for PFRS and ERS. At March 31, 2026 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources below:

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>PFRS</u>	<u>ERS</u>	<u>PFRS</u>	<u>ERS</u>
Difference between expected and actual experiences	\$ 1,717,079	\$ 325,222	\$ -	\$ 15,341
Changes of assumptions	774,090	54,951	-	-
Net difference between projected and actual earnings on pension plan investments	198,144	102,801	-	-
Changes in proportion and differences between the City's contributions and proportionate share of contributions	43,048	71,244	326,815	31,277
City contributions subsequent to the measurement date	1,195,133	451,168	-	-
Total	<u>\$ 3,927,494</u>	<u>\$ 1,005,386</u>	<u>\$ 326,815</u>	<u>\$ 46,618</u>

City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending March 31, 2027. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending March 31,</u>	<u>PFRS</u>	<u>ERS</u>
2027	\$ 1,257,453	\$ 244,812
2028	739,733	348,956
2029	(17,387)	(100,016)
2030	290,826	13,848
2031	134,921	-

Actuarial Assumptions—The total pension liabilities as of the measurement date were determined by using actuarial valuations as noted in the table below, with update procedures used to roll forward the total pension liabilities to the measurement date. The actuarial valuations used the actuarial assumptions as presented below:

	PFRS	ERS
Measurement date	March 31, 2025	March 31, 2025
Actuarial valuation date	April 1, 2024	April 1, 2024
Interest rate	5.9%	5.9%
Salary scale	5.7%	4.3%
Decrement tables	April 1, 2015- March 31, 2020	April 1, 2015- March 31, 2020
Inflation rate	2.9%	2.9%
Cost-of-living adjustments	1.5%	1.5%

Annuitant mortality rates are based on April 1, 2015 – March 31, 2020 System’s experience with adjustments for mortality improvements based on Society of Actuaries’ Scale MP-2021. The actuarial assumptions used in the April 1, 2024 valuations are based on the results of an actuarial experience study for the period April 1, 2015 – March 31, 2020.

The long-term rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by each the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation are summarized below:

	PFRS and ERS	
	Target Allocation	Long-Term Expected Real Rate of Return
Measurement date	March 31, 2025	
Asset class:		
Domestic equities	25.0 %	3.5 %
International equity	14.0	6.6
Private equity	15.0	7.3
Real estate	12.0	5.0
Opportunistic/absolute return strategy	3.0	5.3
Credit	4.0	5.4
Real assets	4.0	5.6
Fixed income	22.0	2.0
Cash	1.0	0.3
Total	100 %	

Discount Rate—The discount rate used to calculate the total pension liabilities was 5.9%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the Systems’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability/(Asset) to the Discount Rate Assumption—The chart below presents the City’s proportionate share of the net pension liability/(asset) calculated using the discount rate of 5.9%, as well as what the City’s proportionate share of the net pension liability/(asset) would be if it were calculated using a discount rate that is one percentage-point lower (4.9%) or one percentage-point higher (6.9%) than the current assumption.

	1% Decrease (4.9%)	Current Assumption (5.9%)	1% Increase (6.9%)
Employer's proportionate share of the net pension liability—PFRS	\$ 10,869,642	\$ 5,155,051	\$ 428,477
Employer's proportionate share of the net pension liability/(asset)—ERS	3,792,132	1,310,286	(762,057)

Pension Plan Fiduciary Net Position—The components of the current-year net pension liabilities of the employers as of the valuation dates, were as follows:

	(Dollars in Thousands)		
	PFRS	ERS	Total
Valuation date	March 31, 2025	March 31, 2025	
Employers' total pension liability	\$ 48,718,477	\$ 247,600,239	\$ 296,318,716
Plan fiduciary net position	42,641,620	230,454,512	273,096,132
Employers' net pension liability	<u>\$ 6,076,857</u>	<u>\$ 17,145,727</u>	<u>\$ 23,222,584</u>
System fiduciary net position as a percentage of total pension liability	87.5%	93.1%	92.2%

7. OTHER POSTEMPLOYMENT BENEFITS (“OPEB”) OBLIGATION

Plan Description—The City may pay for a portion of eligible retirees’ health insurance depending on the type of health plan provided. The plan is a single-employer defined benefit healthcare Plan administered by the City. Eligibility for post-employment benefits depends upon union group as follows: (1) *The City Building Employee’s Association*—employee must be eligible under the rules and regulation of NYSERS, (2) *Hornell Police Association*—employee must have 20 years of service and be eligible under the rules and regulations of NYSPFRS, (3) *Hornell Firefighters Association Local 835*—employee must have 20 years of service and be eligible under the rules and regulations of NYSPFRS, (4) *The Department of Public Works Association*—employee must be eligible under the rules and regulation of NYSERS, and (5) *Water and Waste Water Treatment Plant Operators*—employee must be eligible under the rules and regulation of NYSERS. The plan does not issue a stand-alone financial report. Authorization for the City to pay a portion of retiree health insurance premiums was enacted through a union contract, which was ratified by the City’s Common Council. Upon retirement, the City pays 50% of the cost of the medical and dental plan in effect at the time of retirement for the employee and 35% of the dependent coverage. The City pays 35% for individual or family coverage for surviving spouses and their dependents.

Employees Covered by Benefit Terms—At March 31, 2026, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	68
Active employees	<u>77</u>
Total	<u><u>145</u></u>

Under GASB Statement No. 75, the total OPEB liability represents the sum of expected future benefit payments which may be attributed to past service (or “earned”), discounted to the end of the fiscal year using the current discount rate. The total OPEB liability is analogous to the Unfunded Actuarial Accrued Liability (“UAAL”) under GASB Statement No. 45.

