

**CITY OF BUFFALO,
NEW YORK**

*Basic Financial Statements, Required Supplementary
Information, Supplementary Information and Federal
Awards Information for the Year Ended
June 30, 2017 and Independent Auditors' Reports*

CITY OF BUFFALO, NEW YORK

Table of Contents

Year Ended June 30, 2017

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	4
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	15
Statement of Activities.....	16
Fund Financial Statements:	
Balance Sheet—Governmental Funds	17
Reconciliation of the Balance Sheet—Governmental Funds to the Government-wide Statement of Net Position.....	18
Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds.....	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds to the Government-wide Statement of Activities	20
Statement of Net Position—Proprietary Funds.....	21
Statement of Revenues, Expenses, and Changes in Net Position—Proprietary Funds	23
Statement of Cash Flows—Proprietary Funds.....	24
Statement of Net Position—Fiduciary Funds	26
Statement of Changes in Net Position—Fiduciary Funds	27
Notes to the Financial Statements	28
Required Supplementary Information:	
Schedule of Funding Progress—Other Post-Employment Benefits Plan	88
Schedule of Changes in the Board's Total OPEB Liability and Related Ratios—Buffalo Board of Education.....	89
Schedule of the Local Government's Proportionate Share of the Net Pension Liability (Asset)—Teachers' Retirement System	90
Schedule of the Local Government's Contributions—Teachers' Retirement System.....	91

(continued)

CITY OF BUFFALO, NEW YORK

Table of Contents

Year Ended June 30, 2017

(concluded)

Schedule of the Local Government’s Proportionate Share of the
Net Pension Liability—Police and Fire Retirement System92

Schedule of the Local Government’s Contributions—Police and Fire Retirement System93

Schedule of the Local Governments’ Proportionate Share of the
Net Pension Liability—Employees’ Retirement System.....94

Schedule of the Local Governments’ Contributions—Employees’ Retirement System95

Schedule of Revenues, Expenditures, and Changes in Fund Balances—
Budget and Actual (Non-GAAP Budgetary Basis)—General Fund.....96

Notes to the Required Supplementary Information97

Supplementary Information:

Schedule of Revenues, Expenditures and Changes in Fund Balances—
Budget and Actual (Non-GAAP Budgetary Basis)—Debt Service Fund98

Combining Balance Sheet—Nonmajor Governmental Funds99

Combining Schedule of Revenues, Expenditures, and Changes in Fund
Balances—Nonmajor Governmental Funds100

Combining Schedule of Net Position—Water System101

Combining Schedule of Revenues, Expenses, and Changes in
Net Position—Water System103

Combining Schedule of Cash Flows—Water System104

Statement of Changes in Assets and Liabilities—Agency Fund106

Federal Awards Information:

Schedule of Expenditures of Federal Awards.....107

Notes to the Schedule of Expenditures of Federal Awards.....109

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.....111

Independent Auditors’ Report on Compliance for Each Major
Federal Program and Report on Internal Control Over Compliance
in Accordance with the Uniform Guidance113

Schedule of Findings and Questioned Costs.....115

Summary Schedule of Prior Audit Findings and Corrective Action Plan118

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Honorable Comptroller of
the City of Buffalo, New York:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Buffalo, New York (the "City"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Buffalo Fiscal Stability Authority ("BFSA"), which represents 1.9% and 0.2%, respectively, of the assets and revenues of the governmental activities. We also did not audit the financial statements of the Buffalo Board of Education ("BBOE"), which is shown as a discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for BFSA and BBOE, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Supplementary Information, as listed in the table of contents, and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"), are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Information, as listed in the table of contents, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information, as listed in the table of contents, and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Handwritten signature in cursive script that reads "Duescher & Malecki LLP".

October 31, 2017

CITY OF BUFFALO, NEW YORK
Management's Discussion and Analysis
Year Ended June 30, 2017

As management of the City of Buffalo, 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 June 30, 2017. This document should be read in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative. All amounts are expressed in thousands of dollars, unless otherwise indicated.

Financial Highlights

- The liabilities and deferred inflows of resources of the City's primary government exceeded assets and deferred outflows of resources at the close of the fiscal year ended June 30, 2017 by \$73,288. This consists of \$426,004 net investment in capital assets, \$34,124 restricted for specific purposes, and deficit unrestricted net position of \$533,416.
- The City's total primary government net position decreased by \$88,454 during the year ended June 30, 2017. Net position decreased \$93,644 for governmental activities, while business-type activities increased \$5,190.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$175,154.
- At the end of the current fiscal year, the combined committed, assigned and unassigned fund balance for the General Fund was \$80,505, or 16.2 percent, of total General Fund expenditures and transfers out. Committed fund balance for the Emergency Stabilization fund is \$38,754 or 7.8 percent of total General Fund expenditures and transfers out, assigned fund balance is \$35,248, or 7.1 percent of total General Fund expenditures and transfers out, and unassigned fund balance is \$6,503, or 1.3 percent of total General Fund expenditures and transfers out.
- The City's total general obligation bonded debt outstanding, including notes that have been refinanced but have not yet matured, and bonds issued by the Buffalo Fiscal Stability Authority ("BFSA"), is \$242,367 (\$202,999 net governmental activities general obligation bonds issued by the City, \$27,775 governmental activities general obligation bonds issued by BFSA, and \$11,593 business-type activities general obligation bonds). The City issued serial bonds of \$21,618 for governmental activities, and issued serial bonds of \$2,742 for business-type activities during the year ended June 30, 2017.
- The total Buffalo Municipal Water Finance Authority revenue bonds outstanding within the Water System at the end of the current fiscal year were \$122,835.

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 of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contained 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., uncollected taxes and 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, streets and sanitation, economic assistance and opportunity, culture and recreation, health and community services, and education. The business-type activities of the City include parking ramps, refuse collection services, and a water system.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the Buffalo Board of Education, a legally separate school district for which the City is financially accountable, and the Buffalo Urban Renewal Agency, a public benefit corporation through which Federal urban renewal grants for the City are channeled. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 15-16 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 three categories: governmental funds, proprietary 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 funds' balance sheet and the governmental funds' 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 seven 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, Debt Service Fund and Capital Projects Fund, which are considered major funds. Additionally, the General Fund of the Buffalo Fiscal Stability Authority (“BFSA”) is reported as a major fund of the City (BFSA Special Revenue). Data from the City’s Special Revenue and Permanent Funds, as well as the Debt Service Fund of the BFSA are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is presented in the form of combining statements in the Supplementary Information section of this report.

The basic governmental fund financial statements can be found on pages 17-20 of this report.

Proprietary funds—The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its refuse collection, parking ramps, and water system operations. An *internal service fund* is used to account for the central print shop. Because the print shop predominantly benefits governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Solid Waste and Recycling Fund, Parking Fund and Water System. In addition, the Internal Service Fund is presented in the proprietary fund financial statements.

The proprietary fund financial statements can be found on pages 21-25 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 statements because the resources of those funds are *not* available to support the City’s own programs. The City maintains two fiduciary funds, the Private Purpose Trust Fund and the Agency Fund.

The fiduciary fund financial statements can be found on pages 26-27 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 28-87 of this report.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City’s progress in funding its obligation to provide postemployment benefits to its employees, the City’s net pension (asset)/liability, and the City’s budgetary comparison for the General Fund. Required Supplementary Information and related notes to the required supplementary information can be found on pages 88-97 of this report.

The combining statements referred to earlier in connection with the nonmajor governmental funds are presented along with other supplementary information immediately following the Required Supplementary Information in the Supplementary Information section of this report on pages 98-106.

Finally, the Federal Awards Information can be found on pages 107-118.

Government-wide Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City's primary government, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$73,288 at the close of the most recent fiscal year, as compared to assets and deferred outflows of resources exceeding liabilities and deferred inflows of resources by \$15,166, at the close of the fiscal year ended June 30, 2016.

Table 1, shown below, presents a condensed statement of net position compared to the prior year.

Table 1—Condensed Statements of Net Position—Primary Government (000's omitted)

	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 524,751	\$ 610,920	\$ 58,172	\$ 67,194	\$ 582,923	\$ 678,114
Noncurrent assets	519,437	509,963	188,263	182,827	707,700	692,790
Total assets	1,044,188	1,120,883	246,435	250,021	1,290,623	1,370,904
Deferred outflows of resources	83,985	137,077	6,667	11,372	90,652	148,449
Current and other liabilities	299,998	332,647	6,844	10,742	306,842	343,389
Noncurrent liabilities	952,902	952,851	177,870	187,141	1,130,772	1,139,992
Total liabilities	1,252,900	1,285,498	184,714	197,883	1,437,614	1,483,381
Deferred inflows of resources	16,375	19,920	574	886	16,949	20,806
Net position:						
Net investment in capital assets	354,182	346,504	71,822	64,202	426,004	410,706
Restricted	34,124	40,497	-	-	34,124	40,497
Unrestricted	(529,408)	(434,459)	(4,008)	(1,578)	(533,416)	(436,037)
Total net position	\$ (141,102)	\$ (47,458)	\$ 67,814	\$ 62,624	\$ (73,288)	\$ 15,166

The largest portion of the City's net position, \$426,004, reflects its investment in capital assets (e.g. land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets. 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 its 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, \$34,124, 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 component of the City's net position, a deficit of \$533,416, represents unrestricted net position which reflects liabilities not related to the City's capital assets and are not expected to be repaid from current resources. Long-term liabilities are funded annually within the funds. The long-term liability associated with other postemployment benefits ("OPEB") obligations totals \$594,916, which is greater than this deficit. As the revenue recognition criteria for the future funding of this liability has not been met, no asset has been recorded to offset this liability.

Total net position of the City's primary government decreased \$88,454. Significant changes from 2016 to 2017 in the Statement of Net Position and reasons for such changes are:

- Current and other assets decreased by \$95,191. The primary reason for the decrease is a decrease in cash and cash equivalents of \$63,142 related primarily to the timing of payments made by the City.
- Noncurrent assets increased by \$14,910. A significant portion of the increase was due to additions to infrastructure within both governmental and business-type activities.
- Deferred outflows of resources decreased by \$57,797, due primarily to a decrease in deferred outflows relating to pensions.
- Current and other liabilities decreased \$36,547, due to a \$25,857 decrease in amounts owed to component units, as well as a decrease of \$10,683 in accounts payable and accrued liabilities, retainages payable, and intergovernmental payables. These changes are primarily related to the timing of payments made by the City.
- Noncurrent liabilities decreased by \$9,220, primarily due to a \$20,419 decrease in net bonds payable, a \$39,716 decrease in the net pension liability, offset by a \$49,292 increase in other postemployment benefits ("OPEB") liabilities.
- Deferred inflows of resources decreased \$3,857, due primarily to a decrease in deferred inflows relating to pensions.

Table 2, as presented below, shows the changes in net position for the years ended June 30, 2017 and June 30, 2016.

Table 2—Condensed Statements of Changes in Net Position—Primary Government (000's omitted)

	Governmental Activities		Business-Type Activities		Total	
	Year Ended June 30,		Year Ended June 30,		Year Ended June 30,	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 28,313	\$ 28,340	\$ 73,329	\$ 70,276	\$ 101,642	\$ 98,616
Operating grants and contributions	32,256	32,188	-	-	32,256	32,188
Capital grants and contributions	26,085	23,821	-	-	26,085	23,821
General revenues:						
Property taxes	127,541	124,896	-	-	127,541	124,896
Other taxes	22,244	24,652	-	-	22,244	24,652
Intergovernmental	95,998	97,471	667	223	96,665	97,694
Grants and contributions	285	344	-	-	285	344
Investment earnings	1,278	3,262	205	111	1,483	3,373
State aid	164,725	168,311	-	-	164,725	168,311
Miscellaneous	9,586	7,971	-	-	9,586	7,971
Total revenues	<u>508,311</u>	<u>511,256</u>	<u>74,201</u>	<u>70,610</u>	<u>582,512</u>	<u>581,866</u>
Expenses:						
General government support	116,246	110,385	-	-	116,246	110,385
Public safety	289,679	274,293	-	-	289,679	274,293
Streets and sanitation	48,233	35,729	-	-	48,233	35,729
Economic assist. and opportunity	49,591	41,623	-	-	49,591	41,623
Culture and recreation	24,154	15,977	-	-	24,154	15,977
Health and community services	4,884	6,941	-	-	4,884	6,941
Education	70,323	70,323	-	-	70,323	70,323
Interest and fiscal charges	8,504	10,166	-	-	8,504	10,166
Solid Waste and Recycling	-	-	22,094	23,548	22,094	23,548
Parking	-	-	2,159	2,594	2,159	2,594
Water System	-	-	35,099	32,249	35,099	32,249
Total expenses	<u>611,614</u>	<u>565,437</u>	<u>59,352</u>	<u>58,391</u>	<u>670,966</u>	<u>623,828</u>
Excess (deficiency) of revenues over expenses	(103,303)	(54,181)	14,849	12,219	(88,454)	(41,962)
Transfers	<u>9,659</u>	<u>6,246</u>	<u>(9,659)</u>	<u>(6,246)</u>	<u>-</u>	<u>-</u>
Change in net position	(93,644)	(47,935)	5,190	5,973	(88,454)	(41,962)
Net position—beginning	<u>(47,458)</u>	<u>477</u>	<u>62,624</u>	<u>56,651</u>	<u>15,166</u>	<u>57,128</u>
Net position—ending	<u>\$ (141,102)</u>	<u>\$ (47,458)</u>	<u>\$ 67,814</u>	<u>\$ 62,624</u>	<u>\$ (73,288)</u>	<u>\$ 15,166</u>

Governmental activities—The largest funding sources for the City’s governmental activities, as a percent of total revenues, are state aid (32.4%), property taxes (25.1%) and intergovernmental (18.9%).

The largest expense categories for the City’s governmental activities are public safety (47.4%), general government support (19.0%) and education (11.5%). The education category represents the City allocation to the Board.

Significant changes from 2016 to 2017 in revenues and expenses for the City include the following:

- Total revenues decreased by \$2,945 in the current year as compared to last year. Unrestricted state aid, other taxes, and investment earnings decreased by \$3,586, \$2,408 and \$1,984, respectively, while property taxes and capital grants and contributions increased by \$2,645 and \$2,264, respectively.
- Total expenses increased by \$46,177. Fund expenditures increased \$33,357 due to increased wages within public safety, economic assistance and opportunity, and fringe benefits, as well as excess workers’ compensation claims reported as other expenditures. Further, government-wide expenses were higher than 2016 expenses as a result of the increase in OPEB obligation and related costs allocable to the various functions.

Business-type activities—Business-type activities increased the City’s net position by \$5,190. Overall, revenues and expenses remained relatively consistent from 2016 to 2017. The overall increase in net position is due to the following:

- The Solid Waste and Recycling Fund recorded a decrease in net position of \$182 as a result of operating expenses and transfers out continuing to exceed operating revenues and transfers in.
- The net position of the Parking Fund increased \$2,859, which was a result of an increase in rental fees charged.
- The Water System’s net position increased by \$2,513 as a result of normal operations where operating revenues exceed both operating and nonoperating expenses and transfers out.

Financial Analysis of 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 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 June 30, 2017, the City’s governmental funds reported combined ending fund balances of \$175,154, a decrease of \$41,665 from the prior year. Approximately 3.7 percent of this amount, \$6,503, constitutes *unassigned fund balance*, which is available for spending at the City’s discretion. The remainder of fund balance is either *nonspendable*, *restricted*, *committed*, or *assigned* to indicate that it is: (1) not in spendable form, \$28,417, (2) restricted for particular purposes, \$65,664, (3) committed to particular purposes, \$38,754, or (4) assigned for particular purposes, \$35,816.

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. Nonspendable fund balance totaling \$28,417 consists of \$8,175 of real estate acquired for sale, \$18,358 to cover the deficit in the Solid Waste and Recycling Fund, \$1,854 for prepaid items and \$30 for Permanent Fund principal.

Restricted fund balance in the amount of \$65,664 are amounts constrained to specific purposes and consist of \$37,171 to finance specific capital projects, \$4,674 for future capital outlay, \$17,855 to pay debt service, \$3,733 for federal and state programs, \$669 for state mandated initiatives, \$1,451 for emergency medical services and \$111 for compliance with the Permanent Fund.

Commitments are amounts that are subject to a purpose constraint imposed by a formal action of the City's highest level of decision-making authority. \$38,754 of fund balance is committed for the City's Emergency Stabilization fund. Assigned fund balance in the amount of \$35,816 consists of \$9,322 to liquidate contracts and purchase orders, \$739 for motor vehicle self-insurance, \$12,187 for the subsequent year's budget, \$13,000 for judgments and claims, and \$568 in funds held by the BFSA. These assignments indicate management's intention to utilize these funds for the state purposes. Unassigned fund balance totals \$6,503.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$6,503, while total fund balance decreased to \$114,930. As a measure of the General Fund's liquidity, it may be useful to compare both the unassigned fund balance and total fund balance to total General Fund expenditures. Unassigned fund balance represents approximately 1.3 percent of total General fund expenditures and transfers out, while total fund balance represents approximately 23.1 percent of that same amount. While the City had planned use of fund balance of \$10,676, as a result of unexpected costs, such as wages within public safety and workers' compensation claims within other, as well as actual revenues falling below budgeted amounts, particularly within state aid and miscellaneous revenues related to the sale of property, total fund balance of the City's General Fund decreased by \$34,548.

The Debt Service Fund has a total fund balance of \$11,875, which is restricted solely for the purpose of payment of debt service. The increase in fund balance during the current year in the Debt Service Fund of \$132 is due primarily to miscellaneous revenues related to energy rebates exceeding the budget.

The Capital Projects Fund accounts for the construction and reconstruction of general public improvements, excluding projects related to business-type activities, which are accounted for in the appropriate proprietary fund. At the end of the current fiscal year, Capital Projects Fund fund balance was \$37,233, of which \$37,171 is restricted for encumbrances and future projects. The remaining \$62 is considered to not be in spendable form for prepaid items. The decrease in fund balance of \$4,090 is related to capital outlay in excess of revenues and proceeds from the issuance of debt.