Total OPEB Liability

The City’s total OPEB liability of \$11,954,974 was measured as of March 31, 2026, and was determined by an actuarial valuation as of April 1, 2025.

Actuarial Methods and Assumptions—Calculations are based on the types of benefits provided under the terms of the substantive plan, the plan as understood by the employer and the plan members, at the time of the valuation and on the pattern of cost sharing between the employee and plan members. Calculations reflect a long-term perspective, so methods and assumptions used include techniques that are designed to reduce short-term volatility.

In the April 1, 2025 actuarial valuation, the Entry Age Normal Method, over a level percent of pay, was used. The single discount rate changed from 4.16% effective March 31, 2025 to 4.41% effective March 31, 2026. The salary scale, effective April 1, 2025 remained 3.30% for the fiscal year ending March 31, 2026. The initial healthcare rate as of April 1, 2025 was 6.10%, while the ultimate healthcare cost trend rate is 3.70%. Mortality rates are based on Pub-2016 Public Retirement Plans Mortality Tables, Headcount-Weighted, without separate Contingent Survivor mortality, fully generational using scale MP-2025.

Changes in the Total OPEB Liability—The following table presents the changes to the total OPEB liability during the fiscal year, by source:

	Total OPEB Liability
Balance at March 31, 2025	<u>\$ 11,662,991</u>
Changes for the year:	
Service cost	444,776
Interest	486,249
Changes of assumptions	(356,258)
Difference between expected and actual experience	136,307
Benefit payments	<u>(419,091)</u>
Net changes	<u>291,983</u>
Balance at March 31, 2026	<u><u>\$ 11,954,974</u></u>

Sensitivity of the Total OPEB Liability to the Change in the Discount Rate and Healthcare Cost Trend Rate—The discount rate assumption can have an impact on the OPEB liability. The following table presents the effect a 1% change in the discount rate assumption would have on the OPEB liability.

	1% Decrease (3.41%)	Current Discount Rate (4.41%)	1% Increase (5.41%)
Total OPEB liability	\$ 13,706,027	\$ 11,954,974	\$ 10,540,892

Additionally, healthcare costs can be subject to considerable volatility over time. The following table presents the effect on the OPEB liability of a 1% change in the initial (5.30%)/ultimate (3.71%) healthcare cost trend rates.

	1% Decrease (2.70%/5.10%)	Healthcare Cost Trend Rates (3.70%/6.10%)	1% Increase (4.70%/7.10%)
Total OPEB liability	\$ 10,367,218	\$ 11,954,974	\$ 13,945,470

Funding Policy—Authorization for the City to pay a portion of retiree health insurance premiums was enacted through a union contract, which was ratified by the City’s Common Council. Upon retirement, the City pays 50% of the cost of the medical and dental plan in effect at the time of retirement for the employee and 35% of the dependent coverage. The City pays 35% for individual or family coverage for surviving spouses and their dependents.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB—The City reports deferred inflows and deferred outflows of resources due to actuarial gains due to plan experience or changes in assumptions and other inputs. The table below presents the City’s deferred inflows and deferred outflows of resources at March 31, 2026.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,056,008	\$ 199,172
Changes of assumptions	139,772	1,251,711
Total	<u>\$ 1,195,780</u>	<u>\$ 1,450,883</u>

City benefit payments subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending March 31, 2027. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending March 31,</u>	
2027	\$ (625,982)
2028	226,533
2029	115,358
2030	28,988

8. RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The City purchases commercial insurance to cover such potential risks. The liability insurance limits are as follows: Commercial property coverage with a blanket limit of \$49,721,395, general liability coverage with a general aggregate limit of \$3,000,000, commercial automobile coverage with a liability limit of \$1,000,000, commercial inland marine coverage with a scheduled equipment limit of \$6,716,202, commercial umbrella coverage with a general aggregate limit of \$10,000,000, public official and police professional liability coverage with a liability limit of \$1,000,000, crime coverage with employee dishonesty limit per employee of \$20,000, excess limit for CFO of \$50,000, and money and securities limit of \$5,000, owners and contractors protective coverage with a liability limit of \$1,000,000 and airport liability coverage with a general aggregate limit of \$2,000,000.

There have not been any significant changes in any type of insurance coverage from the prior year, nor have there been any settlements which have exceeded insurance coverage in the past five fiscal years.

9. LEASE LIABILITY

The City is a lessee for a noncancellable lease of various machinery and equipment. The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements for governmental activities. The City recognizes lease liabilities when they are considered significant, individually or in the aggregate, to the financial statements. At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The City uses the interest rates charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease terms include the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

The City entered into long-term, lease agreements as the lessee for the acquisition and use of various property and equipment and the City reports these as lease liabilities. As of March 31, 2026, the value of the right-to-use lease assets as of the end of the current fiscal year was \$1,133,335 and had accumulated amortization of \$855,547 for governmental activities.

10. SHORT-TERM DEBT

Liabilities for bond anticipation notes (“BANS”) are generally accounted for in the Capital Projects Fund. Principal payments on BANS must be made annually. State law requires that BANS issued for capital purposes be converted to long-term obligations within five years after the original issue date. However, BANS used for assessable improvement projects may be renewed for periods equivalent to the life of the permanent financing, provided that the annual reductions of principal are made.

A summary of changes in the City’s short-term debt for the year ended March 31, 2026 is presented below:

Description	Issue/ Maturity	Interest Rate	Balance 4/1/2025	Issues	Redemptions	Balance 3/31/2026
Capital Projects Fund:						
Various capital projects	2024/2025	4.00%	\$ 8,305,326	\$ -	\$ 8,305,326	\$ -
DPW Garage Project	2024/2025	4.59%	580,000	-	580,000	-
Various capital projects	2025/2026	4.00%	-	3,742,700	-	3,742,700
Total			<u>\$ 8,885,326</u>	<u>\$ 3,742,700</u>	<u>\$ 8,885,326</u>	<u>\$ 3,742,700</u>

11. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as noncurrent liabilities in the statement of net position.

In the fund financial statements, governmental funds recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issues are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Further, the unmatured principal of general long-term debt does not require current appropriation and expenditure of governmental fund financial resources.

The City’s outstanding long-term liabilities include bonds and notes payable, lease liability, other postemployment benefits (“OPEB”) obligation, and net pension liability. The serial bonds of the City are secured by its general credit and revenue raising powers, as per State statute.

A summary of changes in the City’s long-term liabilities for the year ended March 31, 2026 is presented below:

	Balance 4/1/2025	Additions	Deletions	Balance 3/31/2026	Due Within One Year
Bonds and notes payable	\$ 10,072,576	\$ 3,361,272	\$ 554,202	\$ 12,879,646	\$ 558,560
Premium on bonds	-	32,568	2,505	30,063	2,505
Net bonds payable	10,072,576	3,393,840	556,707	12,909,709	561,065
Lease liability	179,109	-	179,109	-	-
Compensated absences*	397,408	56,484	-	453,892	350,688
OPEB obligation	11,662,991	1,067,332	775,349	11,954,974	-
Net pension liability*	5,145,048	1,320,289	-	6,465,337	-
Total	<u>\$ 27,457,132</u>	<u>\$ 5,837,945</u>	<u>\$ 1,511,165</u>	<u>\$ 31,783,912</u>	<u>\$ 911,753</u>

*Additions to compensated absences and the net pension liability are shown net of reductions.

Bonds and Notes Payable—The City issues general obligation bonds to provide funds for the acquisition, construction, and renovation of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as serial bonds with equal amounts of principal maturing each year with maturities that range from 5 to 30 years.

On January 21, 2021, the City entered into an agreement with the Environmental Facilities Corporation to issue bond anticipation notes at an amount not to exceed \$5,858,200. The long-term bond anticipation notes matured on January 21, 2026 and were renewed for the maximum amount of \$4,828,700, maturing on January 21, 2027. The City made additional draws of \$1,061,739 and payments of \$39,000 during the year ended March 31, 2026.

During the year ending March 31, 2026, the City issued a Statutory Installment bond for the amount of \$311,814 at an interest rate of 4.39. The long-term installment bond matures on September 19, 2031 and no principal payment had been made.

During the year ending March 31, 2026, the City issued a Public Improvements serial bond in the amount of \$1,987,719 at an interest rate of 4.00. The serial bond matures on September 1, 2037 and one principal payment of \$7,719 was made during the year.

A default will have occurred if the payment of principal or interest are not paid when due and payable. If there is an occurrence of an event of default on the EFC notes payable, 12% per annum may be charged on the amount due and payable until such sum has been paid in full to the Corporation. The City does not have any lines of credit.

A summary of additions and payments of the City's bond indebtedness for the year ended March 31, 2026 is shown below:

Description	Original Issue Amount	Year of Issue/ Maturity	Interest Rate	Balance 4/1/2025	Increases	Decreases	Balance 3/31/2026
Water improvements	\$ 2,463,432	2007/2026	0.0%	\$ 129,000	\$ -	\$ 129,000	\$ -
WPCP improvements	2,343,470	2016/2045	0.2-4.3%	1,665,000	-	70,000	1,595,000
WPCP improvements	295,020	2016/2028	0.6-2.2%	95,000	-	25,000	70,000
Public improvements	349,654	2019/2027	3.95%	87,424	-	43,705	43,719
Public improvements	402,000	2020/2029	3.95%	201,000	-	40,200	160,800
EFC bond 2023 - WTP	3,787,559	2023/2052	0.00%	3,535,039	-	126,260	3,408,779
EFC notes 2021 - WPCP	5,858,200	2021/2026	0.00%	3,766,961	1,061,739	39,000	4,789,700
Fire Truck	593,152	2024/2032	4.79%	593,152	-	73,318	519,834
WPCP improvements	1,987,719	2025/2038	4.00%	-	1,987,719	7,719	1,980,000
Sewer Truck	311,814	2025/2031	4.39%	-	311,814	-	311,814
Total				<u>\$ 10,072,576</u>	<u>\$ 3,361,272</u>	<u>\$ 554,202</u>	<u>\$ 12,879,646</u>

Premium on Bonds—Governmental funds report the effect of premiums when the debt is first issued, whereas these amounts are deferred and amortized within governmental activities.

	Balance 4/1/2025	Additions	Reductions	Balance 3/31/2026
Premium on bonds	<u>\$ -</u>	<u>\$ 32,568</u>	<u>\$ 2,505</u>	<u>\$ 30,063</u>

Compensated Absences—As explained in Note 1, the liability for compensated absences, which totals \$453,892 for governmental activities, represents amounts relating to sick and personal leave for employees. Payments of these liabilities are dependent on many factors (including retirement, termination, or employees leaving service) and, therefore, timing of future payments of such is not readily available. The City has estimated that \$305,688 for governmental activities, will be paid in the next fiscal year.