The BFSA Special Revenue Fund is used to account for the General Fund of the BFSA and, therefore, is their chief operating fund. Total fund balance at the end of the current fiscal year was \$1,263. Of this amount, \$669 is restricted by enabling legislation for state aid received on behalf of the City, \$25 is nonspendable for prepaid items and \$569 represents BFSA's assigned fund balance for operations. The \$115 decrease in fund balance is attributable to a decrease in intergovernmental revenues.

Other nonmajor governmental funds consist of the Special Revenue Fund, the BFSA Debt Service Fund, and the Permanent Fund. The Special Revenue Fund is used to account for programs and projects primarily funded by grants from the federal and state governments. At the end of the current fiscal year, fund balance of the Special Revenue Fund was \$3,733. This balance is restricted for use in accordance with federal and state grant regulations. The fund balance of the Special Revenue Fund decreased by \$1,448 from the prior year, and is attributable expenditures in excess of revenues related to federal grant funding. The BFSA Debt Service Fund has a total fund balance of \$5,979, which is restricted to pay debt service. The fund balance of the BFSA Debt Service Fund decreased by \$1,597 as a result of scheduled

debt service principal payments. The Permanent Fund is used to report resources that are legally restricted to the extent that only earnings and not principal may be used for the purposes for which they were established. The balance at the end of the current fiscal year was \$141.

Proprietary funds—Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The net position of the enterprise funds at the end of the current fiscal year totaled \$67,814. The balance includes a deficit balance of \$34,958 for the Solid Waste and Recycling Fund, \$45,712 for the Parking Fund, and \$57,060 for the Water System. The underlying reasons for any changes were described under the aforementioned heading Business-type activities.

The Internal Service Fund is used to account for the central print shop. The total net position at the end of the fiscal year was \$117. This represents an increase of \$3, which is due to revenues exceeding expenditures.

General Fund Budgetary Highlights

The City adopts an annual appropriated budget for the General Fund. 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. The budgetary comparison schedule for the General Fund, a major fund, is provided in the Required Supplementary Information section of this report to demonstrate compliance with the budget.

A summary of the General Fund results of operations for the year ended June 30, 2017 is presented below in Table 3.

Table 3—General Fund Budget

	Budgeted Amounts		Budgetary	Variance with
	Adopted	Final	Actual	Final Budget
			Amounts	
Revenues and other financing sources	\$ 483,265	\$ 483,265	\$ 461,980	\$ (21,285)
Expenditures and other financing uses	<u>493,941</u>	<u>510,068</u>	<u>505,849</u>	<u>4,219</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ (10,676)</u>	<u>\$ (26,803)</u>	<u>\$ (43,869)</u>	<u>\$ (17,066)</u>

Original budget compared to final budget—During the year, the City amended appropriations for various purposes. The primary increases were \$5,094 within other expenditures to cover the costs of prior year workers’ compensation claims recognized in the current year, and \$3,180 in transfers out to cover the costs of ongoing capital projects. Other amendments totaling \$7,853 were authorized during the year mainly due to increases in wages throughout various City departments.

Final budget compared to actual results—A review of actual revenues and expenditures compared to the estimated revenues and appropriations indicate that actual revenues were \$21,285 below the final budget, while actual expenditures were less than the final budget by \$4,219. Regarding revenues, an unfavorable variance was noted within miscellaneous revenues as the City recorded sale of properties of \$922, while the budgeted amount was estimated at \$8,238. Further, state aid fell \$4,473 below the final budget primarily due to less than anticipated tribal compact funds awarded during the year.

Capital Assets and Debt Administration

Capital assets—The City’s capital assets for its governmental activities and business-type activities as of June 30, 2017 amounted to \$699,525 (net of accumulated depreciation). This investment in capital assets includes land, buildings and building improvements, improvements other than buildings, machinery and equipment, infrastructure and construction in progress.

All depreciable capital assets were depreciated from acquisition date to the end of the current year as outlined in the City’s capital asset policy.

Capital assets, net of depreciation for governmental activities and business-type activities as of June 30, 2017 and June 30, 2016 are presented in Table 4 below.

Table 4—Summary of Capital Assets (Net of Depreciation) (000’s omitted)

	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2017	2016	2017	2016	2017	2016
Land	\$ 10,048	\$ 10,048	\$ 3,362	\$ 3,362	\$ 13,410	\$ 13,410
Buildings and improvements	177,063	181,860	120,156	121,538	297,219	303,398
Improvements other than buildings	23,043	25,072	69	93	23,112	25,165
Machinery and equipment	16,925	15,179	2,425	2,570	19,350	17,749
Infrastructure	262,430	263,603	60,066	53,849	322,496	317,452
Construction in progress	21,753	4,729	2,185	1,415	23,938	6,144
Total	<u>\$ 511,262</u>	<u>\$ 500,491</u>	<u>\$ 188,263</u>	<u>\$ 182,827</u>	<u>\$ 699,525</u>	<u>\$ 683,318</u>

Significant changes from 2016 to 2017 in capital assets include:

- Construction in progress increased \$17,794 largely due to major capital projects ongoing during the year such as the Bailey bridge above Cazenovia Creek project, which account for over \$12 million of the increase.
- The above increase was offset by decreases within buildings and improvements, improvements other than buildings, machinery and equipment and infrastructure due to normal annual depreciation.

The City’s infrastructure assets are recorded at historical cost or estimated historical cost in the government-wide and proprietary fund financial statements. The City has elected to depreciate their infrastructure assets. Additional information on the City’s capital assets can be found in Note 5 to the financial statements.

Long-term debt—At June 30, 2017, the City had total bonded debt outstanding for governmental activities of \$230,774, including bonds issued by BFSAs, as compared to \$244,348 in the prior year. During the year ended June 30, 2017, the City issued serial bonds of \$21,618 for governmental activities. The BFSAs’ total bonded debt outstanding at the end of the current fiscal year is \$27,775.

The bonds outstanding for business-type activities at June 30, 2017 consisted of \$11,593 in general obligation bonds issued by the City and \$122,835 of revenue bonds issued by the Water Authority reported within the Water System. During the year ended June 30, 2017, the City issued serial bonds of \$2,742 for business-type activities.

A summary of the City's long-term liabilities at June 30, 2017 and June 30, 2016 is presented in Table 5 below.

Table 5—Summary of Long-Term Liabilities (000's omitted)

	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2017	2016	2017	2016	2017	2016
Bonds payable, net of premiums and discounts	\$ 250,722	\$ 263,862	\$ 141,336	\$ 148,616	\$ 392,058	\$ 412,478
Notes payable	-	273	-	-	-	273
Compensated absences	28,479	25,878	1,401	1,190	29,880	27,068
Workers' compensation	8,472	7,584	1,951	2,685	10,423	10,269
Landfill post-closure monitoring	770	840	-	-	770	840
OPEB	565,466	518,248	29,451	27,377	594,917	545,625
Judgments and claims	13,000	14,000	-	-	13,000	14,000
Net pension liability	85,993	122,166	3,731	7,273	89,724	129,439
Total	<u>\$ 952,902</u>	<u>\$ 952,851</u>	<u>\$ 177,870</u>	<u>\$ 187,141</u>	<u>\$ 1,130,772</u>	<u>\$ 1,139,992</u>

The New York State Constitution restricts the annual real property tax levy for operating expenses to two percent of average full value of taxable City property over the last five years. This limitation does not apply to taxes for debt service. The Constitution also provides that the City may not contract indebtedness in an amount greater than nine percent of the average full value of taxable real property for the most recent five years. Water debt, self-sustaining debt and revenue anticipation notes are excluded from the debt limit. This limit as of fiscal year end was \$710,335. The City had a debt-contracting margin of \$521,975 on July 1, 2017.

Additional information on the City's long-term debt can be found in Note 11 to the financial statements.

Next Year's Budget

The City considered current year operational expenses and estimated increases based on economic factors when establishing the fiscal year 2018 budget. The total budgeted appropriations for the City's General Fund operations are \$400,399. This budget is a \$4,637 increase from the fiscal year 2017 total budgeted appropriations of \$395,762. This budget was approved by the BFSAs.

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 government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Buffalo, Office of the Comptroller, 1225 City Hall, Buffalo, New York 14202; Buffalo Board of Education, Finance, 708 City Hall, Buffalo, New York 14202; and Buffalo Urban Renewal Agency, 214 City Hall, Buffalo, New York 14202.

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BASIC FINANCIAL STATEMENTS

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CITY OF BUFFALO, NEW YORK
Statement of Net Position
June 30, 2017

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	BOE	BURA
ASSETS					
Cash and cash equivalents	\$ 261,291,382	\$ 15,319,544	\$ 276,610,926	\$ 275,898	\$ 321,795
Restricted cash and cash equivalents	111,754,386	21,368,391	133,122,777	37,285,572	905,612
Investments	41,165,726	25,130,360	66,296,086	-	-
Receivables (net of allowances)	17,775,912	9,651,258	27,427,170	2,928,842	1,134,666
Intergovernmental receivables	23,647,011	287,333	23,934,344	58,789,312	648,178
Due from component units/ primary government	53,678,000	-	53,678,000	253,652,130	-
Internal balances	13,584,532	(13,584,532)	-	-	-
Prepaid items and other assets	1,854,138	-	1,854,138	1,487,850	-
Real estate acquired for resale	8,175,001	-	8,175,001	-	3,843,440
Capital assets not being depreciated	31,801,069	5,547,144	37,348,213	14,793,784	-
Capital assets, net of accumulated depreciation	<u>479,461,007</u>	<u>182,716,011</u>	<u>662,177,018</u>	<u>954,824,796</u>	<u>472,690</u>
Total assets	<u>1,044,188,164</u>	<u>246,435,509</u>	<u>1,290,623,673</u>	<u>1,324,038,184</u>	<u>7,326,381</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred loss on refunding	2,730,062	3,737,557	6,467,619	28,840,834	-
Deferred outflows—relating to pensions	<u>81,255,251</u>	<u>2,929,038</u>	<u>84,184,289</u>	<u>186,176,242</u>	<u>550,188</u>
Total deferred outflows of resources	<u>83,985,313</u>	<u>6,666,595</u>	<u>90,651,908</u>	<u>215,017,076</u>	<u>550,188</u>
LIABILITIES					
Accounts payable and accrued liabilities	33,649,989	5,125,998	38,775,987	79,351,482	1,118,610
Retainages payable	2,064,965	1,037,596	3,102,561	-	-
Intergovernmental payables	10,455,723	477,400	10,933,123	39,747,511	619,702
Due to component units/primary government	253,652,130	-	253,652,130	53,678,000	-
Unearned revenue	175,462	202,804	378,266	-	-
Noncurrent liabilities:					
Due within one year	44,434,274	11,154,633	55,588,907	83,687,332	36,773
Due in more than one year	<u>908,467,552</u>	<u>166,715,030</u>	<u>1,075,182,582</u>	<u>3,478,969,732</u>	<u>17,661,731</u>
Total liabilities	<u>1,252,900,095</u>	<u>184,713,461</u>	<u>1,437,613,556</u>	<u>3,735,434,057</u>	<u>19,436,816</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred gain on refunding	-	7,755	7,755	-	-
Deferred inflows—relating to pensions	16,375,702	566,525	16,942,227	8,223,824	156,445
Deferred inflows—relating to OPEB	-	-	-	409,337,000	-
Total deferred inflows of resources	<u>16,375,702</u>	<u>574,280</u>	<u>16,949,982</u>	<u>417,560,824</u>	<u>156,445</u>
NET POSITION					
Net investment in capital assets	354,181,788	71,822,601	426,004,389	67,181,116	472,690
Restricted for:					
Capital outlay	4,674,402	-	4,674,402	203,630	-
Debt service	15,280,271	-	15,280,271	32,896,635	-
Grants	3,732,714	-	3,732,714	-	66,435
State mandated initiatives	669,039	-	669,039	-	-
Real estate held for sale	8,175,001	-	8,175,001	-	-
Judgments and claims	-	-	-	17,750,000	-
Unemployment insurance	-	-	-	3,156,044	-
Joint Schools Construction Board projects	-	-	-	131,571	-
Perpetual care—Expendable	110,814	-	110,814	503,315	-
Perpetual care—Unexpendable	30,000	-	30,000	-	-
Other purposes	1,451,234	-	1,451,234	3,829,601	-
Unrestricted	<u>(529,407,583)</u>	<u>(4,008,238)</u>	<u>(533,415,821)</u>	<u>(2,739,591,533)</u>	<u>(12,255,817)</u>
Total net position	<u>\$ (141,102,320)</u>	<u>\$ 67,814,363</u>	<u>\$ (73,287,957)</u>	<u>\$ (2,613,939,621)</u>	<u>\$ (11,716,692)</u>

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

CITY OF BUFFALO, NEW YORK
Statement of Activities
Year Ended June 30, 2017

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-type Activities	Total	BOE	BURA
Primary government:									
Governmental activities:									
General government support	\$ 116,246,301	\$ 8,339,511	\$ 2,031,985	\$ 364,522	\$ (105,510,283)	\$ -	\$ (105,510,283)	\$ -	\$ -
Public safety	289,679,446	12,598,177	5,225,790	-	(271,855,479)	-	(271,855,479)	-	-
Streets and sanitation	48,232,543	1,753,255	363,854	24,054,212	(22,061,222)	-	(22,061,222)	-	-
Economic assistance and opportunity	49,590,899	5,241,079	6,553,321	1,034,726	(36,761,773)	-	(36,761,773)	-	-
Culture and recreation	24,153,662	247,512	-	631,717	(23,274,433)	-	(23,274,433)	-	-
Health and community services	4,884,333	133,573	18,081,613	-	13,330,853	-	13,330,853	-	-
Education	70,322,758	-	-	-	(70,322,758)	-	(70,322,758)	-	-
Interest and fiscal charges	8,504,437	-	-	-	(8,504,437)	-	(8,504,437)	-	-
Total governmental activities	<u>611,614,379</u>	<u>28,313,107</u>	<u>32,256,563</u>	<u>26,085,177</u>	<u>(524,959,532)</u>	<u>-</u>	<u>(524,959,532)</u>	<u>-</u>	<u>-</u>
Business-type activities:									
Solid Waste and Recycling	22,093,589	18,943,456	-	-	-	(3,150,133)	(3,150,133)	-	-
Parking	2,159,145	11,380,908	-	-	-	9,221,763	9,221,763	-	-
Water System	35,099,290	43,004,249	-	-	-	7,904,959	7,904,959	-	-
Total business-type activities	<u>59,352,024</u>	<u>73,328,613</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,976,589</u>	<u>13,976,589</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 670,966,403</u>	<u>\$ 101,641,720</u>	<u>\$ 32,256,563</u>	<u>\$ 26,085,177</u>	<u>(524,959,532)</u>	<u>13,976,589</u>	<u>(510,982,943)</u>	<u>-</u>	<u>-</u>
Component units:									
BOE	\$ 1,092,089,468	\$ 2,859,119	\$ 139,520,695	\$ -				(949,709,654)	-
BURA	50,701,712	3,049,049	42,387,584	-				-	(5,265,079)
Total component units	<u>\$ 1,142,791,180</u>	<u>\$ 5,908,168</u>	<u>\$ 181,908,279</u>	<u>\$ -</u>				<u>(949,709,654)</u>	<u>(5,265,079)</u>
General revenues:									
Taxes:									
Property taxes					127,540,946	-	127,540,946	-	-
Interest and penalties					3,678,979	-	3,678,979	-	-
Mortgage taxes					3,893,050	-	3,893,050	-	-
Payments in lieu of taxes					3,630,829	-	3,630,829	-	-
Gross utility tax					11,040,873	-	11,040,873	-	-
Intergovernmental—unrestricted					95,997,732	667,177	96,664,909	43,389,176	-
Grants and contributions not restricted to specific programs					284,695	-	284,695	-	-
Investment earnings					1,278,523	205,321	1,483,844	234,013	393,334
Contribution from City of Buffalo					-	-	-	70,322,758	-
State aid—unrestricted					164,724,562	-	164,724,562	719,177,129	-
Miscellaneous					9,586,332	-	9,586,332	15,589,913	2,601,070
Transfers					9,658,932	(9,658,932)	-	-	-
Total general revenues and transfers					<u>431,315,453</u>	<u>(8,786,434)</u>	<u>422,529,019</u>	<u>848,712,989</u>	<u>2,994,404</u>
Change in net position					(93,644,079)	5,190,155	(88,453,924)	(100,996,665)	(2,270,675)
Net position—beginning, as restated					<u>(47,458,241)</u>	<u>62,624,208</u>	<u>15,165,967</u>	<u>(2,512,942,956)</u>	<u>(9,446,017)</u>
Net position—ending					<u>\$ (141,102,320)</u>	<u>\$ 67,814,363</u>	<u>\$ (73,287,957)</u>	<u>\$(2,613,939,621)</u>	<u>\$ (11,716,692)</u>