Other Postemployment Benefits (“OPEB”) Obligation—As explained in Note 7, the City provides health insurance coverage for retirees. The City’s annual OPEB cost is calculated based on the annual required contributions of the employer, an amount actuarially determined in accordance with GASB. The estimated long-term OPEB liability is estimated to be \$11,954,974 as of March 31, 2026.

Net Pension Liability—The City reports a liability for its proportionate share of the net pension liability for the Police and Fire Retirement System and Employees’ Retirement System. The total net pension liability is estimated to be \$6,465,337 in the governmental activities. Typically, the General, Water, Community Development, and Library Funds that pay NYS retirement have been used to liquidate this liability within governmental funds. Refer to Note 6 for additional information related to the City’s net pension liability.

The following is a maturity schedule of the City’s indebtedness:

Year Ending March 31,	Bonds and Notes Payable	Premium on Bonds	Compensated Absences	OPEB Obligation	Net Pension Liability	Total
2027	\$ 558,560	\$ 2,505	\$ 350,688	\$ -	\$ -	\$ 911,753
2028	525,565	2,505	-	-	-	528,070
2029	541,554	2,505	-	-	-	544,059
2030	532,821	2,505	-	-	-	535,326
2031	504,182	2,505	-	-	-	506,687
2032-2036	2,051,085	12,526	-	-	-	2,063,611
2037-2041	1,466,300	5,012	-	-	-	1,471,312
2042-2046	1,026,300	-	-	-	-	1,026,300
2047-2051	631,300	-	-	-	-	631,300
2052 and thereafter*	5,041,979	-	103,204	11,954,974	6,465,337	23,565,494
Total	<u>\$ 12,879,646</u>	<u>\$ 30,063</u>	<u>\$ 453,892</u>	<u>\$ 11,954,974</u>	<u>\$ 6,465,337</u>	<u>\$ 31,783,912</u>

*The timing of payments on EFC notes has not been finalized.

The interest requirements for the City’s outstanding serial bonds are as follows:

Fiscal Year Ending March 31,	Serial Bonds
2027	\$ 187,289
2028	170,449
2029	154,587
2030	138,048
2031	121,139
2032-2036	399,804
2037-2041	155,771
2042-2046	42,881
2047-2051	-
Total	<u>\$ 1,369,968</u>

12. NET POSITION AND FUND BALANCE

The government wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- **Net Investment in Capital Assets**—This category groups all capital assets including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to acquisition, construction or improvement of these assets reduce the balance in this category. The table below presents a reconciliation of the City’s governmental activities net investment in capital assets.

Capital assets, net of accumulated depreciation/amortization		\$ 56,220,641
Related debt:		
Bonds and long-term notes	\$ (12,879,646)	
Premium on bonds	(30,063)	
Bond anticipation notes	(3,742,700)	
Accounts payable - capital fund	(454,309)	
Retainages payable	(383,166)	
Unspent debt proceeds	<u>1,979,522</u>	<u>(15,510,362)</u>
Net investment in capital assets		<u>\$ 40,710,279</u>

- **Restricted Net Position**—This category presents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions and enabling legislation. The total restricted component of net position of \$777,820 is restricted for public safety, parklands/playgrounds, repairs, debt, community development, special purpose, and tax stabilization in the amounts of \$83,758, \$14,922, \$366,483, \$14,679, \$221,016, \$65,941 and \$11,021, respectively, within governmental activities.
- **Unrestricted Net Position**—This category represents net position of the City not restricted for any project or other purpose.

In the fund financial statements, nonspendable amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. At March 31, 2026, the City reported no nonspendable fund balance.

In the fund financial statements, restricted fund balances are amounts with external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions and enabling legislation. Restricted fund balances maintained by the City at March 31, 2026 are presented below:

	General	Water	Community Development	Total
Public safety	\$ 83,758	\$ -	\$ -	\$ 83,758
Parklands/playgrounds	14,922	-	-	14,922
Repairs	-	366,483	-	366,483
Debt	14,679	-	-	14,679
Community development	-	-	221,016	221,016
Special purpose	65,941	-	-	65,941
Tax stabilization	<u>11,021</u>	<u>-</u>	<u>-</u>	<u>11,021</u>
Total restricted fund balance	<u>\$ 190,321</u>	<u>\$ 366,483</u>	<u>\$ 221,016</u>	<u>\$ 777,820</u>

- **Public Safety**—According to General Municipal Law Section 6-c, represents funds accumulated to finance all or part of the cost of construction, reconstruction or acquisition of specific items or types of capital improvements or acquisition of specific items or types of equipment for public safety purposes.
- **Parklands/Playgrounds**—According to General Municipal Law Section 6-c, represents funds accumulated to finance all or part of the cost of construction, reconstruction or acquisition of specific items or types of capital improvements or acquisition of specific items or types of equipment for Parklands/Playgrounds purposes.
- **Repairs**—According to General Municipal Law Section 6-d, this restriction represents funds accumulated to pay the cost of certain repairs of capital improvements or equipment related to the Water Fund.
- **Debt**—Represents funds from the General Fund to be used for future debt payments.
- **Community Development**—Represents amounts received from the Office of Community Renewal and Housing and Urban Development for loans receivable and funds set aside for community development, which are legally or contractually required to be maintained intact.
- **Special Purpose**—Represents funds which can only be used for specific activities.
- **Tax Stabilization**—Represents amounts restricted for future use to stabilize real property tax levies.

In the fund financial statements, commitments are amounts that are subject to a purpose constraint imposed by formal action of the City's highest level of decision-making authority (Common Council). Committed fund balances maintained by the City as of March 31, 2026 are presented below:

- **Water Pollution Control Plant**—Represents funds accumulated to be used for the Water Pollution Control Plant and its sewer transmission lines and pump stations. The City has committed \$182,030 of fund balance within the General Fund for this purpose.

In the fund financial statements, assigned amounts are subject to a purpose constraint that represents an intended use established by the Common Council, or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the General Fund, and in funds other than the General Fund, assigned fund balances represents the residual amount of fund balance. Assigned fund balances maintained by the City at March 31, 2026 are presented below:

	General	Water	Total
Subsequent year's expenditures	\$ 1,320,000	\$ 305,469	\$ 1,625,469
Specific use	-	296,084	296,084
Other	115,565	-	115,565
Total assigned fund balance	<u>\$ 1,435,565</u>	<u>\$ 601,553</u>	<u>\$ 2,037,118</u>

- **Assigned to Subsequent Year's Expenditure**—Represents funds to be used to assist in supporting the subsequent year authorized appropriations.
- **Assigned to Specific Use**—Represents remaining fund balance of the special revenue funds designated to be used for that funds' specific purpose, as discussed in Note 1.
- **Assigned to Other**—Represents fund balance designated to be used for specific purpose.

If the City must use funds for emergency expenditures the Common Council shall authorize the Mayor to expend funds first from funds classified as nonspendable (if funds become available) then restricted funds. The used of committed and assigned funds will occur after the exhaustion of available restricted funds. Finally, if no other fund balances are available the City will use unassigned fund balance.

13. INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables are short term in nature and exist because of temporary advances or payments made on behalf of other funds. All interfund balances are expected to be collected/paid within the ensuing year.

Interfund receivables and payables of the City as of, and for the year ended March 31, 2026 are presented below:

Fund	Interfund	
	Receivables	Payables
Governmental funds:		
General Fund	\$ 161,868	\$ -
Capital Projects Fund	-	130,628
Community Development Fund	-	31,240
Total	<u>\$ 161,868</u>	<u>\$ 161,868</u>

Transfers are used primarily (1) to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) to move residual cash from closed projects, and (3) move cash to fund capital projects. The City had the following interfund transfers as of and for the year ended March 31, 2026:

Fund	Transfers	
	In	Out
General Fund	\$ 73,508	\$ 169,157
Library Fund	-	42,268
Community Development Fund	-	31,240
Capital Projects Fund	169,157	-
Total	<u>\$ 242,665</u>	<u>\$ 242,665</u>

14. LABOR CONTRACTS

The majority of City employees are represented by five bargaining units. Some department heads and most part-time employees are governed by City Council policies. The Department of Public Works Association has a contract through March 31, 2027. The City Building Employees' Association has a contract through March 31, 2026. The Water and Wastewater Employees' Association has a contract through March 31, 2029. The Hornell Firefighters Association has a contract through March 31, 2027. Policeman's Association has a contract through March 31, 2029.

15. TAX ABATEMENTS

The City is subject to programs entered into by Hornell Industrial Development Agency ("HIDA"). These programs have the stated purpose of increasing business activity and employment in the region. Economic development agreements are entered into by the HIDA and incentives may include property tax abatements of any new property tax revenue realized from the increased assessed value of any incentivized project from

the investment of private capital. The abatement agreements include a stipulated reduction pursuant to the limits set forth in State statute and rules. In the future these new revenues will increase periodically until the project is taxed at full assessed value. Assuming the IDA incentivized projects would have been completed absent tax abatement, the unrealized property tax revenue is \$672,939. However, during the 2025-2026 fiscal year, the City collected \$406,368 related to these new incentivized projects.

16. CONTINGENCIES

Litigation—The City is a defendant in various litigation under Article 7 of the Real Property Tax law of the State of New York to review tax assessments. While the City vigorously defends assessments, likelihood of success is on a case-by-case basis, and is dependent upon many factors including market values and appraised amounts. No potential amount or potential range of loss is determinable. However, management believes that level of such potential loss, if any, would be immaterial and no provisions have been made within the financial statements. Other various legal actions are pending against the City. The outcome of these matters is not presently determinable, but in the opinion of management, the ultimate liability will not have a material adverse effect on the City's financial condition or results of operation.

Grants—In the normal course of operations, the City receives grant funds from various Federal and State agencies. These grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed expenditures resulting from such audits could become a liability of the governmental funds. While the amount of any expenditures which may be disallowed cannot be determined at this time, management expects any amounts to be immaterial.

Other—The City is involved in litigation arising in the ordinary course of its operations. The City believes that its ultimate liability, if any, in connection with these matters will not have a material effect on the City's financial conditions or results of operations.

17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 18, 2026, which is the date the financial statements are available for issuance, and have determined, except for the item disclosed below, there are no subsequent events that require disclosure under generally accepted accounting principles.