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

CITY OF BUFFALO, NEW YORK
Balance Sheet—Governmental Funds
June 30, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>BFSA Special Revenue</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and cash equivalents	\$ 261,185,360	\$ -	\$ -	\$ -	\$ -	\$ 261,185,360
Restricted cash and cash equivalents	28,742,616	13,172,303	64,277,992	669,039	4,892,436	111,754,386
Investments	34,756,756	-	-	-	6,408,970	41,165,726
Receivables:						
Delinquent taxes and assessments	13,171,208	-	-	-	-	13,171,208
Accounts receivable	15,250,833	-	75,417	-	-	15,326,250
Other receivables	-	-	-	-	4,132	4,132
Due from other agencies	931,303	-	-	-	-	931,303
Intergovernmental receivables	2,479,081	-	6,562,651	13,126,116	97,039	22,264,887
Due from other funds	44,479,924	58,634	-	-	1,801,307	46,339,865
Allowances	(10,733,976)	-	-	-	-	(10,733,976)
Net receivables	65,578,373	58,634	6,638,068	13,126,116	1,902,478	87,303,669
Prepaid items	1,766,757	-	62,294	25,087	-	1,854,138
Real estate acquired for resale	8,175,001	-	-	-	-	8,175,001
Total assets	<u>\$ 400,204,863</u>	<u>\$ 13,230,937</u>	<u>\$ 70,978,354</u>	<u>\$ 13,820,242</u>	<u>\$ 13,203,884</u>	<u>\$ 511,438,280</u>
LIABILITIES						
Accounts payable	\$ 8,957,446	\$ -	\$ 6,506,654	\$ 2,659	\$ 2,259,261	\$ 17,726,020
Accrued liabilities	12,899,637	-	-	37,034	412,467	13,349,138
Intergovernmental payables	76,374	-	37,772	-	130,566	244,712
Due to other funds	5,054,082	1,355,553	18,023,892	7,776,399	548,914	32,758,840
Due to component units	239,734,137	-	9,176,636	4,741,357	-	253,652,130
Due to retirement systems	9,760,190	-	-	-	-	9,760,190
Unearned revenue	175,462	-	-	-	-	175,462
Total liabilities	<u>276,657,328</u>	<u>1,355,553</u>	<u>33,744,954</u>	<u>12,557,449</u>	<u>3,351,208</u>	<u>327,666,492</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenues - property taxes	8,617,292	-	-	-	-	8,617,292
Total deferred inflows of resources	<u>8,617,292</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,617,292</u>
FUND BALANCES						
Nonspendable	28,299,155	-	62,294	25,087	30,000	28,416,536
Restricted	6,125,636	11,875,384	37,171,106	669,039	9,822,676	65,663,841
Committed	38,754,190	-	-	-	-	38,754,190
Assigned	35,247,773	-	-	568,667	-	35,816,440
Unassigned	6,503,489	-	-	-	-	6,503,489
Total fund balances	<u>114,930,243</u>	<u>11,875,384</u>	<u>37,233,400</u>	<u>1,262,793</u>	<u>9,852,676</u>	<u>175,154,496</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 400,204,863</u>	<u>\$ 13,230,937</u>	<u>\$ 70,978,354</u>	<u>\$ 13,820,242</u>	<u>\$ 13,203,884</u>	<u>\$ 511,438,280</u>

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

CITY OF BUFFALO, NEW YORK
Reconciliation of the Balance Sheet—Governmental Funds
to the Government-wide Statement of Net Position
June 30, 2017

Amounts reported for governmental activities in the statement of net position (page 15) are different because:

Total fund balances—governmental funds (page 17)	\$	175,154,496
City capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of these assets is \$994,923,945 and the accumulated depreciation is \$483,663,111.		511,260,834
Buffalo Fiscal Stability Authority capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of these assets is \$68,398 and the accumulated depreciation is \$67,156.		1,242
Deferred charges associated with refunding of bonds are not reported in the governmental funds. The charge is reported as a deferred outflow of resources on the statement of net position and is recognized as a component of interest expense over the life of the related debt.		2,730,062
Property taxes are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the funds.		8,617,292
Deferred outflows and inflows of resources related to pensions (including BFSA) are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows related to employer contributions	\$	9,801,384
Deferred outflows related to experience, changes of assumptions, investment earnings, and changes in proportion		71,453,867
Deferred inflows related to pension plans		<u>(16,375,702)</u>
		64,879,549
Internal service funds are used by management to charge the costs of internal print services. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		117,257
Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.		53,678,000
Net accrued interest expense for serial bonds is not reported in the funds.		(2,574,261)
To recognize retainages payable on outstanding capital projects not recorded in the fund financial statements.		(2,064,965)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. The effects of these items are:		
General obligations bonds—City	\$	(202,999,218)
General obligations bonds—BFSA		(27,775,000)
Unamortized bond premiums—City		(17,705,623)
Unamortized bond premiums—BFSA		(2,241,909)
Compensated absences		(28,478,976)
Workers' compensation		(8,472,167)
Landfill post-closure monitoring costs		(770,000)
Other post-employment benefits obligation—City		(564,765,000)
Other post-employment benefits obligation—BFSA		(701,164)
Judgments and claims		(13,000,000)
Net pension liability—City		(85,805,943)
Net pension liability—BFSA		<u>(186,826)</u>
		<u>(952,901,826)</u>
Net position of governmental activities	\$	<u><u>(141,102,320)</u></u>

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

CITY OF BUFFALO, NEW YORK
Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds
Year Ended June 30, 2017

	General	Debt Service	Capital Projects	BFSA Special Revenue	Total Nonmajor Funds	Total Governmental Funds
REVENUES						
Property taxes, assessments, and other tax items	\$ 138,089,290	\$ -	\$ -	\$ -	\$ -	\$ 138,089,290
Utility and other nonproperty tax items	11,691,266	-	-	-	-	11,691,266
Intergovernmental	263,366,149	13,887,906	26,176,081	252,109	27,368,429	331,050,674
Investment interest	622,001	60,043	-	-	118,086	800,130
License, permit, rentals, fines, and other service charges	28,920,860	153,903	-	-	-	29,074,763
Miscellaneous	6,155,708	1,092,444	1,298,604	-	38,720	8,585,476
Total revenues	<u>448,845,274</u>	<u>15,194,296</u>	<u>27,474,685</u>	<u>252,109</u>	<u>27,525,235</u>	<u>519,291,599</u>
EXPENDITURES						
Current:						
General government support	58,234,088	-	-	489,165	684,222	59,407,475
Public safety	164,938,367	-	-	-	1,708,342	166,646,709
Streets and sanitation	13,133,053	-	-	-	25,177	13,158,230
Economic assistance and opportunity	2,023,543	-	-	-	25,884,638	27,908,181
Culture and recreation	9,190,653	-	-	-	344,911	9,535,564
Health and community services	2,391,637	-	-	-	208,224	2,599,861
Education	70,322,758	-	-	-	-	70,322,758
Fringe benefits	135,637,266	-	-	158,524	-	135,795,790
Other	8,875,635	-	-	-	-	8,875,635
Debt service:						
Principal	-	28,042,270	-	-	7,150,000	35,192,270
Interest and fiscal charges	303,277	9,236,006	97,038	-	1,317,516	10,953,837
Capital outlay:						
General government support	-	-	6,913,698	-	-	6,913,698
Public safety	-	-	4,037,140	-	-	4,037,140
Streets and sanitation	-	-	35,452,848	-	-	35,452,848
Economic assistance and opportunity	-	-	2,206,919	-	-	2,206,919
Culture and recreation	-	-	7,080,379	-	-	7,080,379
Total expenditures	<u>465,050,277</u>	<u>37,278,276</u>	<u>55,788,022</u>	<u>647,689</u>	<u>37,323,030</u>	<u>596,087,294</u>
Excess (deficiency) of revenues over expenditures	<u>(16,205,003)</u>	<u>(22,083,980)</u>	<u>(28,313,337)</u>	<u>(395,580)</u>	<u>(9,797,795)</u>	<u>(76,795,695)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	13,134,240	26,464,465	3,580,000	280,765	6,753,018	50,212,488
Transfers out	(31,477,011)	(7,033,783)	(2,042,762)	-	-	(40,553,556)
Serial bonds issued	-	-	21,618,019	-	-	21,618,019
Premium on bonds	-	2,785,232	1,068,246	-	-	3,853,478
Total other financing sources (uses)	<u>(18,342,771)</u>	<u>22,215,914</u>	<u>24,223,503</u>	<u>280,765</u>	<u>6,753,018</u>	<u>35,130,429</u>
Net change in fund balances	(34,547,774)	131,934	(4,089,834)	(114,815)	(3,044,777)	(41,665,266)
Fund balances—beginning	<u>149,478,017</u>	<u>11,743,450</u>	<u>41,323,234</u>	<u>1,377,608</u>	<u>12,897,453</u>	<u>216,819,762</u>
Fund balances—ending	<u>\$ 114,930,243</u>	<u>\$ 11,875,384</u>	<u>\$ 37,233,400</u>	<u>\$ 1,262,793</u>	<u>\$ 9,852,676</u>	<u>\$ 175,154,496</u>

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

CITY OF BUFFALO, NEW YORK
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balances—Governmental Funds to the Government-wide Statement of Activities
Year Ended June 30, 2017

Amounts reported for governmental activities in the statement of activities (page 16) are different because:

Net change in fund balances—total governmental funds (page 19)		\$ (41,665,266)
<p>City 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 expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.</p>		
Capital asset additions, net	\$ 45,502,904	
Depreciation expense	<u>(34,730,565)</u>	10,772,339
<p>Buffalo Fiscal Stability Authority 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 expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.</p>		
		(1,615)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
		(718,309)
<p>Revenues reported in the statement of activities that do not provide current financial resources and, therefore, are not reported as revenues in the funds.</p>		
		(11,043,486)
<p>Net differences between pension contributions recognized on the fund financial statements and the government-wide financial statements are as follows:</p>		
Direct pension contributions	\$ 40,675,637	
Cost of benefits earned net of employee contributions	<u>(53,330,884)</u>	(12,655,247)
<p>The internal service funds are used by management to charge the costs of internal print services. The net revenue of certain activities of internal service funds is reported with governmental activities.</p>		
		2,801
<p>In the statement of activities, interest expense and retainages payable are recognized as they accrue, regardless of when they are paid.</p>		
		(2,111,116)
<p>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 is as follows:</p>		
Proceeds from general obligations bonds—City	\$ (21,618,019)	
Repayment of general obligations bonds—City	28,042,270	
Repayment of general obligations bonds—BFSA	7,150,000	
Premium on general obligations bonds—City	(3,853,478)	
Amortization of bond premiums—City	2,941,001	
Amortization of bond premiums—BFSA	478,406	
Repayment of notes payable	272,859	
Change in compensated absences	(2,600,753)	
Change in workers' compensation	(888,053)	
Change in landfill post-closure monitoring costs	70,000	
Change in other post-employment benefits obligation—City	(47,152,000)	
Change in other post-employment benefits obligation—BFSA	(66,413)	
Change in judgments and claims	<u>1,000,000</u>	<u>(36,224,180)</u>
Change in net position of governmental activities		<u>\$ (93,644,079)</u>

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

CITY OF BUFFALO, NEW YORK
Statement of Net Position—
Proprietary Funds
June 30, 2017

	Business-type Activities—Enterprise Funds				Internal Service Fund
	Solid Waste and Recycling	Parking	Water System	Total	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 383,182	\$ 7,360,619	\$ 7,575,743	\$ 15,319,544	\$ 106,022
Restricted cash and cash equivalents	202,804	-	21,165,587	21,368,391	-
Investments	-	-	25,130,360	25,130,360	-
Receivables:					
Accounts receivable	9,914,713	2,913,860	20,654,666	33,483,239	8,298
Other receivables	127,649	-	1,447,183	1,574,832	-
Due from other agencies	-	-	127,425	127,425	-
Intergovernmental receivables	32,510	-	254,823	287,333	-
Due from other funds	184,505	4,967,814	-	5,152,319	3,525
Allowances	(9,318,492)	-	(16,215,746)	(25,534,238)	-
Net receivables	<u>940,885</u>	<u>7,881,674</u>	<u>6,268,351</u>	<u>15,090,910</u>	<u>11,823</u>
Total current assets	<u>1,526,871</u>	<u>15,242,293</u>	<u>60,140,041</u>	<u>76,909,205</u>	<u>117,845</u>
Noncurrent assets:					
Capital assets not being depreciated:					
Land	1	3,217,093	145,116	3,362,210	-
Construction in progress	-	1,230,408	954,526	2,184,934	-
Total capital assets not being depreciated	<u>1</u>	<u>4,447,501</u>	<u>1,099,642</u>	<u>5,547,144</u>	<u>-</u>
Capital assets being depreciated:					
Buildings, building improvements, and infrastructure	4,088,220	71,678,839	224,015,541	299,782,600	-
Improvements other than buildings	175,071	61,758	252,393	489,222	-
Machinery and equipment	10,208,664	109,762	1,154,421	11,472,847	-
Accumulated depreciation	(10,929,373)	(32,803,716)	(85,295,569)	(129,028,658)	-
Total capital assets being depreciated	<u>3,542,582</u>	<u>39,046,643</u>	<u>140,126,786</u>	<u>182,716,011</u>	<u>-</u>
Total noncurrent assets	<u>3,542,583</u>	<u>43,494,144</u>	<u>141,226,428</u>	<u>188,263,155</u>	<u>-</u>
Total assets	<u>5,069,454</u>	<u>58,736,437</u>	<u>201,366,469</u>	<u>265,172,360</u>	<u>117,845</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred loss on refunding	-	208,699	3,528,858	3,737,557	-
Deferred outflows—relating to pensions	1,456,406	-	1,472,632	2,929,038	-
Total deferred outflows of resources	<u>1,456,406</u>	<u>208,699</u>	<u>5,001,490</u>	<u>6,666,595</u>	<u>-</u>
LIABILITIES					
Current liabilities:					
Accounts payable	818,953	412,775	414,161	1,645,889	570
Other accrued liabilities	287,290	67,748	3,125,071	3,480,109	-
Due to other funds	-	-	379,454	379,454	18
Retainages payable	-	62,710	974,886	1,037,596	-
Due to retirement systems	237,343	69	239,988	477,400	-
Unearned revenue	202,804	-	-	202,804	-
Accrued compensated absences	33,120	-	54,347	87,467	-
Accrued workers' compensation	499,559	-	293,088	792,647	-
General obligation and revenue bonds payable within one year, net	-	1,476,979	8,797,540	10,274,519	-
Total current liabilities	<u>2,079,069</u>	<u>2,020,281</u>	<u>14,278,535</u>	<u>18,377,885</u>	<u>588</u>

(continued)

CITY OF BUFFALO, NEW YORK
Statement of Net Position—
Proprietary Funds
June 30, 2017

	Business-type Activities—Enterprise Funds				Internal Service Fund
	Solid Waste and Recycling	Parking	Water System	Total	
Noncurrent liabilities:					
Due to other funds	18,357,397	-	-	18,357,397	-
Accrued compensated absences	561,211	-	752,740	1,313,951	-
Accrued workers' compensation	828,935	-	329,036	1,157,971	-
Accrued other postemployment benefits obligation	17,520,000	43,000	11,888,000	29,451,000	-
General obligation and revenue bonds payable, net	-	11,169,696	119,891,728	131,061,424	-
Net pension liability	1,855,006	-	1,875,678	3,730,684	-
Total noncurrent liabilities	<u>39,122,549</u>	<u>11,212,696</u>	<u>134,737,182</u>	<u>185,072,427</u>	<u>-</u>
Total liabilities	<u>41,201,618</u>	<u>13,232,977</u>	<u>149,015,717</u>	<u>203,450,312</u>	<u>588</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred gain on refunding	-	-	7,755	7,755	-
Deferred inflows—relating to pensions	281,693	-	284,832	566,525	-
Total deferred inflows of resources	<u>281,693</u>	<u>-</u>	<u>292,587</u>	<u>574,280</u>	<u>-</u>
NET POSITION					
Net investment in capital assets	3,542,583	31,056,168	37,223,850	71,822,601	-
Unrestricted	<u>(38,500,034)</u>	<u>14,655,991</u>	<u>19,835,805</u>	<u>(4,008,238)</u>	<u>117,257</u>
Total net position	<u>\$ (34,957,451)</u>	<u>\$ 45,712,159</u>	<u>\$ 57,059,655</u>	<u>\$ 67,814,363</u>	<u>\$ 117,257</u>

(concluded)

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

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CITY OF BUFFALO, NEW YORK
Statement of Revenues, Expenses, and Changes in Net Position—
Proprietary Funds
Year Ended June 30, 2017

	Business-type Activities—Enterprise Funds				Internal Service Fund
	Solid Waste and Recycling	Parking	Water System	Total	
Operating revenues:					
Charges for services	\$ 18,627,750	\$ -	\$ 42,597,220	\$ 61,224,970	\$ 43,842
Rent	-	11,380,908	-	11,380,908	-
Other	315,706	-	407,029	722,735	-
Total operating revenues	<u>18,943,456</u>	<u>11,380,908</u>	<u>43,004,249</u>	<u>73,328,613</u>	<u>43,842</u>
Operating expenses:					
Services and supplies	15,816,742	139,717	17,084,610	33,041,069	41,041
Fringe benefits	5,670,053	10,553	5,002,293	10,682,899	-
Depreciation	606,794	1,593,510	5,802,756	8,003,060	-
Other	-	-	1,420,524	1,420,524	-
Total operating expenses	<u>22,093,589</u>	<u>1,743,780</u>	<u>29,310,183</u>	<u>53,147,552</u>	<u>41,041</u>
Operating income (loss)	<u>(3,150,133)</u>	<u>9,637,128</u>	<u>13,694,066</u>	<u>20,181,061</u>	<u>2,801</u>
Nonoperating revenues (expenses):					
Interest earnings	250	2,904	202,167	205,321	-
Interest expense	-	(415,365)	(5,789,107)	(6,204,472)	-
Other	-	-	667,177	667,177	-
Total nonoperating revenues (expenses)	<u>250</u>	<u>(412,461)</u>	<u>(4,919,763)</u>	<u>(5,331,974)</u>	<u>-</u>
Income (loss) before transfers	(3,149,883)	9,224,667	8,774,303	14,849,087	2,801
Transfers in	3,640,960	-	-	3,640,960	-
Transfers out	<u>(673,078)</u>	<u>(6,365,652)</u>	<u>(6,261,162)</u>	<u>(13,299,892)</u>	<u>-</u>
Change in net position	(182,001)	2,859,015	2,513,141	5,190,155	2,801
Total net position—beginning	<u>(34,775,450)</u>	<u>42,853,144</u>	<u>54,546,514</u>	<u>62,624,208</u>	<u>114,456</u>
Total net position—ending	<u>\$ (34,957,451)</u>	<u>\$ 45,712,159</u>	<u>\$ 57,059,655</u>	<u>\$ 67,814,363</u>	<u>\$ 117,257</u>

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

CITY OF BUFFALO, NEW YORK
Statement of Cash Flows—
Proprietary Funds
Year Ended June 30, 2017