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF HORNELL, NEW YORK
Schedule of the City's Proportionate Share of the Net Pension Liability—
Police and Fire Retirement System
Last Ten Fiscal Years

	Year Ended March 31,									
	2026	2025	2024	2023	2022	2021	2020	2019	2018	2017
Measurement date	March 31, 2025	March 31, 2024	March 31, 2023	March 31, 2022	March 31, 2021	March 31, 2020	March 31, 2019	March 31, 2018	March 31, 2017	March 31, 2016
City's proportion of the net pension liability	0.0848308%	0.0837453%	0.0829549%	0.0883170%	0.0899994%	0.0884003%	0.0917751%	0.0850392%	0.0909504%	0.0951467%
City's proportionate share of the net pension liability	<u>\$ 5,155,051</u>	<u>\$ 3,971,892</u>	<u>\$ 4,571,208</u>	<u>\$ 501,680</u>	<u>\$ 1,562,637</u>	<u>\$ 4,724,942</u>	<u>\$ 1,539,126</u>	<u>\$ 859,539</u>	<u>\$ 1,885,085</u>	<u>\$ 2,817,091</u>
City's covered-employee payroll	\$ 3,719,255	\$ 3,872,811	\$ 3,421,345	\$ 3,289,670	\$ 3,249,271	\$ 3,386,496	\$ 3,234,319	\$ 3,298,826	\$ 3,088,388	\$ 3,055,602
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	138.6%	102.6%	133.6%	15.3%	48.1%	139.5%	47.6%	26.1%	61.0%	92.2%
Plan fiduciary net position as a percentage of the total pension liability	87.5%	89.7%	87.4%	98.7%	95.8%	84.9%	95.1%	96.9%	93.5%	90.2%

CITY OF HORNELL, NEW YORK
Schedule of the City's Contributions—
Police and Fire Retirement System
Last Ten Fiscal Years

	Year Ended March 31,									
	2026	2025	2024	2023	2022	2021	2020	2019	2018	2017
Contractually required contribution	\$ 1,034,325	\$ 858,797	\$ 827,234	\$ 928,794	\$ 742,334	\$ 725,368	\$ 738,646	\$ 720,784	\$ 660,893	\$ 648,873
Contributions in relation to the contractually required contribution	(1,034,325)	(858,797)	(827,234)	(928,794)	(742,334)	(725,368)	(738,646)	(720,784)	(660,893)	(648,873)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 3,719,255	\$ 3,872,811	\$ 3,421,345	\$ 3,289,670	\$ 3,249,271	\$ 3,386,496	\$ 3,234,319	\$ 3,215,979	\$ 3,298,826	\$ 3,088,388
Contributions as a percentage of covered-employee payroll	27.8%	22.2%	24.2%	28.2%	22.8%	21.4%	22.8%	22.4%	20.0%	21.0%

CITY OF HORNELL, NEW YORK
Schedule of the City's Proportionate Share of the Net Pension Liability/(Asset)—
Employees' Retirement System
Last Ten Fiscal Years

	Year Ended March 31,									
	2026	2025	2024	2023	2022	2021	2020	2019	2018	2017
Measurement date	March 31, 2025	March 31, 2024	March 31, 2023	March 31, 2022	March 31, 2021	March 31, 2020	March 31, 2019	March 31, 2018	March 31, 2017	March 31, 2016
City's proportion of the net pension liability	0.0076421%	0.0079676%	0.0076737%	0.0074737%	0.0072572%	0.0073729%	0.0079546%	0.0073785%	0.0078254%	0.0078408%
City's proportionate share of the net pension liability	<u>\$ 1,310,286</u>	<u>\$ 1,173,156</u>	<u>\$ 1,645,557</u>	<u>\$ (610,941)</u>	<u>\$ 7,226</u>	<u>\$ 1,952,387</u>	<u>\$ 563,608</u>	<u>\$ 238,138</u>	<u>\$ 735,288</u>	<u>\$ 1,258,474</u>
City's covered-employee payroll	\$ 3,022,790	\$ 3,230,106	\$ 2,962,617	\$ 2,737,370	\$ 2,483,321	\$ 2,409,366	\$ 2,583,852	\$ 2,502,245	\$ 2,474,096	\$ 2,429,380
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	43.3%	36.3%	55.5%	-22.3%	0.3%	81.0%	21.8%	9.5%	29.7%	51.8%
Plan fiduciary net position as a percentage of the total pension liability	93.1%	93.9%	90.8%	103.7%	100.0%	86.4%	96.3%	98.2%	94.7%	90.7%

CITY OF HORNELL, NEW YORK
Schedule of the City's Contributions—
Employees' Retirement System
Last Ten Fiscal Years

	Year Ended March 31,									
	2026	2025	2024	2023	2022	2021	2020	2019	2018	2017
Contractually required contribution	\$ 406,043	\$ 320,206	\$ 258,213	\$ 350,722	\$ 344,445	\$ 349,029	\$ 347,424	\$ 367,102	\$ 330,507	\$ 381,000
Contributions in relation to the contractually required contribution	(406,043)	(320,206)	(258,213)	(350,722)	(344,445)	(349,029)	(347,424)	(367,102)	(330,507)	(381,000)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 3,022,790	\$ 3,230,106	\$ 2,962,617	\$ 2,703,253	\$ 2,473,196	\$ 2,398,666	\$ 2,573,727	\$ 2,581,932	\$ 2,502,245	\$ 2,474,096
Contributions as a percentage of covered-employee payroll	13.4%	9.9%	8.7%	13.0%	13.9%	14.6%	13.5%	14.2%	13.2%	15.4%

CITY OF HORNELL, NEW YORK
Schedule of Changes in the City's Total OPEB Liability and Related Ratios
Last Eight Fiscal Years*

	March 31,							
	2026	2025	2024	2023	2022	2021	2020	2019
Total OPEB Liability								
Service cost	\$ 444,776	\$ 281,915	\$ 284,397	\$ 398,473	\$ 450,284	\$ 407,124	\$ 407,688	\$ 500,165
Interest	486,249	391,768	385,791	269,719	321,775	400,578	507,438	537,763
Changes in assumptions	(356,258)	(489,809)	372,725	(1,195,036)	1,348,925	1,733,662	2,434,877	(1,104,445)
Differences between expected and actual experience	136,307	1,369,316	294,326	(4,086,817)	(3,169,903)	(704,341)	(2,025,723)	(2,033,996)
Benefit payments	(419,091)	(468,733)	(405,187)	(329,420)	(357,899)	(434,815)	(376,038)	(386,639)
Net change in total OPEB liability	291,983	1,084,457	932,052	(4,943,081)	(1,406,818)	1,402,208	948,242	(2,487,152)
Total OPEB liability—beginning	11,662,991	10,578,534	9,646,482	14,589,563	15,996,381	14,594,173	13,645,931	16,133,083
Total OPEB liability—ending	<u>\$ 11,954,974</u>	<u>\$ 11,662,991</u>	<u>\$ 10,578,534</u>	<u>\$ 9,646,482</u>	<u>\$ 14,589,563</u>	<u>\$ 15,996,381</u>	<u>\$ 14,594,173</u>	<u>\$ 13,645,931</u>
Plan Fiduciary Net Position								
Contributions—employer	\$ 419,091	\$ 468,733	\$ 405,187	\$ 329,420	\$ 357,899	\$ 434,815	\$ 376,038	\$ 386,639
Benefit payments	(419,091)	(468,733)	(405,187)	(329,420)	(357,899)	(434,815)	(376,038)	(386,639)
Net change in plan fiduciary net position	-	-	-	-	-	-	-	-
Plan fiduciary net position—beginning	-	-	-	-	-	-	-	-
Plan fiduciary net position—ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's total OPEB liability—ending	<u>\$ 11,954,974</u>	<u>\$ 11,662,991</u>	<u>\$ 10,578,534</u>	<u>\$ 9,646,482</u>	<u>\$ 14,589,563</u>	<u>\$ 15,996,381</u>	<u>\$ 14,594,173</u>	<u>\$ 13,645,931</u>
Plan's fiduciary net position as a percentage of the total OPEB liability	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Covered-employee payroll	\$ 4,951,489	\$ 4,793,310	\$ 4,414,966	\$ 4,264,432	\$ 4,068,079	\$ 3,932,791	\$ 3,906,305	\$ 3,906,305
Total OPEB liability as a percentage of covered-employee payroll	241.4%	243.3%	239.6%	226.2%	358.6%	406.7%	373.6%	349.3%

*Information prior to the year ended March 31, 2019 is not available.

The notes to the required supplementary information are an integral part of this schedule.

CITY OF HORNELL, NEW YORK
Schedule of Revenues, Expenditures, and Change in Fund Balance—
Budget and Actual—General Fund
Year Ended March 31, 2026

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Real property taxes	\$ 4,337,861	\$ 4,337,861	\$ 4,336,894	\$ (967)
Other tax items	554,318	554,318	566,037	11,719
Non-property tax items	4,500,000	4,500,000	5,089,725	589,725
Departmental income	3,088,664	3,088,664	3,242,802	154,138
Use of money and property	292,248	292,248	297,784	5,536
Licenses and permits	68,350	68,350	52,838	(15,512)
Fines and forfeitures	36,200	36,200	25,217	(10,983)
Sale of property				
and compensation for loss	22,800	22,800	53,627	30,827
Miscellaneous	150,332	182,900	187,160	4,260
State aid	2,923,943	2,923,943	3,019,644	95,701
Federal aid	884,849	1,052,655	455,053	(597,602)
Total revenues	<u>16,859,565</u>	<u>17,059,939</u>	<u>17,326,781</u>	<u>266,842</u>
EXPENDITURES				
Current:				
General government support	1,856,067	1,929,771	1,742,268	187,503
Public safety	4,531,340	4,735,818	4,486,234	249,584
Health	1,094,725	953,641	901,420	52,221
Transportation	3,684,744	3,917,506	2,901,170	1,016,336
Culture and recreation	489,197	505,254	417,360	87,894
Home and community services	1,824,300	2,171,486	1,969,269	202,217
Employee benefits	4,077,278	3,991,634	3,900,454	91,180
Debt service:				
Principal	524,051	507,871	478,051	29,820
Interest	528,003	544,183	544,182	1
Total expenditures	<u>18,609,705</u>	<u>19,257,164</u>	<u>17,340,408</u>	<u>1,916,756</u>
Excess (deficiency) of revenues over expenditures	<u>(1,750,140)</u>	<u>(2,197,225)</u>	<u>(13,627)</u>	<u>2,183,598</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	236,797	236,797	73,508	(163,289)
Transfers out	(400,954)	(400,954)	(169,157)	231,797
Total other financing sources (uses)	<u>(164,157)</u>	<u>(164,157)</u>	<u>(95,649)</u>	<u>68,508</u>
Net change in fund balance*	(1,914,297)	(2,361,382)	(109,276)	2,252,106
Fund balance—beginning	<u>8,340,886</u>	<u>8,340,886</u>	<u>8,340,886</u>	<u>-</u>
Fund balance—ending	<u>\$ 6,426,589</u>	<u>\$ 5,979,504</u>	<u>\$ 8,231,610</u>	<u>\$ 2,252,106</u>

*The net change in fund balances was included in the budget as an appropriation (i.e., spenddown) of fund balance and use of restricted fund balance.

The notes to the required supplementary information are an integral part of this schedule.