	Business-type Activities—Enterprise Funds				Internal Service Fund
	Solid Waste and Recycling	Parking	Water System	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 18,910,709	\$ 11,339,320	\$ 42,931,866	\$ 73,181,895	\$ 70,562
Payments to suppliers for goods and services	(8,535,023)	(28,270)	(19,299,983)	(27,863,276)	(43,876)
Payments to employees for services	(14,282,839)	(20,034)	(5,337,692)	(19,640,565)	-
Net cash provided by (used for) operating activities	<u>(3,907,153)</u>	<u>11,291,016</u>	<u>18,294,191</u>	<u>25,678,054</u>	<u>26,686</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from other funds	3,640,960	-	11,733,239	15,374,199	-
Transfers to other funds	(673,078)	(6,365,652)	(17,306,526)	(24,345,256)	-
Advances from other funds	1,603,522	-	7,430,720	9,034,242	-
Advances to other funds	(184,505)	(682,603)	(8,041,158)	(8,908,266)	(4,102)
Net cash provided by (used for) noncapital financing activities	<u>4,386,899</u>	<u>(7,048,255)</u>	<u>(6,183,725)</u>	<u>(8,845,081)</u>	<u>(4,102)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition/construction of capital assets	(440,960)	(1,203,797)	(11,842,126)	(13,486,883)	-
Disposal of capital assets	-	-	47,210	47,210	-
Principal payments on bonds	-	(1,892,730)	(8,152,152)	(10,044,882)	-
Interest subsidy on bond proceeds	-	-	667,177	667,177	-
Proceeds from issuance of debt and premium	-	3,230,747	-	3,230,747	-
Interest and other fiscal charges	-	(393,789)	(5,853,045)	(6,246,834)	-
Net cash (used for) capital and related financing activities	<u>(440,960)</u>	<u>(259,569)</u>	<u>(25,132,936)</u>	<u>(25,833,465)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received on short-term investments	250	2,904	202,167	205,321	-
Net cash provided by investing activities	<u>250</u>	<u>2,904</u>	<u>202,167</u>	<u>205,321</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	39,036	3,986,096	(12,820,303)	(8,795,171)	22,584
Cash and cash equivalents—beginning	546,950	3,374,523	66,691,993	70,613,466	83,438
Cash and cash equivalents—ending	<u>\$ 585,986</u>	<u>\$ 7,360,619</u>	<u>\$ 53,871,690</u>	<u>\$ 61,818,295</u>	<u>\$ 106,022</u>

(continued)

CITY OF BUFFALO, NEW YORK
Statement of Cash Flows—
Proprietary Funds
Year Ended June 30, 2017

	Business-type Activities—Enterprise Funds				Internal Service Fund
	Solid Waste and Recycling	Parking	Water System	Total	
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ (3,150,133)	\$ 9,637,128	\$ 13,694,066	\$ 20,181,061	\$ 2,801
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	606,794	1,593,510	5,802,756	8,003,060	-
(Increase) decrease in receivables	(32,747)	(451,836)	(828,457)	(1,313,040)	26,720
Decrease in deferred outflow—relating to pensions	1,712,968	-	2,413,233	4,126,201	-
Increase (decrease) in payables	(119,309)	472,958	(38,775)	314,874	(2,835)
Increase (decrease) in other accrued liabilities	(2,323,679)	42,069	(1,050,407)	(3,332,017)	-
Increase (decrease) in due to retirement systems	4,684	(1,813)	(45,268)	(42,397)	-
Increase in unearned revenue	27,496	-	-	27,496	-
Increase in accrued compensated absences	31,582	-	179,781	211,363	-
(Decrease) in workers' compensation	(567,018)	-	(167,593)	(734,611)	-
Increase (decrease) in accrued other post-employment benefits obligation	1,420,000	(1,000)	655,000	2,074,000	-
(Decrease) in net pension liability	(1,412,210)	-	(2,130,153)	(3,542,363)	-
(Decrease) in deferred inflow—relating to pensions	(105,581)	-	(189,992)	(295,573)	-
Total adjustments	<u>(757,020)</u>	<u>1,653,888</u>	<u>4,600,125</u>	<u>5,496,993</u>	<u>23,885</u>
Net cash provided by (used for) operating activities	<u>\$ (3,907,153)</u>	<u>\$ 11,291,016</u>	<u>\$ 18,294,191</u>	<u>\$ 25,678,054</u>	<u>\$ 26,686</u>

(concluded)

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

CITY OF BUFFALO, NEW YORK
Statement of Net Position—
Fiduciary Funds
June 30, 2017

	Private Purpose Trust	Agency
ASSETS		
Cash and cash equivalents	\$ 23,910	\$ 1,847,268
Investments	32,912	-
Receivables	5,558	539
Total assets	62,380	1,847,807
LIABILITIES		
Accounts payable	-	200,529
Intergovernmental payables	-	25,716
Amounts held in custody for others	-	1,621,562
Total liabilities	-	\$ 1,847,807
NET POSITION		
Restricted	\$ 62,380	

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

CITY OF BUFFALO, NEW YORK
Statement of Changes in Net Position—
Fiduciary Funds
Year Ended June 30, 2017

	<u>Private Purpose Trust</u>
ADDITIONS	
Investment earnings:	
Interest	\$ 14
DEDUCTIONS	
Awards	-
Total deductions	-
Change in net position	14
Net position—beginning	<u>62,366</u>
Net position—ending	<u>\$ 62,380</u>

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

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CITY OF BUFFALO, NEW YORK
Notes to the Financial Statements
Year Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Buffalo, New York (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (the "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., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which are normally 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 to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Reporting Entity

The City of Buffalo, New York (the "City") is a municipal entity governed by an elected Mayor, Comptroller, and a nine-member elected City Common Council (the "Council").

The City's financial statements include those entities for which the City has clear oversight responsibility. This responsibility is determined through a review of such factors as the selecting of governing boards, financial interdependency and the ability to influence management and operations on a continuing basis. The accompanying financial statements present the City (the "primary government") and its component units, entities for which the City is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government.

Discretely Presented Component Units—The component unit columns in the government-wide financial statements include the financial data of the City's discretely presented component units. These component units are reported in a separate column to emphasize that they are legally separate from the City and that they are not simply an extension of the primary government.

Board of Education—The Board of Education, City of Buffalo, New York (the "Board") is a unit of local government created under the Constitution of the State, whose members are elected by the voters of the City in accordance with State statutes. The Board's primary function is to provide education for pupils. Services, such as transportation of pupils, administration, finance, and plant maintenance, support the primary function of the Board. The Board is financially dependent upon the City and has no independent authority to issue debt or levy taxes, with the exception of the Special Revenue Program Bonds issued by the State of New York Municipal Bond Bank Agency (see Note 11). The Board's Joint Schools

Construction Board (“JSCB”) bonds payable represent bonds issued by the Erie County Industrial Development Agency (the “Issuer”) to provide money to finance the renovation and/or equipping of certain public school facilities for use by the Board. The bonds are special limited obligations of the Issuer payable from amounts due from the Board under an installment sale agreement.

Buffalo Urban Renewal Agency—The Buffalo Urban Renewal Agency (“BURA”) is a public benefit corporation formed by an act of the State Legislature in 1966. Its corporate purpose includes the general planning and operation of various urban renewal programs designed to prevent or eliminate blight and deterioration in the Buffalo urban area. Most of the funding for the various programs conducted by BURA is obtained from the federal government through the City, representing an ongoing relationship with both financial benefit and burden to the City. Additionally, the majority of the governing body is composed of City officials and the City has the ability to remove appointed members and to approve BURA’s budget.

Blended Component Units—The following blended component units are legally separate entities from the City, but are, in substance, part of the City’s operations and therefore data from these units are combined with data of the primary government.

Buffalo Municipal Water Finance (the “Authority”) and the Buffalo Water Board (the “Water Board”)—The Authority and the Water Board are legally separate from the City; however, the Authority and the Water Board are reported as if they were part of the primary government (the “Water System”) because a majority of their Boards of Directors and/or management are City officials. In addition, the sole purpose of the Authority was to facilitate the financing of the City Water System’s acquisition by the Water Board and to finance construction improvements. The Water Board purchased the net assets of the Water System and is responsible for generating sufficient revenues to meet the debt service requirements of the City and Authority related to the Water System.

Buffalo Fiscal Stability Authority—The Buffalo Fiscal Stability Authority (the “BFSA”) is a corporate governmental agency and instrumentality of the State of New York (the “State”) constituting a public benefit corporation created by the Buffalo Fiscal Stability Authority Act (the “BFSA Act”), Chapter 122 of the State Laws of 2003, as amended from time to time. Nine directors, seven of which are appointed by the Governor, govern the BFSA. Its corporate purpose is to act as a temporary financial intermediary to the City. The BFSA is included as a blended component unit of the City’s primary government because their services are provided almost entirely to the City. The BFSA is fiscally dependent on the City, as they cannot issue debt without approval of the City, and cannot levy taxes or set rates that affect revenues. As such, the City is financially accountable for the BFSA.

Buffalo Fiscal Stability Authority Act—In May 2003, the State enacted the BFSA Act, pursuant to Chapter 122 of the State Laws of 2003. The BFSA Act provides the BFSA different financial control and oversight powers depending upon whether the City’s financial condition causes it to be in a control period or an advisory period. The BFSA Act defined and established a control period to be in effect as of the date of the BFSA Act and continue until specific conditions were met regarding the stability of the City’s finances. In May 2012, the BFSA determined that such conditions had been met and resolved to enter into an advisory period effective July 1, 2012. An advisory period shall continue through June 30, 2037, unless a control period is reimposed. A control period may be reimposed if the BFSA determines at any time that a fiscal crisis is imminent or that any of the certain events, as outlined in the BFSA Act, have occurred or are likely to occur.

The Authority, the Water Board and the BFSA are included as blended component units because exclusion would be misleading.

Complete financial statements of the individual component units can be obtained from their respective administrative offices as listed below:

Buffalo Water Board
502 City Hall
Buffalo, NY 14202

Buffalo Municipal Water Finance Authority
502 City Hall
Buffalo, NY 14202

Buffalo Board of Education
Office of the Chief Financial Officer
708 City Hall
Buffalo, NY 14202

City of Buffalo Urban Renewal Agency
Financial Control of Agencies
214 City Hall
Buffalo, NY 14202

Buffalo Fiscal Stability Authority
Market Arcade Building, Suite 400
617 Main Street
Buffalo, NY 14202

Related Organizations—The Mayor also appoints the Board of Directors of the Buffalo Sewer Authority (the “Sewer Authority”), but the City’s accountability for the Sewer Authority does not extend beyond making these appointments. The Sewer Authority has its own taxing and debt-raising powers. The Mayor also is responsible for appointing five of the seven members of the Board of Directors of the Buffalo Municipal Housing Authority (the “Housing Authority”) and funds the operating deficits of the state-sponsored projects. The City’s accountability does not extend beyond this point. The Housing Authority was created by the State Legislature as a separate and independent government body not under City control. A 1982 State Supreme Court ruling supported the City’s conclusion regarding the independence of the Housing Authority.

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 and internal service funds, while business-type activities incorporate data from the City’s enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the fiduciary funds are 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. It is the City’s policy to record transactions between funds as operating transfers. Interfund services provided and used are not eliminated in the process of consolidation.

Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City’s funds, including its fiduciary funds and blended component units. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

- ***General Fund***—The General Fund is the primary operating fund of the City and accounts for all financial resources of the general government, except those required to be accounted for in

another fund. The majority of current operations are financed by this fund. Transfers to other funds and agencies are made from this fund. Monies from other funds may be received, unless prohibited by the purpose and object of such funds.

- *Debt Service Fund*—The Debt Service Fund was established to receive and account for resources restricted for the payment of interest and principal on City and Board general improvement bonds, notes, and capital leases. The City has elected to report the Debt Service Fund as a major fund to enhance consistency, even though it did not meet the criteria for mandatory reporting in the current year.
- *Capital Projects Fund*—The Capital Projects Fund is used to account for financial resources, such as proceeds from the sale of bonds, bond anticipation notes, capital notes, transfers from governmental funds, and federal and state grants, all provided for the specific purpose of constructing, reconstructing, or acquiring permanent or semi-permanent capital improvements. Capital improvements intended for use of any of the enterprise funds are not included in the capital projects funds.
- *BFSA Special Revenue Fund*—This fund represents the General Fund of the BFSA and is used to account for all of their financial resources, except those required to be accounted for in another fund. This fund finances the operations of the BFSA, whereby they intercept state aid and sales tax from the City and transfer to the debt service account to pay debt issued on behalf of the City.

The City reports the following major proprietary funds:

- *Solid Waste and Recycling Fund*—The Solid Waste and Recycling Fund is used to account for the City's solid waste removal system.
- *Parking Fund*—The Parking Fund is used to account for public parking facilities operated by the City.
- *Water System Fund*—The Water System Fund accounts for the City's water treatment and distribution system and is responsible for water delivery to the residents of the City.

Additionally, the City reports the following fund types:

Internal Service Fund—The *Internal Service Fund* accounts for operations in which amounts expended for the print shop are reimbursed by charges to the operations of other funds.

Nonmajor Governmental Funds—The nonmajor governmental funds include the *Special Revenue Fund*, the *BFSA Debt Service Fund*, and *Permanent Fund*:

- *Special Revenue Fund*—The Special Revenue Fund is used to account for the proceeds of specific federal and state grants that are legally restricted to expenditures for specified purposes.
- *BFSA Debt Service Fund*—This fund accounts for the state aid and sales tax resources that the BFSA intercepts from the City to pay principal and interest on general obligations bonds issued by the BFSA on behalf of the City.
- *Permanent Fund*—The Permanent Fund is used to account for assets held by the City in a trustee capacity that are legally restricted to the extent that only earnings, and not principal, may be used for purposes stipulated in the bequests and trust agreements.

Fiduciary Funds—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 *Private Purpose Trust Fund* and the *Agency Fund*. Activities reported in the Private Purpose Trust fund represent certain trust arrangements, while activities in the Agency Fund represent monies held for prisoners, deposits to be returned, and payroll withholdings due to other entities.

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 and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type 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. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type 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, and claims and judgments, 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, sales taxes, charges for services provided, 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 of availability. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements are met and the 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 proprietary funds and Private Purpose Trust Fund are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The Agency Fund has no measurement focus, but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

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

Cash, Cash Equivalents and Investments—The City’s cash, cash equivalents, and investments include cash on hand, demand deposits, time deposits and short-term, highly liquid investments with original maturities of three months or less from the date of acquisition. Permissible investments include obligations of the United States Treasury, United State Agencies, repurchase agreements, obligations of New York State or its localities, certificates of deposit and revenue anticipation notes. Investments are stated at fair value based on quoted market prices.

Restricted Cash and Cash Equivalents—Unspent proceeds from debt are reported as restricted cash and cash equivalents within the City’s Debt Service Fund and Capital Projects Fund. The City also reports restricted cash within its governmental and proprietary funds for amounts with constraints placed on their use by either external parties and/or statute and for unearned revenues.

Prepaid Items—Certain payments reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenses/expenditures when consumed rather than purchased.

Real Estate Acquired for Resale—Represents assets held by the City with the intention to resell.

Capital Assets—Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements, as well as within each individual proprietary fund. Capital assets are defined by the City as assets with an initial, individual cost of more than \$10,000, and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed. The reported value excludes normal maintenance and repairs, which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value.

Land and construction in progress are not depreciated. The other capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Capital assets	Years
Buildings	50
Building improvements	20
Improvements other than buildings	10 - 30
Infrastructure	20 - 50
Water system	20 - 40
Machinery and equipment	4 - 30

The capitalization threshold for the Board is \$5,000. Capital assets of the Board are depreciated using the straight-line method over the following estimated useful lives:

Capital assets	Years
Buildings	50
Building improvements	20
Land improvements	20
General equipment	10
Computer, business machine, and audit visual equipment	5
Automotive	7

BURA does not own infrastructure assets such as roads, bridges or sewers. BURA defines capital assets as assets with an initial cost of more than \$5,000 and an estimated useful life exceeding five years. Assets are depreciated using the straight-line method over their useful lives, which range from 5 to 50 years.

The *capital outlays* character classification is employed only for expenditures reported in the Capital Projects Fund. Routine capital expenditures in the General Fund and other governmental funds are included in the appropriate functional category (for example, the purchase of a new police vehicle included as part of *expenditures—public safety*). At times, amounts reported as *capital outlays* in the Capital Projects Fund will also include non-capitalized, project-related costs (for example, furnishings).

Unearned Revenue—Certain revenues have not met the revenue recognition criteria for government-wide or fund financial purposes. At June 30, 2017, the City reported unearned revenues within the General Fund and Solid Waste and Recycling Fund in the amounts of \$175,462 and \$202,804, respectively. The City received cash in advance related to grants and prepaid user fees but has not performed the services, and therefore recognizes a liability.

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 June 30, 2017, the City has two items that qualify for reporting in this category. The first item is deferred loss on refunding. The second item is related to pensions reported in the government-wide financial statements, as well as within individual proprietary funds. This represents the effect of the net change in the City’s proportion of the collective net position asset or liability, 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 to the pension systems made subsequent to the measurement date.

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 June 30, 2017, the City has three items that qualify for reporting in this category. The first item arises under a modified accrual basis of accounting. Accordingly, *unavailable revenues* are reported as deferred inflows of resources only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes that will not be realized within the period of availability. These amounts are deferred and recognized in the period that the amounts become available. The second item represents a

deferred gain on refunding which the City reports within its governmental activities. The final 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 periods between the City's contributions and its proportionate share of total contributions to the pension systems not included in pension expense and is reported on the government-wide financial statements as well as within the individual proprietary funds.

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 amounts to report as restricted–net position and unrestricted–net position in the government-wide and proprietary 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–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 balance 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 balance to have been depleted before using any of the components of unrestricted fund balance. 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 includes 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 adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) 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 Comptroller 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 revenues 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 the assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The City has adopted a minimum fund balance policy which outlines the City's target to maintain unrestricted fund balance of not less than fifteen percent of annual operating expenditures for the fiscal year.

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 and 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—Real property taxes are levied as of July 1, on which date they become liens on real property. The first half may be paid on or before July 31 without interest, and the second half on or before December 31 without interest. Interest on delinquent property taxes is charged at the rate of 18% per annum. The lien date is June 1 of the year following the levy of the taxes.

The City is permitted by the Constitution of the State of New York to levy taxes up to 2% of the five-year average full-assessed valuation for general governmental services other than the payment of debt services and capital expenditures. The City utilizes a full value system, assessing all properties at 100% of full market value. For the year ended June 30, 2017, the City had a legal tax margin of approximately \$48.3 million.

Compensated Absences—The City’s policy is to pay employees for unused vacation, compensatory time, and sick time based on union agreements when there is separation from service. For governmental activities, the amount is accrued in the government-wide statement of net position as a long-term liability. For business-type activities, the full liability is recognized in both the government-wide statement of net position and the proprietary fund financial statements.

Due to Retirement Systems—Amounts owed to the New York State Retirement Systems for wages of employees of the City, but not yet billed, are reported as liabilities in the financial statements.

Pensions—The City is mandated by New York State law to participate in the New York State Teacher’s Retirement System (“TRS”), 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 7.

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 8.

Proprietary Funds Operating and Nonoperating Revenues and Expenses—Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a propriety fund’s principal ongoing operations. The principal operating revenues for the proprietary funds are as follows: refuse collection charges for the Solid Waste and Recycling Fund, parking fees for the Parking Fund, and sale of water for the Water System. Operating expenses for the enterprise funds, and the Internal Service Fund, include the cost of sales and services, administrative

expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Other

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

Reclassifications—Certain amounts were reclassified from the Board's, BURA's, and BFSA's financial statement presentation to conform to the City's reporting presentation. In the Board's statement of net position, \$4,741,357 previously classified as due to City of Buffalo was reclassified as due to component units. This amount represented sales tax that was a receivable from Erie County on behalf of the Board. And, in the BFSA's statement of revenue, expenditures, and change in net position, \$286,899,090 in investment income and intergovernmental revenue offset other distributions relating to proceeds and interest payments on bonds issued by the BFSA on behalf of the City.

Adoption of New Accounting Pronouncements—During the year ended June 30, 2017, the City implemented GASB Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*; No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*; No. 77, *Tax Abatement Disclosures*; No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Plans*; and No. 80, *Blending Requirements for Certain Component Units - an Amendment of GASB Statement No. 14*. GASB Statement No. 73 establishes a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and nonemployer contributing entities. GASB Statement No. 74 improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) for making decisions and accessing accountability. GASB Statement No. 77 requires the disclosure of information about the nature and magnitude of tax abatements and will make these transactions more transparent to financial statement users. GASB Statement No. 78 addresses a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 80 improves financial reporting by clarifying the financial statement presentation requirements for certain component units. Other than the matter discussed in Note 2, GASB Statements No. 73, 74, 77, 78 and 80 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 Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; No. 81, *Irrevocable Split-Interest Agreements*; No. 82, *Pension Issues; an Amendment of GASB Statements No. 67, No. 68, and No. 73*; No. 85, *Omnibus 2017*; and No. 86, *Certain Debt Extinguishment Issues* effective for the year ending June 30, 2018; No. 83, *Certain Asset Retirement Obligations* effective for the year ending June 30, 2019; No. 84, *Fiduciary Activities* effective for the year ending June 30, 2020 and No. 87, *Leases* effective for the year ending June 30, 2021. The City is, therefore, unable to disclose the impact that adopting GASB Statements No. 75, 81, 82, 83, 84, 85, 86 and 87 will have on its financial position and results of operations when such statements are adopted.

Stewardship, Compliance and Accountability

Deficit Fund Equity—At June 30, 2017, the Solid Waste and Recycling Fund had a total net position deficit of \$34,957,451. This net deficit includes accrued postemployment benefits obligation of \$17,520,000. In addition, the Solid Waste and Recycling Fund reports a long-term interfund payable to the General Fund in the amount of \$18,357,397. Although the City anticipates the deficit to be remedied by future tax rate increases or through General Fund subsidies, no formal plan exists.

At June 30, 2017, the City's governmental activities had a total net position deficit of \$143,202,320 due primarily to the City's recognition of long-term liabilities including other postemployment benefits.

The Board has a total net position deficit of \$2,613,939,621 at June 30, 2017, which is caused primarily by its recognition of long-term liabilities including other postemployment benefits.

BURA has a total net position deficit of \$11,716,692 at June 30, 2017, which is caused primarily by the recognition of long-term liabilities including other postemployment benefits.

Legal Compliance—Budgets—Through the budget, the Council sets the direction of the City, allocates its resources and established its priorities. The annual budget assures the efficient and effective uses of the City's economic resources, as well as establishing that the highest priority objectives are accomplished.

The annual budget serves from July 1 to June 30, and is a vehicle that accurately and openly communicates these priorities to the community, businesses, vendors, employees and other public agencies. Additionally, it established the foundation of effective financial planning by providing resource planning, performance measures and controls that permit the evaluation and adjustment of the City's performance.

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

- Prior to May 1, for the fiscal year beginning July 1, the Mayor submits to the Common Council a complete operating plan of proposed expenditures and estimated revenues for the City's General Fund and the Debt Service Fund.
- The Council considers the operating budgets at the first meeting following their submission by the Mayor and has the power to delete, reduce, or add items to the budgets. If no additions are made by the Council, the budgets are passed by the Council and are adopted without any Mayoral actions. Any additions to the proposed executive budgets require Mayoral approval.
- The appropriation for every function of each City department, division, agency, or other purpose is fixed. The total expenditures for each function may not exceed the original appropriation during the fiscal year without Council approval. Increases over budget appropriations as originally adopted require a two-thirds vote of approval by the Council after certification by both the Mayor and Comptroller, demonstrating that the increase is necessary to meet a contingency which could not have been reasonably foreseen when the budget was adopted.
- Appropriations in the General Fund lapse at the end of the fiscal year, except that outstanding encumbrances are reappropriated in the succeeding year, pursuant to the Uniform System of Accounts promulgated by the Office of the State Comptroller.

2. RESTATEMENT OF NET POSITION

Board of Education

The Board early implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for the fiscal year ended June 30, 2017. The implementation of GASB Statement No. 75 requires the Board's net OPEB liability to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. As a result, the Board's OPEB liability was restated to be \$2,852,539,000 at June 30, 2016. The Board's net position at June 30, 2016 has also been restated, which had a net effect of a \$1,962,458,000 decrease to the Board's net position.

The Board's net position as of June 30, 2016 has been restated as follows:

Net position—June 30, 2016, as previously stated	\$ (550,484,956)
GASB Statement No. 75 implementation:	
OPEB liability	<u>(1,962,458,000)</u>
Net position—June 30, 2016, as restated	<u>\$ (2,512,942,956)</u>

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

The City's available cash is deposited and invested in accordance with the State General Municipal Law (Article 2, Section 11), which governs the City's investment policies. The City has its own written investment guidelines, which have been established by the Comptroller's Office pursuant to Section 114A of the City Charter. The City is authorized to deposit or invest funds in banks or trust companies located in, and authorized to do business in, the State. The City's investment policy governs the investment of excess funds. Permissible investments include time deposits, certificates of deposit, obligations of the U.S. Treasury and U.S. Agencies, and obligations of New York State and its localities. Cash in banks was fully collateralized at June 30, 2017, of which the bank carrying balance at June 30, 2017, was \$430,292,969.

Cash, cash equivalents and investments at June 30, 2017 are shown below.

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Petty cash (uncollateralized)	\$ 8,750	\$ -	\$ -	\$ 8,750
Deposits	373,037,018	36,687,935	1,871,178	411,596,131
Investments	41,165,726	25,130,360	32,912	66,328,998
Total	<u>\$ 414,211,494</u>	<u>\$ 61,818,295</u>	<u>\$ 1,904,090</u>	<u>\$ 477,933,879</u>

Cash and cash equivalents consisted of:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Cash and cash equivalents	\$ 261,291,382	\$ 15,319,544	\$ -	\$ 276,610,926
Restricted cash and cash equivalents	111,754,386	21,368,391	-	133,122,777
Cash held in fiduciary funds	-	-	1,871,178	1,871,178
Total	<u>\$ 373,045,768</u>	<u>\$ 36,687,935</u>	<u>\$ 1,871,178</u>	<u>\$ 411,604,881</u>

Deposits—The City deposits cash into a number of bank accounts. Monies must be deposited in demand or time accounts or certificates of deposit issued by FDIC-insured commercial banks or trust companies located within the State. Some of the City’s accounts are required by various statutes and borrowing restrictions for specific funds, while the remainder are used for City operating cash and for investment purposes. There are no deposits which are uninsured or not collateralized.

Custodial Credit Risk—Deposits—Custodial credit risk 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. Banks can satisfy collateral requirements by furnishing a letter of credit, a surety bond, or by pledging eligible securities as specified in Section 10 of the State General Municipal Law. Securities that may be pledged as collateral are limited to obligations of the United States or any obligation fully insured as to interest and principal by the United States acting through an agency, and obligations of the State or obligations of any municipal corporation, school district, or district corporation of the State. As of June 30, 2017, the City’s deposits were either FDIC insured or collateralized with securities held by the pledging bank’s agent in the City’s name.

Governmental Activities Restricted Cash and Cash Equivalents—General Fund restricted cash of \$3,829,601 represents monies set aside as part of the funding requirements of the State for the settlement of a dispute between the Board and the Buffalo Teachers Federation. The initial settlement was bonded and such restricted cash will be used to pay the debt service requirements. Additionally, \$18,611,917 in restricted cash in the General Fund represents additional cash held in a bank custodial account. The Debt Service Fund restricted assets of \$13,172,303 are held by a trustee for future debt service payments. Restricted cash of \$64,277,992 is reported within the Capital Projects Fund for amounts representing nonoperating cash raised through borrowings, grants and transfers from other funds. Additionally, the City reports \$6,125,636, \$669,039, \$4,742,746, \$74,480, and \$75,210 in the General Fund, BFSA Special Revenue Fund, Special Revenue Fund, BFSA Debt Service Fund and Permanent Fund, respectively, which represent amounts with constraints placed on their use by either external parties and/or statute. The City also reports \$175,462 of restricted cash related to unearned revenues within the General Fund.

Business-Type Activities Restricted Cash and Cash Equivalents—Business-type restricted cash within the Water System represents monies raised from the issuance of debt to fund additions to enterprise plant assets and may only be used for this purpose. The Solid Waste Fund reports restricted cash of \$202,804 related to unearned revenues.

The restricted cash of the Water System consists primarily of Treasury notes, Treasury bills, and certificates of deposit with a commercial bank. At June 30, 2017, \$720,953 of the Water System’s restricted cash consisted of U.S. government securities recorded in the Water System’s name and held in a bank custodial account. The Water System also maintains restricted money market accounts with fair values totaling \$20,444,634 at June 30, 2017.

Investments—At June 30, 2017, total investments of \$66,328,998 consisted of investments held by the City of \$59,948,588, held by the BFSA of \$6,347,498, and maintained in fiduciary funds of \$32,912. Investments at June 30, 2017 are presented in the table on the following page.

	Cost	Fair Value
Certificates of deposit	\$ 59,981,500	\$ 59,981,500
U.S. Treasury SLGs	1,383,122	1,372,308
Federal National Mortgage Association discount notes	1,428,128	1,467,879
Federal Home Loan Mortgage Corp. Med. Term note	1,587,464	1,616,316
Federal Home Loan Banks	1,863,207	1,890,995
Total	<u>\$ 66,243,421</u>	<u>\$ 66,328,998</u>

Investments in the City consist of certificates of deposit issued with thirteen week maturities. Investments in fiduciary funds consist solely of certificates of deposit at June 30, 2017. Additionally, investments include restricted amounts for those fund balances constrained to specific purposes through constitutional provisions or by enabling legislation.

The risk and type of investments presented above generally indicate activity and positions held throughout the year. Maturities related to the BFSAs' investments are generally short-term with certificates of deposit issued with 30-day maturities and commercial paper due within 45 days.

Fair Value Measurements—Accounting standards provide the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.
- Level 2 Inputs to the valuation methodology include:
- quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets or liabilities in inactive markets;
 - inputs other than quoted prices that are observable for the asset or liability;
 - inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

All investments reported by the City are measured using level 1 inputs.

Custodial Credit Risk—Investments—For investments, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. A margin of 2% or higher of the market value

of purchased securities in repurchase transactions must be maintained and the securities must be held by a third party in the City's name.

Credit Risk—In compliance with the State law, City investments are limited to obligations of the Federal government, obligations guaranteed by the Federal government where the payment of principal and interest are guaranteed by the Federal government, obligations of the State, time deposit accounts and certificates of deposit issued by a bank or trust company located in, and authorized to do business in, the State, and certain joint or cooperative investment programs.

Concentration of Credit Risk—To promote competition in rates and service cost, and to limit the risk of institutional failure, City deposits and investments are placed with multiple institutions. The general rule is not to place more than \$100 million or 50% of the City's total investment portfolio, whichever is less, in overnight investments with any one institution.

Interest Rate Risk—The City has an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Investments are limited to a maximum of two years, however the City generally limits its investments to 180 days or less.

Board of Education

At June 30, 2017, cash in banks was \$275,898, and were fully covered by FDIC insurance or collateral.

Restricted Cash and Cash Equivalents—The Board has restricted cash of \$37,285,572 at June 30, 2017, for various purposes as follows:

- \$556,769 is restricted for the joint account held in trust with the Buffalo Teachers Federation in relation to a teacher's settlement. Such cash is held with a fiscal agent.
- \$19,567,872 is restricted for the local share contribution held in trust which can only be disbursed in accordance with the Indenture Trust Agreement, and represents an amount of the Series 2008, 2009, 2011 and 2013 bond proceeds to be deposited and maintained by a trustee. Such cash is held with a fiscal agent.
- \$12,771,994 represents a local share contribution to be held in trust and can only be disbursed in accordance with the Local Share Trust and Depository Agreement.
- \$3,515,603 represents endowment funds and can be used in accordance with the respective endowment document.
- \$873,334 is restricted to support obligations related to workers' compensation claims.

Buffalo Urban Renewal Agency

At June 30, 2017, BURA reported total deposits of \$1,227,407. BURA's deposits are maintained in demand deposit or savings accounts. By State statute, all deposits in excess of FDIC insurance coverage must be collateralized. At June 30, 2017, BURA's deposits were fully covered by FDIC insurance or collateral, with the exception of \$18,416.

Restricted Cash and Cash Equivalents—Restricted cash reported in BURA's General Fund for funds held in escrow and also in its special revenue funds as grant funds held prior to disbursement of approved expenditures. At June 30, 2017, BURA reported \$905,612 of restricted cash.

4. RECEIVABLES

Receivables at June 30, 2017, for the City's individual funds and related allowances for estimated uncollectible amounts are as follows:

Receivables:	Gross		Net
	<u>Receivable</u>	<u>Allowance</u>	<u>Receivable</u>
Governmental funds:			
General Fund:			
Taxes	\$ 13,171,208	\$ (3,767,694)	\$ 9,403,514
Accounts receivable	15,250,833	(6,966,282)	8,284,551
Due from other agencies	931,303	-	931,303
Intergovernmental receivables	2,479,081	-	2,479,081
Due from other funds	44,479,924	-	44,479,924
Total	<u>\$ 76,312,349</u>	<u>\$ (10,733,976)</u>	<u>\$ 65,578,373</u>
Debt Service Fund:			
Due from other funds	<u>\$ 58,634</u>	<u>\$ -</u>	<u>\$ 58,634</u>
Capital Projects Fund:			
Accounts receivable	\$ 75,417	\$ -	\$ 75,417
Intergovernmental receivables	6,562,651	-	6,562,651
Total	<u>\$ 6,638,068</u>	<u>\$ -</u>	<u>\$ 6,638,068</u>
BFSA Special Revenue Fund:			
Intergovernmental receivables	<u>\$ 13,126,116</u>	<u>\$ -</u>	<u>\$ 13,126,116</u>
Nonmajor governmental funds:			
Other receivables	\$ 4,132	\$ -	\$ 4,132
Intergovernmental receivables	97,039	-	97,039
Due from other funds	1,801,307	-	1,801,307
Total	<u>\$ 1,902,478</u>	<u>\$ -</u>	<u>\$ 1,902,478</u>
Total governmental funds	<u>\$ 98,037,645</u>	<u>\$ (10,733,976)</u>	<u>\$ 87,303,669</u>

Receivables:	Gross Receivable	Allowance	Net Receivable
Proprietary funds:			
Solid Waste and Recycling Fund:			
Accounts receivable	\$ 9,914,713	\$ (9,247,151)	\$ 667,562
Other receivables	127,649	(71,341)	56,308
Intergovernmental receivables	32,510	-	32,510
Due from other funds	184,505	-	184,505
Total	<u>\$ 10,259,377</u>	<u>\$ (9,318,492)</u>	<u>\$ 940,885</u>
Parking Fund:			
Accounts receivable	\$ 2,913,860	\$ -	\$ 2,913,860
Due from other funds	4,967,814	-	4,967,814
Total	<u>\$ 7,881,674</u>	<u>\$ -</u>	<u>\$ 7,881,674</u>
Water System:			
Accounts receivable	\$ 20,654,666	\$ (16,215,746)	\$ 4,438,920
Other receivables	1,447,183	-	1,447,183
Due from other agencies	127,425	-	127,425
Intergovernmental receivables	254,823	-	254,823
Total	<u>\$ 22,484,097</u>	<u>\$ (16,215,746)</u>	<u>\$ 6,268,351</u>
Internal Service Fund:			
Accounts receivable	\$ 8,298	\$ -	\$ 8,298
Due from other funds	3,525	-	3,525
Total	<u>\$ 11,823</u>	<u>\$ -</u>	<u>\$ 11,823</u>
Total proprietary funds	<u>\$ 40,636,971</u>	<u>\$ (25,534,238)</u>	<u>\$ 15,102,733</u>

Intergovernmental Receivables—Represents amounts due from other units of government, such as Federal, New York, State, or other local governments. Amounts are shown net of related advances from New York State. Intergovernmental receivables at June 30, 2017 are shown below:

Intergovernmental receivables:

Governmental funds:

General Fund:

Due from Erie County	\$ 240,047
Due from New York State	825,086
Due from federal government	<u>1,413,948</u>
Total	<u>\$ 2,479,081</u>

Capital Projects Fund:

Due from New York State	\$ 6,193,556
Due from Buffalo Sewer Authority	<u>369,095</u>
Total	<u>\$ 6,562,651</u>

BFSA Special Revenue Fund:

Due from New York State	<u>\$ 13,126,116</u>
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Nonmajor governmental funds:

Special Revenue Fund:

Due from federal government	<u>\$ 97,039</u>
Total governmental funds	<u>\$ 22,264,887</u>

Board of Education

Significant revenues accrued by the Board include the following:

Receivables at June 30, 2017, consisted of the following:

General Fund:	
Tuition billing	\$ 1,768,205
Health Services	683,107
Miscellaneous revenues	275,865
Special Aid Fund	119,777
Nonmajor governmental funds	<u>81,888</u>
Total	<u>\$ 2,928,842</u>

Intergovernmental receivables at June 30, 2017, consisted of the following:

General Fund:	
State aid - lottery aid	\$ 11,482,761
State aid - excess cost aid	14,952,442
State aid - Medicaid	2,260,744
Special Aid Fund: Federal and State aid*	28,145,650
School Lunch Fund: Federal and state reimbursements	<u>1,947,715</u>
Total	<u>\$ 58,789,312</u>

*Amount reported net of unearned revenue

In addition, the Board reports amounts owed from the City of \$253,652,130 as due from primary government at June 30, 2017.