CITY OF HORNELL, NEW YORK
Schedule of Revenues, Expenditures, and Change in Fund Balance—
Budget and Actual—Water Fund
Year Ended March 31, 2026

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Departmental income	\$ 2,221,500	\$ 2,221,500	\$ 2,168,039	\$ (53,461)
Use of money and property	40,500	40,500	36,147	(4,353)
Sale of property and compensation for loss	-	-	281,265	281,265
Miscellaneous	500	500	-	(500)
Total revenues	<u>2,262,500</u>	<u>2,262,500</u>	<u>2,485,451</u>	<u>222,951</u>
EXPENDITURES				
Current:				
General government support	119,384	119,384	113,630	5,754
Home and community services	1,773,220	1,782,049	1,569,931	212,118
Employee benefits	432,636	433,856	423,644	10,212
Debt service:				
Principal	<u>255,260</u>	<u>255,260</u>	<u>255,260</u>	<u>-</u>
Total expenditures	<u>2,580,500</u>	<u>2,590,549</u>	<u>2,362,465</u>	<u>228,084</u>
Net change in fund balance*	(318,000)	(328,049)	122,986	(5,133)
Fund balance—beginning	<u>845,050</u>	<u>845,050</u>	<u>845,050</u>	<u>-</u>
Fund balance—ending	<u>\$ 527,050</u>	<u>\$ 517,001</u>	<u>\$ 968,036</u>	<u>\$ (5,133)</u>

*The net change in fund balances was included in the budget as an appropriation (i.e., spenddown) of fund balance.

The notes to the required supplementary information are an integral part of this schedule.

CITY OF HORNELL, NEW YORK
Schedule of Revenues, Expenditures, and Change in Fund Balance—
Budget and Actual—Library Fund
Year Ended March 31, 2026

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
REVENUES				
Real property taxes	\$ 407,382	\$ 407,382	\$ 407,382	\$ -
Departmental income	6,000	6,000	3,571	(2,429)
Use of money and property	10,000	10,000	5,486	(4,514)
Miscellaneous	9,140	9,140	3,373	(5,767)
State aid	3,070	3,070	-	(3,070)
Total revenues	<u>435,592</u>	<u>435,592</u>	<u>419,812</u>	<u>(15,780)</u>
EXPENDITURES				
Current:				
General governmental support	10,000	10,000	8,120	1,880
Culture and recreation	406,153	406,153	524,142	(117,989)
Employee benefits	84,439	84,439	62,897	21,542
Total expenditures	<u>500,592</u>	<u>500,592</u>	<u>595,159</u>	<u>(94,567)</u>
Deficiency of revenues over expenditures	<u>(65,000)</u>	<u>(65,000)</u>	<u>(175,347)</u>	<u>(110,347)</u>
OTHER FINANCING (USES)				
Transfers out	<u>-</u>	<u>-</u>	<u>(42,268)</u>	<u>(42,268)</u>
Total other financing (uses)	<u>-</u>	<u>-</u>	<u>(42,268)</u>	<u>(42,268)</u>
Net change in fund balance*	(65,000)	(65,000)	(217,615)	(152,615)
Fund balance—beginning	<u>217,615</u>	<u>217,615</u>	<u>217,615</u>	<u>-</u>
Fund balance—ending	<u>\$ 152,615</u>	<u>\$ 152,615</u>	<u>\$ -</u>	<u>\$ (152,615)</u>

*The net change in fund balance was included in the budget as an appropriation (i.e. spenddown) of fund balance.

The notes to the required supplementary information are an integral part of this schedule.

CITY OF HORNELL, NEW YORK
Notes to the Required Supplementary Information
Year Ended March 31, 2026

1. OPEB LIABILITY

Changes of Assumptions—Changes of assumptions reflect the effects of changes in the long-term bond rate, the mortality rate, and the healthcare cost trend rate. The long-term bond rate is based on the Fidelity Municipal Go AA 20-Year Bond rate as of the measurement date, which increased from 4.16% effective March 31, 2025 to 4.41% at March 31, 2026. Mortality rates were updated to rates based on the Pub-2016 Public Retirement Plans Mortality Tables, Headcount-Weighted, without separate contingent survivor mortality fully generational using scale MP-2025. Finally, the healthcare cost trend rate has an initial rate of 6.10% and an ultimate rate of 3.70%

2. BUDGETARY INFORMATION

Budgetary Basis of Accounting—Annual budgets are adopted on a basis consistent with generally accepted accounting principles in the United States of America for all governmental funds, with the exception of the Community Development Fund and the Capital Projects Fund. These funds are appropriated on a project-length basis; appropriations are approved through Common Council resolution at the grant/project's inception and lapse upon completion/termination of the grant/project.

The appropriated budget is prepared by fund, function, and department. Amendments and transfers of appropriations require the approval of the Common Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the object classification.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances.

Actual results of operations presented in accordance with GAAP and the City's accounting policies do not recognize encumbrances and restricted fund balance as expenditures until the period in which the actual goods or services are received and a liability is incurred. Encumbrances are only reported on the balance sheet of the governmental funds included within restricted, committed or assigned fund balance. The City reports no significant encumbrances at March 31, 2026.

Exceeding Authorized Appropriations—The City's Library fund appropriations for the year ended March 31, 2026 exceeded the final budget as follows:

- Culture and recreation expenditures exceeded the budget by \$117,989 mainly due to greater than anticipated contractual costs
- Transfers out exceeded the budget by \$42,268 mainly due to the transfer of remaining fund balance to close out the Library fund at year end.

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

Honorable Mayor and Common Council of
the City of Hornell, New York:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Hornell, New York (the "City") as of and for the year ended March 31, 2026, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 18, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention to those charged with governance.

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

Drescher & Malecki LLP

September 18, 2026