Buffalo Urban Renewal Agency

Major revenues accrued by BURA at June 30, 2017 consisted of the following:

	General	Community Development Block Grant	Nonmajor Governmental Funds	Total
Program loans receivable	\$ -	\$ 22,308,873	\$ 62,429,210	\$ 84,738,083
Notes receivable	2,640,174	-	-	2,640,174
Allowance for uncollectibles	<u>(1,505,508)</u>	<u>(22,308,873)</u>	<u>(62,429,210)</u>	<u>(86,243,591)</u>
Total receivables	<u>\$ 1,134,666</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,134,666</u>

Program Loans Receivable—Represents amounts due to BURA of \$84,738,083, which are offset by allowances for uncollectibles.

Notes Receivable—Represents amounts due from various sources for projects designed to stimulate economic development and housing improvements in the City, provided net of allowances for uncollectible accounts. BURA reports amounts of \$2,640,174 which are offset by an allowance for uncollectibles in the amount of \$1,505,508.

Intergovernmental Receivables—Represent amounts due from other units of government, such as federal government. Intergovernmental receivables at June 30, 2017 consisted of the following:

	Community Development Block Grant	Nonmajor Governmental Funds	Total
Due from federal government	<u>\$ 480,063</u>	<u>\$ 168,115</u>	<u>\$ 648,178</u>

5. CAPITAL ASSETS

Governmental Activities—Capital asset activity for the primary government's governmental activities, for the fiscal year ended June 30, 2017, was as follows:

	Balance 7/1/2016	Increases	Decreases	Balance 6/30/2017
Capital assets, not being depreciated:				
Land	\$ 10,048,121	\$ -	\$ -	\$ 10,048,121
Construction in progress	<u>4,728,677</u>	<u>21,752,948</u>	<u>4,728,677</u>	<u>21,752,948</u>
Total capital assets, not being depreciated	<u>14,776,798</u>	<u>21,752,948</u>	<u>4,728,677</u>	<u>31,801,069</u>
Capital assets, being depreciated:				
Buildings and building improvements	306,829,553	2,488,043	-	309,317,596
Improvements other than buildings	60,530,653	416,381	-	60,947,034
Machinery and equipment	66,010,123	6,758,278	773,039	71,995,362
Infrastructure	<u>502,114,834</u>	<u>18,816,448</u>	<u>-</u>	<u>520,931,282</u>
Total capital assets, being depreciated	<u>935,485,163</u>	<u>28,479,150</u>	<u>773,039</u>	<u>963,191,274</u>
Less accumulated depreciation for:				
Buildings and building improvements	124,968,928	7,285,406	-	132,254,334
Improvements other than buildings	35,458,489	2,445,953	-	37,904,442
Machinery and equipment	50,831,360	5,011,505	773,039	55,069,826
Infrastructure	<u>238,511,832</u>	<u>19,989,833</u>	<u>-</u>	<u>258,501,665</u>
Total accumulated depreciation	<u>449,770,609</u>	<u>34,732,697</u>	<u>773,039</u>	<u>483,730,267</u>
Total capital assets, being depreciated, net	<u>485,714,554</u>	<u>(6,253,547)</u>	<u>-</u>	<u>479,461,007</u>
Governmental activities capital assets, net	<u>\$ 500,491,352</u>	<u>\$ 15,499,401</u>	<u>\$ 4,728,677</u>	<u>\$ 511,262,076</u>

Business-type Activities—Capital asset activity for the primary government’s business-type activities, for the fiscal year ended June 30, 2017, was as follows:

	Balance 7/1/2016	Increases	Decreases	Balance 6/30/2017
Capital assets, not being depreciated:				
Land	\$ 3,362,210	\$ -	\$ -	\$ 3,362,210
Construction in progress	<u>1,415,491</u>	<u>4,746,084</u>	<u>3,976,641</u>	<u>2,184,934</u>
Total capital assets, not being depreciated	<u>4,777,701</u>	<u>4,746,084</u>	<u>3,976,641</u>	<u>5,547,144</u>
Capital assets, being depreciated:				
Buildings and building improvements	182,716,806	3,249,328	-	185,966,134
Improvements other than buildings	489,222	-	-	489,222
Machinery and equipment	11,028,296	659,288	214,737	11,472,847
Infrastructure	<u>105,007,642</u>	<u>8,808,824</u>	<u>-</u>	<u>113,816,466</u>
Total capital assets, being depreciated	<u>299,241,966</u>	<u>12,717,440</u>	<u>214,737</u>	<u>311,744,669</u>
Less accumulated depreciation for:				
Buildings and building improvements	61,179,260	4,630,783	-	65,810,043
Improvements other than buildings	396,131	24,042	-	420,173
Machinery and equipment	8,458,168	757,115	167,527	9,047,756
Infrastructure	<u>51,159,566</u>	<u>2,591,120</u>	<u>-</u>	<u>53,750,686</u>
Total accumulated depreciation	<u>121,193,125</u>	<u>8,003,060</u>	<u>167,527</u>	<u>129,028,658</u>
Total capital assets, being depreciated, net	<u>178,048,841</u>	<u>4,714,380</u>	<u>47,210</u>	<u>182,716,011</u>
Business-type activities capital assets, net	<u>\$ 182,826,542</u>	<u>\$ 9,460,464</u>	<u>\$ 4,023,851</u>	<u>\$ 188,263,155</u>

Depreciation expense was charged to the functions and programs of the primary government as follows:

Governmental activities:	
General government support	\$ 3,987,684
Public safety	6,423,101
Streets and sanitation	19,240,243
Economic assistance and opportunity	28,868
Culture and recreation	4,704,583
Health and community services	<u>395,786</u>
Total governmental activities depreciation expense	<u>\$ 34,780,265</u>
Business-type activities:	
Solid waste and recycling	\$ 606,794
Parking	1,593,510
Water system	<u>5,802,756</u>
Total business-type activities depreciation expense	<u>\$ 8,003,060</u>

Board of Education

Capital asset activity for the Board, for the fiscal year ended June 30, 2017, was as follows:

	Balance 7/1/2016	Increases	Decreases	Balance 6/30/2017
Capital assets, not being depreciated:				
Land	\$ 3,006,700	\$ -	\$ -	\$ 3,006,700
Construction in progress	13,177,988	9,720,576	11,111,480	11,787,084
Total capital assets, not being depreciated	<u>16,184,688</u>	<u>9,720,576</u>	<u>11,111,480</u>	<u>14,793,784</u>
Capital assets, being depreciated:				
Land improvements	5,542,686	-	-	5,542,686
Buildings and building improvement	1,734,142,880	16,255,147	-	1,750,398,027
Equipment	24,879,613	695,348	197,336	25,377,625
Total capital assets, being depreciated	<u>1,764,565,179</u>	<u>16,950,495</u>	<u>197,336</u>	<u>1,781,318,338</u>
Less accumulated depreciation for:				
Land improvements	4,389,969	90,932	-	4,480,901
Buildings and building improvement	723,887,126	77,177,958	-	801,065,084
Equipment	19,449,135	1,673,401	174,979	20,947,557
Total accumulated depreciation	<u>747,726,230</u>	<u>78,942,291</u>	<u>174,979</u>	<u>826,493,542</u>
Total capital assets being depreciated, net	<u>1,016,838,949</u>	<u>(61,991,796)</u>	<u>22,357</u>	<u>954,824,796</u>
Board capital assets, net	<u>\$ 1,033,023,637</u>	<u>\$ (52,271,220)</u>	<u>\$ 11,133,837</u>	<u>\$ 969,618,580</u>

Buffalo Urban Renewal Agency

Capital asset activity for BURA, for the fiscal year ended June 30, 2017, was as follows:

	Balance 7/1/2016	Increases	Decreases	Balance 6/30/2017
Capital assets, being depreciated:				
Buildings	\$ 772,054	\$ -	\$ -	\$ 772,054
Equipment	32,235	-	9,700	22,535
Total capital assets, being depreciated	<u>804,289</u>	<u>-</u>	<u>9,700</u>	<u>794,589</u>
Less accumulated depreciation for:				
Buildings	271,534	27,830	-	299,364
Equipment	32,235	-	9,700	22,535
Total accumulated depreciation	<u>303,769</u>	<u>27,830</u>	<u>9,700</u>	<u>321,899</u>
BURA capital assets, net	<u>\$ 500,520</u>	<u>\$ (27,830)</u>	<u>\$ -</u>	<u>\$ 472,690</u>

6. ACCRUED LIABILITIES

Accrued liabilities reported by governmental funds at June 30, 2017, were as follows:

	General Fund	BFSA Special Revenue Fund	Nonmajor Funds	Total Governmental Funds
Salary and employee benefits	\$ 12,899,637	\$ 37,034	\$ -	\$ 12,936,671
Other accruals	-	-	412,467	412,467
Total accrued liabilities	<u>\$ 12,899,637</u>	<u>\$ 37,034</u>	<u>\$ 412,467</u>	<u>\$ 13,349,138</u>

7. PENSION OBLIGATIONS

Plan Descriptions and Benefits Provided

New York State and Local Police and Fire Retirement System (“PFRS”) and Employees’ Retirement System (“ERS”)—The City participates in the PFRS and ERS. These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. The net position of the System is 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 System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. System benefits are established under the provisions of the 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 System is 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 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 3.0 to 3.5 percent 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 Liabilities, Pension Expense, and Deferred Outflows of Resources and Inflows of Resources Related to Pensions—At June 30, 2017, the City reported the liabilities reported on the following page for its proportionate share of the net pension liability for each of the Systems. The net pension liabilities were measured as of March 31, 2017. The total pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of April 1, 2016, with update procedures used to roll forward the total net pension liabilities 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 PFRS and ERS Systems in reports provided to the City.

	Governmental activities		Business-type
			activities
	PFRS	ERS	ERS
Measurement date	March 31, 2017	March 31, 2017	March 31, 2017
Net pension liability	\$ 67,521,629	\$ 18,284,314	\$ 3,730,684
City's portion of the Plan's total net pension liability	3.2577408%	0.1945924%	0.0397038%

As of the March 31, 2017 measurement date, the City's governmental activities portion of the Plan's total net pension liability for PFRS and ERS, respectively, had increased 0.0765705% and 0.0221625% from their portion of the Plan's total net pension liability of 3.1811703% and 0.1724299% on the March 31, 2016 measurement date. The City's business-type activities portion of the Plan's total net pension liability had decreased 0.0056083% from their portion of the Plan's total net pension liability of 0.0453121% on the March 31, 2016 measurement date.

For the year ended June 30, 2017, the City's governmental activities recognized pension expenses of \$41,213,574 and \$10,990,724 for PFRS and ERS, respectively. Business-type activities recognized pension expense of \$2,242,518 for ERS. At June 30, 2017, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources			Deferred Inflows of Resources		
	Governmental activities		Business-type	Governmental activities		Business-type
	PFRS	ERS	ERS	PFRS	ERS	ERS
Differences between expected and actual experiences	\$ 8,857,674	\$ 458,187	\$ 93,488	\$11,666,242	\$2,776,577	\$ 566,525
Changes of assumptions	33,265,067	6,246,592	1,274,535	-	-	-
Net difference between projected and actual earnings on pension plan investments	10,084,256	3,652,118	745,169	-	-	-
Changes in proportion and differences between the City's contributions and proportionate share of contributions	7,121,072	1,659,078	338,514	1,868,203	-	-
City contributions subsequent to the measurement date	7,448,083	2,339,434	477,332	-	-	-
Total	<u>\$66,776,152</u>	<u>\$ 14,355,409</u>	<u>\$ 2,929,038</u>	<u>\$13,534,445</u>	<u>\$2,776,577</u>	<u>\$ 566,525</u>

City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Governmental activities		Business-type
	PFRS	ERS	ERS
2018	\$ 14,885,643	\$ 3,977,907	\$ 811,636
2019	14,885,643	3,977,907	811,636
2020	14,132,993	3,499,412	714,006
2021	(372,612)	(2,215,828)	(452,097)
2022	2,261,957	-	-

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 following actuarial assumptions:

	PFRS	ERS
Measurement date	March 31, 2017	March 31, 2017
Actuarial valuation date	April 1, 2016	April 1, 2016
Interest rate	7.00%	7.00%
Salary scale	4.50%	3.80%
Decrement tables	April 1, 2010- March 31, 2015	April 1, 2010- March 31, 2015
Inflation rate	2.5%	2.5%

Annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System’s experience with adjustments for mortality improvements based on Society of Actuaries’ Scale MP-2014.

The actuarial assumptions used in the April 1, 2016 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

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 weighing 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.

	Target Allocation	Long-Term Expected Real Rate of Return
	PFRS and ERS	
	March 31, 2017	
Measurement date		
Asset class:		
Domestic equities	36.0 %	4.6 %
International equities	14.0	6.3
Private equity	10.0	7.8
Real estate	10.0	5.8
Absolute return strategies	2.0	4.0
Opportunistic portfolio	3.0	5.9
Real assets	3.0	5.5
Bonds and mortgages	17.0	1.3
Cash	1.0	(0.3)
Inflation-indexed bonds	4.0	1.5
Total	<u>100.0 %</u>	

Discount Rate—The discount rate used to calculate the total pension liabilities was 7.0%. 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 System’s 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 to the Discount Rate Assumption—The chart below presents the City’s proportionate share of the net pension liabilities calculated using the discount rate of 7.0%, as well as what the City’s proportionate share of the net pension liability/(asset) would be if they were calculated using a discount rate that is one percentage-point lower (6.0%) or one percentage-point higher (8.0%) than the current assumption.

	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Employer's proportionate share of the net pension liability/(asset)—PFRS	\$ 191,419,903	\$ 67,521,629	\$ (36,398,692)
Employer's proportionate share of the net pension liability/(asset)—ERS	70,311,543	22,014,998	(18,819,639)

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	April 1, 2016	April 1, 2016	
Employers' total pension liability	\$ 31,670,483	\$ 177,400,586	\$ 209,071,069
Plan fiduciary net position	<u>29,597,830</u>	<u>168,004,363</u>	<u>197,602,193</u>
Employers' net pension liability	<u>\$ 2,072,653</u>	<u>\$ 9,396,223</u>	<u>\$ 11,468,876</u>
System fiduciary net position as a percentage of total pension liability	93.46%	94.70%	94.51%

Payables to the Pension Plan—Employer contributions are paid annually based on the System’s fiscal year which ends on March 31. Accrued retirement contributions as of June 30, 2017 represent the projected employer contribution for the period of April 1, 2017 through June 30, 2017 based on paid System wages multiplied by the employer’s contribution rate, by tier. Accrued retirement contributions as of June 30, 2017 amounted to \$7,431,140 and \$2,806,450 for PFRS and ERS, respectively.

Buffalo Fiscal Stability Authority

The BFSFA also participates in the ERS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Inflows of Resources Related to Pensions—At June 30, 2017, the BFSFA reported a liability of \$186,826 for its proportionate share of the net pension liability. At the March 31, 2017 measurement date, the BFSFA’s proportion was 0.0019883%, an increase of 0.000099% from its proportion measured as of March 31, 2016.

For the year ended June 30, 2017, BFSA recognized pension expense of \$95,476. At June 30, 2017, the BFSA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u>ERS</u>	
Differences between expected and actual experiences	\$ 4,682	\$ 28,371
Changes of assumptions	63,826	
Net difference between projected and actual earnings on pension plan investments	37,317	-
Changes in proportion and differences between BFSAs contributions and proportionate share of contributions	3,998	36,309
BFSAs contributions subsequent to the measurement date	<u>13,867</u>	<u>-</u>
Total	<u>\$ 123,690</u>	<u>\$ 64,680</u>

The BFSAs contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ending June 30, 2018. Other amounts reported as net deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>ERS</u>
2018	\$ 23,818
2019	23,818
2020	25,887
2021	(28,380)

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption—The following chart presents the BFSAs proportionate share of the net pension liability/(asset) calculated using the discount rate of 7.0%, as well as what the BFSAs proportionate share of the net pension liability/(asset) would be if they were calculated using a discount rate that is one percentage-point lower (6.0%) or one percentage-point higher (8.0%) than the current assumption.

<u>ERS</u>	<u>1% Decrease (6.0%)</u>	<u>Current Assumption (7.0%)</u>	<u>1% Increase (8.0%)</u>
Employer's proportionate share of the net pension liability/(asset)	\$ 596,684	\$ 186,826	\$ (159,709)

Payables to the Pension Plan—Accrued retirement contributions as of June 30, 2017 amounted to \$13,867.

Board of Education

The Board participates in the Teachers' Retirement System ("TRS") and the ERS.

Plan Descriptions and Benefits Provided

Teachers' Retirement System—This is a cost-sharing multiple-employer retirement system. TRS provides retirement benefits as well as death and disability benefits to plan members and beneficiaries as authorized by the Education Law and Retirement and the New York State Retirement and Social Security Law ("NYSRSSL"). TRS is governed by a 10 member Board of Trustees. TRS benefits are established under New York State Law. Membership is mandatory and automatic for all full-time teachers, teaching assistants, guidance counselors and administrators employed in New York State Public Schools and BOCES who elect to participate in TRS. Once a public employer elects to participate in TRS, 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. Additional information regarding TRS may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395 or by referring to the NYSSTR Comprehensive Annual Financial Report which can be found on TRS' website at www.nystrs.org.

Plan members who joined the TRS before July 27, 1976, are not required to make contributions. Those joining after July 27, 1976 are required to contribute 3.0% to 3.5% of their annual salary. Employees in the System more than ten years are no longer required to contribute. Pursuant to Article 11 of the Education Law, rates are established annually by the New York State Teachers' Retirement Board.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Inflows of Resources Related to Pensions—At June 30, 2017, the Board reported the following liability for its proportionate share of the net pension liability for each of the Systems. The net pension liability was measured as of June 30, 2016 for TRS and March 31, 2017 for ERS. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation. The Board's proportion of the net pension liability was based on a projection of the Board's long-term share of contributions to the Systems relative to the projected contributions of all participating members, actuarially determined. This information was provided by TRS and ERS in reports provided to the Board.

	TRS	ERS
Measurement date	June 30, 2016	March 31, 2017
Net pension liability	\$ 17,688,235	\$ 12,444,723
Board's portion of the Plan's total net pension liability	1.651498%	0.132444%

As of the March 31, 2017 measurement date, the Board's portion of the Plan's total net pension liability for TRS and ERS, respectively, had decreased 0.016750% and 0.900300% from their portion of the Plan's total net pension liability of 1.668248% and 1.032744% on the March 31, 2016 measurement date.

For the year ended June 30, 2017, the Board recognized pension expense of \$29,475,400 for the TRS and \$7,789,194 for ERS. At June 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources as presented on the following page.

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	TRS	ERS	TRS	ERS
Differences between expected and actual experiences	\$ -	\$ 311,853	\$ 5,746,130	\$ 1,889,802
Changes of assumptions	100,763,449	4,251,573	-	-
Net difference between projected and actual earnings on pension plan investments	39,772,453	2,485,716	-	-
Changes in proportion and differences between the Board's contributions and proportionate share of contributions	1,735,406	1,226,811	277,935	309,957
Board's contributions subsequent to the measurement date	34,062,426	1,566,555	-	-
Total	<u>\$ 176,333,734</u>	<u>\$ 9,842,508</u>	<u>\$ 6,024,065</u>	<u>\$ 2,199,759</u>

Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred inflows of resources and deferred outflows of resources related to pensions will be recognized in pension expense as shown below:

Year Ending June 30,	TRS	ERS
2018	\$ 12,519,921	\$ 2,656,344
2019	12,519,921	2,656,344
2020	43,408,308	2,353,498
2021	33,798,032	(1,589,992)
2022	15,618,432	-
Thereafter	18,382,629	-

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 following actuarial assumptions:

	TRS	ERS
Measurement date	June 30, 2016	March 31, 2017
Actuarial valuation date	June 30, 2015	April 1, 2016
Interest rate	7.50%	7.00%
Salary scale	1.90-4.70%	3.80%
Decrement tables	July 1, 2009- June 30, 2014	April 1, 2010- March 31, 2015
Inflation rate	2.5%	2.5%

For TRS, annuitant mortality rates are based on July 1, 2009 – June 30, 2014 System experience with adjustments for mortality improvements based on the Society of Actuaries Scale MP-2014. The actuarial assumptions used in the June 30, 2015 valuation are based on the results of an actuarial experience study for the period July 1, 2009 – June 30, 2014.

For ERS, annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System experience with adjustments for mortality improvements based on the Society of Actuaries Scale MP-2014. The actuarial assumptions used in the April 1, 2016 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

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 weighing 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.

Measurement date Asset class:	Target Allocation		Long-Term Expected Real Rate of Return	
	TRS	ERS	TRS	ERS
			June 30, 2016	March 31, 2017
Domestic equities	37.0 %	36.0 %	6.1 %	4.6 %
International equities	18.0	14.0	7.3	6.3
Private equity	0.0	10.0	0.0	7.8
Real estate	10.0	10.0	5.4	5.8
Alternative investments	7.0	0.0	9.2	0.0
Absolute return strategies	20.0	2.0	1.9	4.0
Opportunistic portfolio	0.0	3.0	0.0	5.9
Real assets	0.0	3.0	0.0	5.5
Bonds and mortgages	8.0	17.0	3.1	1.3
Cash	0.0	1.0	0.0	(0.3)
Inflation-indexed bonds	0.0	4.0	0.0	1.5
Total	<u>100.0 %</u>	<u>100.0 %</u>		

Discount Rate—The discount rate used to calculate the total pension liabilities was 7.5% for TRS and 7.0% for ERS. 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 System’s 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 to the Discount Rate Assumption—The chart on the following page presents the Board’s proportionate share of the net pension liabilities/(asset) calculated using the discount rate of 7.5% for TRS and 7.0% for ERS, as well as what the Board’s proportionate share of the net pension liabilities/(asset) would be if they were calculated using a discount rate that is one percentage-point lower (6.5% for TRS and 6.0% for ERS) or one percentage-point higher (8.5% for TRS and 8.0% for ERS) than the current assumption.

TRs	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
Employer's proportionate share of the net pension liability/(asset)	\$ 230,783,231	\$ 17,688,235	\$ (161,044,677)
ERS	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Employer's proportionate share of the net pension liability/(asset)	\$ 39,745,981	\$ 12,444,723	\$ (10,638,438)

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

	(Dollars in Thousands)		
	TRs	ERS	Total
Measurement date	June 30, 2016	March 31, 2017	
Employers' total pension liability	\$ 108,577,184	\$ 177,400,586	\$ 285,977,770
Plan fiduciary net position	107,506,142	168,004,363	275,510,505
Employers' net pension liability	<u>\$ 1,071,042</u>	<u>\$ 9,396,223</u>	<u>\$ 10,467,265</u>
System fiduciary net position as a percentage of total pension liability	99.01%	94.70%	96.34%

Payables to the Pension Plan—For TRs, employer and employee contributions for the fiscal year ended June 30, 2017 are paid to the System in September, October and November 2017 through a state aid intercept. Accrued retirement contributions as of June 30, 2017 represent employee and employer contributions for the fiscal year ended June 30, 2017 based on paid TRs wages multiplied by the employer's contribution rate, by tier, and employee contributions for the fiscal year as reported to the TRs System. Accrued retirement contributions for TRs as of June 30, 2017 amounted to \$36,747,975. For ERS, accrued retirement contributions as of June 30, 2017 amounted to \$1,566,556.

Buffalo Urban Renewal Agency

BURA also participates in the ERS. Accrued retirement contributions as of June 30, 2017 represent the projected employer contribution for the period of April 1, 2017 through June 30, 2017 based on paid ERS wages multiplied by the employer's contribution rate, by tier.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Inflows of Resources Related to Pensions—At June 30, 2017, BURA reported a liability of \$745,994 for its proportionate share of the net pension liability. At the March 31, 2017 measurement date, BURA's proportion was 0.0079393%, an increase of 0.0004876% from its proportion measured as of March 31, 2016.

For the year ended June 30, 2017, BURA recognized pension expense of \$419,153. At June 30, 2017, BURA reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources shown on the following page.

	ERS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experiences	\$ 18,694	\$ 113,283
Changes of assumptions	254,859	-
Net difference between projected and actual earnings on pension plan investments	149,005	-
Changes in proportion and differences between BURA's contributions and proportionate share of contributions	43,224	43,162
BURA contributions subsequent to the measurement date	84,406	-
Total	<u>\$ 550,188</u>	<u>\$ 156,445</u>

BURA's contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ending June 30, 2017. 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 Ended June 30,</u>	<u>ERS</u>
2018	\$ 133,033
2019	133,033
2020	135,983
2021	(92,712)

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption—The chart below presents BURA's proportionate share of the net pension liability/(asset) calculated using the discount rate of 7.0%, as well as what BURA's proportionate share of the net pension liability/(asset) would be if they were calculated using a discount rate that is one percentage-point lower (6.0%) or one percentage-point higher (8.0%) than the current assumption.

<u>ERS</u>	<u>1% Decrease (6.0%)</u>	<u>Current Assumption (7.0%)</u>	<u>1% Increase (8.0%)</u>
Employer's proportionate share of the net pension liability/(asset)	\$ 2,382,556	\$ 745,994	\$ (637,717)

Payables to the Pension Plan—Accrued retirement contributions as of June 30, 2017 amounted to \$84,406.

8. OTHER POSTEMPLOYMENT BENEFITS (“OPEB”) OBLIGATION

The City recognizes the cost of postemployment health care in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the City’s future cash flows. Recognition of the health insurance liability accumulated prior to July 1, 2007 will be amortized over 30 years, which commenced with the 2008 liability, while the entire liability for firefighters’ disability has been recognized.

Plan Description—The City provides continuation of medical insurance coverage to employees that retire under the New York State Retirement Systems at the same time such service is ended, if such employees have been continuously employed by the City for the equivalent of at least 10 years at the date of retirement. Based on collective bargaining agreements, the retiree and/or his beneficiaries receive health care coverage for the life of the retiree. The retiree’s share of premium costs depends on the employee group and length of service. Health care benefits for nonunion employees are similar to those of union employees pursuant to City Charter. Additionally, under requirements of state and local law, the City compensates firefighters that retire due to disability before the mandatory retirement age of 70. This compensation is equal to the differential between the retiree’s pension and the salary that he/she would receive if still in active service. There is no separate audited GAAP-basis postemployment benefit plan report available. There are currently 146 firefighters that receive such compensation.

There have been no significant changes in the number of employees covered. The number of participants as of July 1, 2016, the effective date of the biannual OPEB valuation, is as follows:

Active employees	2,670
Retired employees	2,728
Spouses of retirees	1,664
Dependents	<u>855</u>
Total	<u><u>7,917</u></u>

Funding Policy—Postemployment benefits are financed on a pay-as-you-go basis, primarily from the General Fund for the governmental funds’ liability.

For the year ended June 30, 2017, the City’s annual OPEB cost (expense) is \$97,151,000 while the Annual Required Contribution (“ARC”) is \$97,886,000. Considering the annual expense, as well as payment for current health insurance premiums which totaled approximately \$47,925,000 for retirees and their beneficiaries, the result was an increase in the net OPEB obligation of approximately \$49,226,000 for the year ended June 30, 2017.

The table presented on the following page shows the components of the City’s annual OPEB cost of the governmental activities and business-type activities, the amount actually contributed to the plan, and the changes in the City’s net OPEB obligation.

	Governmental Activities Medical	Governmental Activities Disability	Business-Type Activities	Total Primary Government
	(000s omitted)			
Annual OPEB Cost and Net OPEB Obligation				
Actuarial accrued liability ("AAL")	\$ 1,305,386	\$ 80,867	\$ 72,022	\$ 1,458,275
Unfunded actuarial accrued liability ("UAAL")	\$ 1,305,386	\$ 80,867	\$ 72,022	\$ 1,458,275
Normal cost — beginning of the year	\$ 39,838	\$ 1,999	\$ 2,266	\$ 44,103
Amortization factor based on 30 years	26.2	26.2	26.2	26.2
Annual covered payroll	\$ 193,831	\$ 2,988	\$ 15,080	\$ 211,899
UAAL as a percentage of covered payroll	673.5%	2,706.4%	477.6%	688.2%
Level Dollar Amortization				
Calculation of ARC Under Projected Unit Credit Method				
ARC normal cost with interest — end of year	\$ 39,838	\$ 1,999	\$ 2,266	\$ 44,103
UAAL over 30 years with interest — end of year	46,637	2,889	2,573	52,099
Interest	1,513	85	86	1,684
Annual required contribution ("ARC")	87,988	4,973	4,925	97,886
Interest on net OPEB obligation	15,207	2,910	958	19,075
Adjustment to ARC	(15,794)	(3,022)	(994)	(19,810)
Annual OPEB cost (expense)	87,401	4,861	4,889	97,151
Contributions for the year ended June 30, 2017	(38,786)	(6,324)	(2,815)	(47,925)
Increase in net OPEB obligation	48,615	(1,463)	2,074	49,226
Net OPEB obligation — June 30, 2016	434,474	83,139	27,377	544,990
Net OPEB obligation — June 30, 2017	\$ 483,089	\$ 81,676	\$ 29,451	\$ 594,216
Percent of ARC contributed	44%	127%	57%	49%

Funding Status and Funding Progress—As of July 1, 2016, calculations were based on plan data as of July 1, 2016 and financial data as of July 1, 2016. The actuarial accrued liability for benefits was \$1,458,275,000, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was \$211,899,000 and the ratio of the unfunded actuarial accrued liability ("UAAL") to the covered payroll was 688.2%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. This schedule presents multiyear trend information about whether the

actuarial value of plan assets, if any, is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The City’s schedule of contributions for the most recent three years is shown below:

Year Ended June 30,	Annual OPEB Cost	Contributions Made	Percentage Contributed
(000's omitted)			
2017	\$ 97,151	\$ 47,925	49.3%
2016	99,178	49,594	50.0%
2015	95,584	45,987	48.1%

Actuarial Methods and Assumptions—Projections of benefits for financial reporting purposes 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) and on the historical pattern of cost sharing between the employer and plan members at that point. The actuarial methods and assumption used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculations. Included coverage plans are “experience-rated” and annual premiums for experience-rated coverage plans were used as a proxy for claims costs with age adjustment for pre-65 and post-65 participants. The unfunded actuarial accrued liability is being amortized on an open amortization basis over 30 years on a level percentage of pay. Retiree contributions were assumed to increase in the future in accordance with the assumed increases in pre-65 medical costs.

In the July 1, 2016 actuarial valuation, the liability was computed using the projected unit credit method. The actuarial assumptions utilized a 3.5% investment rate of return for both governmental and business-type activities. The rate is based on the projected long-term earning rate of the assets expected to be available-to-pay benefits. The inflation growth rate for total payroll is assumed to be 3%, for fire base salary, 2.25% and for NYS fire disability, 1.5% annual growth after 5 years of retirement. The valuation assumes healthcare cost trends as follows: all plans pre-Medicare/Medicare inflation rates, 6.9%; all reduced by decrements to reach a rate of 4.1% in 2088.

Medical Reimbursements—The City’s Medicare Part D prescription drug subsidy, which reduces the cost of retiree health care premiums, is accrued as revenue only in the current year. Projected subsidies for future years cannot be recognized as a reduction to the actuarial accrued liabilities.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Buffalo Fiscal Stability Authority

Postemployment Healthcare Benefits—The BFSFA maintains a single-employer defined benefit healthcare plan (the “Plan”) providing for lifetime cost sharing of medical, dental, and vision premiums to eligible retirees and spouses.

The Plan does not issue a publicly available financial report. Eligibility is based on covered employees who retire from the BFSFA over age 55 and with ten or more years of service. The required contribution is based on projected pay-as-you-go financing requirements, with no current funding of

actuarially determined liabilities. For the year ended June 30, 2017 there were no retirees of the BFSA receiving benefits.

The BFSA's annual OPEB expense is calculated based on the annual required contribution of the BFSA. The BFSA has elected to calculate the ARC and related information using the projected unit credit cost method permitted by GASB. The ARC represents a level funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize the unfunded actuarial liability over 10 years.

The table below summarizes the BFSA's annual OPEB for the year ended June 30, 2017.

Annual OPEB Cost and Net OPEB Obligation		(000's omitted)
Normal cost		\$ 92
Amortization of UAAL		<u>12</u>
Annual required contribution ("ARC")		104
Interest on net OPEB obligation		25
Adjustment to ARC		<u>(63)</u>
Annual OPEB cost		66
Contributions for the year ended June 30, 2017		<u>-</u>
Increase in net OPEB obligation		66
Net OPEB obligation—beginning		<u>635</u>
Net OPEB obligation—ending		<u>\$ 701</u>
Percentage of ARC contributed		0%

The BFSA's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB for the past three years are as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed
(000's omitted)		
2017	\$ 66	0.0%
2016	66	0.0%
2015	96	0.0%

As of June 30, 2017, the most recent alternative measurement method date, the actuarial accrued liability for future benefits was \$337,694, all of which is unfunded. The annual payroll of employees eligible to be covered by the Plan was \$361,360, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 93%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and ARC of the BFSA are subject to continual revision as actual results compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the Plan as understood by the BFSA and Plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the BFSA and Plan members. The methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations.

The following assumptions were made:

Retirement age for active employees – Assumed employees will not retire before age 62 and ten years of service.

Marital status – Assumed 100% of future retirees will be married, with male spouses assumed to be three years older than female spouses.

Mortality – RP2000, mortality table for males and females projected 10 years.

Turnover – Standard turnover assumptions – GASB Statement No. 45 Paragraph 35b.

Inflation growth rate – A 4% payroll growth rate was used.

Healthcare cost trend rate – The expected rate of increase in healthcare premiums was based on projections developed by the actuary’s healthcare specialists. An initial inflation rate of 8%, reduced to an ultimate rate of 4.7% after ten years was used. The dental plan was based on a 3.5% rate reduced to 3% after year 2, and the vision plan was based on a rate of 3%.

Health insurance premiums – 2015 health insurance premiums were used as the basis for calculation of the present value of total benefits to be paid.

Based on the historical and expected returns of the BFSA’s general assets, a discount rate of 4% was used. The level percentage of projected payroll of active plan member’s method is used to amortize the unfunded actuarial liability.

Board of Education

Plan Description—The Board administers the Board of Education, City of Buffalo, New York’s Retiree Medical and Prescriptions Drug (the “Board’s Plan”) as a single-employer defined benefit other postemployment benefits plan. The Board’s Plan provides for the continuation of medical insurance benefits for certain retirees and their spouses and can be amended by action of the Board subject to applicable collective bargaining and employment agreements. The Board’s Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose for paying benefits under the Board’s Plan.

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

Employees Covered by Benefit Terms—At June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	5,626
Active employees	<u>5,177</u>
	<u>10,803</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 (“AAL”) under GASB Statement No. 45.

Total OPEB Liability

The Board’s total OPEB liability of \$2,535,305,000 was measured as of July 1, 2017, and was determined by an actuarial valuation as of that date.

Actuarial Methods and Assumptions—The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all period included in the measurement, unless otherwise specified:

Inflation	1.30%
Salary Increases	1.76% - 10.30%
Discount Rate	3.56%
Healthcare Cost Trend Rates	9.0% of 2017, with an ultimate rate of 5.0% for 2025 and later years.
Retirees’ Share of Benefit-Related Costs	100% of future retirees eligible for an employer subsidy.

The discount rate was based on Fidelity Mutual General Obligation AA 20 year Bond rate as of the measurement date.

Mortality rates were based on the RPH-2015 Total Dataset Mortality Table fully generational using MP-2015.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2016 – June 30, 2017.

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 (in thousands)
Balance at 7/1/2016, as restated (see note 2):	\$ 2,852,359
Changes for the year:	
Service cost	105,405
Interest	82,361
Changes of assumptions	(238,475)
Differences between expected and actual experience	(202,349)
Contributions—employer	(63,996)
Net changes	(317,054)
Balance at 6/30/2017	<u>\$ 2,535,305</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 2.92 percent in 2016 to 3.56 percent in 2017.

Sensitivity of the Total OPEB Liability to the Change in the Discount Rate and Healthcare Cost Trend Rate—The discount rate assumption can have a profound impact on total liabilities. The table below presents the effect of a 1% change in the discount rate assumption would have on the net OPEB liability (amounts in thousands).

	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
Net OPEB liability	\$ 3,034,948	\$ 2,535,305	\$ 2,144,839

Additionally, healthcare costs can be subject to considerable volatility over time. The table presented on the following page presents the effect on the net OPEB liability of a 1% change in the initial (9.0%)/ultimate (5.0%) healthcare cost trend rates (amounts in thousands).

	1% Decrease (8.0% to 4.0%)	Healthcare Cost Trend Rates (9.0% to 5.0%)	1% Increase (10.0% to 6.0%)
Net OPEB liability	\$ 2,104,762	\$ 2,535,305	\$ 3,102,769

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB—For the year ended June 30, 2017, the Board recognized OPEB expense of \$155,918,000. The Board reports deferred outflows of resources and deferred inflows of resources due to differences during the measurement period between certain of the employer’s contributions and its proportionate share of the total of certain contributions from employers included in the collective net OPEB liability are required to be determined. The following table presents the Board’s deferred outflows and inflows of resources at June 30, 2017 (amounts in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 221,441
Changes of assumptions	-	187,896
Total	<u>\$ -</u>	<u>\$ 409,337</u>

The amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Amount (in thousands)
2018	\$ 31,487
2019	31,487
2020	31,487
2021	31,487
2022	31,487
Thereafter	251,902

Buffalo Urban Renewal Agency

Plan Description—In addition to pension benefits, BURA provides continuation of medical insurance coverage to employees that retire under the New York State and Local Employees’ Retirement System at the same time they end their service to BURA. Based on the collective bargaining agreement, the retiree and his or her beneficiaries receive this coverage for the life of the retiree. Health care benefits for non-union employees are similar to those of union employees. The retiree’s share of premium cost range from 0%-25%, depending on the employee hire date.

Funding Policy—BURA currently pays for postemployment health care benefits on a pay-as-you-go basis. Although BURA is studying the establishment of a trust that would be used to accumulate and invest assets necessary to pay for the accumulated liability, these financial statements assume that pay-as-you-go funding will continue.

BURA’s annual other postemployment benefits (“OPEB”) cost is calculated based on the annual required contribution (“ARC”) of the employer, an amount actuarially determined in accordance with the parameters of GASB. BURA elected to determine its OPEB liability under the Alternative Measurement Method permitted by GASB. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The table below shows the components of BURA’s annual OPEB cost for the past three years, the amount contributed to the plan, and changes in BURA’s net OPEB obligation.

	Year Ended June 30,		
	2017	2016	2015
Annual required contribution ("ARC")	\$ 1,714,735	\$ 1,374,043	\$ 1,374,073
Interest on net OPEB obligation	685,609	323,488	-
Annual OPEB cost (expense)	2,400,344	1,697,531	1,374,073
Contributions made	(368,227)	(645,031)	(448,872)
Increase in net OPEB obligation	2,032,117	1,052,500	925,201
Net OPEB obligation—beginning of year	13,992,011	12,939,511	12,014,340
Net OPEB obligation—end of year	<u>\$ 16,024,128</u>	<u>\$ 13,992,011</u>	<u>\$ 12,939,541</u>
Percentage of ARC contributed	21.5%	46.9%	32.7%

Funding Status and Funding Progress—As of June 30, 2017, the most recent actuarial valuation date, the plan was not funded. Since there were no assets, the unfunded actuarial accrued liability for benefits for governmental activities was \$20,178,430.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

BURA's schedule of contributions for the most recent three years is shown below:

Year Ended June 30,	Annual OPEB Cost	Contributions Made	Percentage Contributed
2017	\$ 2,400,344	\$ 368,227	15.3%
2016	1,697,531	645,031	38.0%
2015	1,374,043	448,872	32.7%

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 employer 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 June 30, 2017 actuarial valuation, the Entry Age Actuarial Cost Method and the Level Percentage of Payroll Amortization Method was used. The actuarial assumptions included a valuation date of June 30, 2017. The discount rate was 4.9%. The unfunded actuarial accrued liability is being amortized over 30 years on a level percent of pay, open group basis, therefore the remaining amortization period at June 30, 2017 was twenty-two years.

9. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries insurance coverage for Coca Cola Field, public employee liability, and data processing equipment. There have been no significant reduction in the levels of this commercial insurance from the prior year, nor have there been any settlements which exceeded insurance coverage for each of the past three fiscal years.

The City is self-insured for general liability risk. The City is self-insured for workers' compensation and has accrued its best estimate of both asserted and unasserted workers' compensation losses. The reserve for workers' compensation is recorded at an estimated percent value using a discount rate of 5%. For the fiscal years ended June 30, 2015, 2016, and 2017, the City expensed \$6,809,060, \$7,136,661, and \$5,630,811 respectively, for workers' compensation claims, including medical payments for fire fighters and police officers. The estimated liabilities for business-type activities are recorded as liabilities of the individual enterprise funds; whereas, general liabilities are only recorded in the government-wide financial statements. For the fiscal years ended June 30, 2015, 2016, and 2017, the City incurred expenditures of \$3,542,084, \$3,696,098 and \$8,091,500, respectively, for property damage and personal injury claims.

At June 30, 2017, the City estimated the following workers' compensation liabilities:

	Governmental Activities	Business-type Activities
Workers' compensation — fire and police medical	\$ 3,472,704	\$ -
Workers' compensation — other employees	4,999,463	1,950,618
	<u>\$ 8,472,167</u>	<u>\$ 1,950,618</u>

The business-type activities claims and judgments applicable to self-insurance claims are recorded as expenses and liabilities in the appropriate enterprise fund.

Changes in the reported liability in the governmental and business-type activities since June 30, 2015, are shown below:

	Governmental Activities	Business-type Activities
Estimated claims — June 30, 2015	\$ 8,147,272	\$ 2,743,962
Claims incurred	5,396,347	1,118,423
Payments 2015-2016	<u>(5,959,505)</u>	<u>(1,177,156)</u>
Estimated claims — June 30, 2016	7,584,114	2,685,229
Claims incurred	5,206,709	577,544
Payments 2016-2017	<u>(4,318,656)</u>	<u>(1,312,155)</u>
Estimated claims — June 30, 2017	<u>\$ 8,472,167</u>	<u>\$ 1,950,618</u>

The City has estimated claims arising during the ordinary course of its operation which are probable of a future loss to total \$13,000,000 and has been included within the City's liabilities. Additionally, management has identified claims judged to be reasonably possible of a negative impact which are not included within the City's liabilities. Such claims have been estimated to range from \$2,400,000 to \$9,500,000.

10. LEASE OBLIGATIONS

Operating Leases—Operating lease obligations are primarily for rental of space and equipment. Lease expenditures/expenses for the year were approximately \$171,108. The future minimum rental payments required by the primary government for noncancelable operating leases are as follows:

Fiscal Year Ending June 30,	
2018	\$ 125,532
2019	112,212
2020	<u>112,212</u>
Total	<u>\$ 349,956</u>

Buffalo Fiscal Stability Authority

The BFSA has an operating lease agreement for office space. Rental expense totaled \$42,640 for the year ended June 30, 2017. Future minimum annual rental payments required under the lease are:

Fiscal Year Ending June 30,	
2018	\$ 43,615
2019	43,940
2020	43,940
2021	<u>10,985</u>
Total	<u>\$ 142,480</u>

Board of Education

Operating lease obligations are primarily for rental of space and equipment. Lease expenses for the year were approximately \$3,617,377. The future minimum rental payments required for noncancelable leases are shown below:

Fiscal Year Ending June 30,	
2018	\$ 3,766,641
2019	3,910,007
2020	4,019,194
2021	4,135,834
2022	3,982,089
2023-2028	15,842,564
2028	<u>2,845,196</u>
Total	<u>\$ 38,501,525</u>

11. LONG-TERM LIABILITIES

In the government-wide financial statements, long-term debt and other long-term obligations are reported as 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 issuances 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 payable, notes payable, compensated absences, workers’ compensation, landfill post-closure monitoring costs, other postemployment benefits (“OPEB”) obligations, judgments and claims, and net pension liability.

A summary of changes in the City’s long-term debt at June 30, 2017 is presented on the following page.

	Balance 7/1/2016	Additions	Reductions	Balance 6/30/2017	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligations bonds, net - City	\$ 209,423,469	\$ 21,618,019	\$ 28,042,270	\$ 202,999,218	\$ 25,289,733
General obligations bonds, net - BFSA	34,925,000	-	7,150,000	27,775,000	5,520,000
Premiums on bonds - City	16,793,146	3,853,478	2,941,001	17,705,623	2,302,886
Premiums on bonds - BFSA	2,720,315	-	478,406	2,241,909	478,406
Total bonds payable	263,861,930	25,471,497	38,611,677	250,721,750	33,591,025
Notes payable	272,859	-	272,859	-	-
Compensated absences	25,878,223	5,561,084	2,960,331	28,478,976	2,041,040
Workers' compensation	7,584,114	5,206,709	4,318,656	8,472,167	4,572,209
Landfill post-closure monitoring costs	840,000	-	70,000	770,000	70,000
OPEB obligation - City	517,613,000	92,262,000	45,110,000	564,765,000	-
OPEB obligation - BFSA	634,751	66,413	-	701,164	-
Judgments and claims	14,000,000	7,091,500	8,091,500	13,000,000	4,160,000
Net pension liability - City*	121,862,828	-	36,056,885	85,805,943	-
Net pension liability - BFSA*	303,242	-	116,416	186,826	-
Total governmental activities	<u>\$ 952,850,947</u>	<u>\$ 135,659,203</u>	<u>\$ 135,608,324</u>	<u>\$ 952,901,826</u>	<u>\$ 44,434,274</u>
Business-type activities:					
Bonds payable:					
General obligations bonds - Parking	\$ 10,576,532	\$ 2,741,981	\$ 1,892,730	\$ 11,425,783	\$ 1,370,265
General obligations bonds - Water	319,619	-	152,150	167,469	167,469
Water System revenue bonds	130,835,000	-	8,000,000	122,835,000	8,255,000
Premiums on bonds	7,111,568	488,766	476,122	7,124,212	492,404
Discounts on bonds	(227,396)	-	(10,875)	(216,521)	(10,619)
Total bonds payable	148,615,323	3,230,747	10,510,127	141,335,943	10,274,519
Compensated absences	1,190,055	331,892	120,529	1,401,418	87,467
Workers' compensation	2,685,229	577,544	1,312,155	1,950,618	792,647
OPEB obligation	27,377,000	4,889,000	2,815,000	29,451,000	-
Net pension liability*	7,273,044	-	3,542,360	3,730,684	-
Total business-type activities	<u>\$ 187,140,651</u>	<u>\$ 9,029,183</u>	<u>\$ 18,300,171</u>	<u>\$ 177,869,663</u>	<u>\$ 11,154,633</u>

(*reductions to the net pension liability are shown net of additions)

Serial Bonds—Governmental and business-type activities' long-term bonded debt consists of either general obligation bonds backed by the full faith and credit of the City or revenue bonds. The revenue bondholder's recourse is secured solely by the City's Water System revenues. Bonds issued by the BFSA are secured by sales tax and state aid. The debt issued by the City to the BFSA has been eliminated in the government-wide financial statements to eliminate the duplicative reporting of total outstanding debt. The debt issued by the City on behalf of the Board of Education is recorded as revenues and expenditures in the governmental funds.

On April 19, 2017, the City issued \$24,360,000 in Series 2017A general improvement serial bonds of which \$21,618,019 were for governmental activities and \$2,741,981 for business-type activities. The serial bonds were issued at a premium of \$4,342,244, of which \$3,853,478 was for governmental activities and \$488,766 for business-type activities. The bonds carry an interest rate of 4.0%-5.0% and principal payments begin April 1, 2018 and mature on April 1, 2029.

A summary of additions and payments for the year ended June 30, 2017 is shown below:

Year of Issuance	Original Issue	Interest Rate (%)	Year of Maturity	Balance 7/1/2016	Additions	Payments	Balance 6/30/2017	Due Within One Year
Governmental activities general obligations bonds issued by City of Buffalo:								
2005	\$ 26,167,250	5.0	2025	\$ 5,976,768	\$ -	\$ 1,090,520	\$ 4,886,248	\$ 1,145,047
2005	34,346,833	5.0	2019	1,665,381	-	707,848	957,533	637,532
2006	25,275,917	5.0	2022	6,584,815	-	1,555,366	5,029,449	1,601,082
2007	22,226,126	5.0	2023	11,866,465	-	1,457,077	10,409,388	1,530,231
2008	22,000,000	3.0-5.3	2023	3,050,000	-	1,485,000	1,565,000	1,565,000
2009	21,500,000	1.4-6.0	2024	4,265,000	-	1,365,000	2,900,000	1,420,000
2010	21,985,000	2.0-5.0	2025	14,765,000	-	1,360,000	13,405,000	1,430,000
2011	12,825,000	3.0-5.0	2021	1,550,000	-	515,000	1,035,000	505,000
2012	22,265,000	2.0-4.0	2026	15,910,000	-	1,355,000	14,555,000	1,410,000
2012	3,480,000	3.0-4.0	2022	2,225,000	-	1,295,000	930,000	175,000
2012	21,640,000	2.0-5.0	2023	14,645,000	-	1,860,000	12,785,000	1,915,000
2012	4,255,000	2.0-4.0	2024	1,060,000	-	265,000	795,000	255,000
2013	7,540,000	0.8-3.5	2025	5,785,000	-	585,000	5,200,000	595,000
2014	25,639,769	4.0-5.0	2023	20,180,000	-	2,745,000	17,435,000	2,780,000
2015	29,088,985	2.0-5.0	2026	26,240,000	-	2,815,000	23,425,000	2,480,000
2016	21,703,468	2.0-5.0	2028	21,703,468	-	1,482,270	20,221,198	1,435,949
2016	15,375,000	3.0-4.0	2024	15,375,000	-	-	15,375,000	-
2017	21,618,019	4.0-5.0	2029	-	21,618,019	-	21,618,019	1,428,784
Total				<u>172,846,897</u>	<u>21,618,019</u>	<u>21,938,081</u>	<u>172,526,835</u>	<u>22,308,625</u>
Governmental activities general obligations bonds issued by the City of Buffalo on behalf of discretely presented component unit – Board of Education:								
2006	\$ 2,483,000	5.0	2020	\$ 891,000	\$ -	\$ 207,000	\$ 684,000	\$ 217,000
2007	5,889,000	5.0	2019	1,815,000	-	576,000	1,239,000	604,000
2008	8,920,000	3.0-5.3	2023	1,230,000	-	600,000	630,000	630,000
2009	3,530,000	2.5-5.0	2024	705,000	-	225,000	480,000	235,000
2010	4,900,000	2.5-4.0	2025	3,185,000	-	310,000	2,875,000	320,000
2011	21,825,000	3.0-4.0	2021	8,140,000	-	6,035,000	2,105,000	490,000
2012	4,900,000	3.0-4.0	2026	3,500,000	-	300,000	3,200,000	310,000
2012	15,355,000	2.0-5.0	2021	10,500,000	-	135,000	10,365,000	2,485,000
2012	5,000,000	2.0-3.3	2027	3,825,000	-	305,000	3,520,000	310,000
2012	6,720,000	2.0-4.0	2025	3,910,000	-	380,000	3,530,000	400,000
2012	11,230,000	1.0-4.0	2023	7,765,000	-	890,000	6,875,000	915,000
2012	20,515,000	1.0-5.0	2024	14,065,000	-	1,570,000	12,495,000	1,630,000
2016	5,845,000	2.0-4.0	2023	5,845,000	-	165,000	5,680,000	170,000
Total				<u>65,376,000</u>	<u>-</u>	<u>11,698,000</u>	<u>53,678,000</u>	<u>8,716,000</u>
Less bonds issued by City to BFSAs:								
2005A	\$ 26,167,250	4.0-5.0	2025	\$ (5,976,768)	\$ -	\$ (1,090,520)	\$ (4,886,248)	\$ (1,145,047)
2005BC	41,605,310	5.0	2019	(1,665,381)	-	(707,848)	(957,533)	(637,532)
2006A	27,758,917	4.0-5.0	2020	(7,475,815)	-	(1,762,366)	(5,713,449)	(1,818,082)
2007A	28,115,126	4.0-5.0	2023	(13,681,464)	-	(2,033,077)	(11,648,387)	(2,134,231)
Total mirror bonds				<u>(28,799,428)</u>	<u>-</u>	<u>(5,593,811)</u>	<u>(23,205,617)</u>	<u>(5,734,892)</u>
Net governmental activities general obligation bonds issued by the City of Buffalo				<u>209,423,469</u>	<u>21,618,019</u>	<u>28,042,270</u>	<u>202,999,218</u>	<u>25,289,733</u>

(continued)

(concluded)

Year of Issuance	Original Issue	Interest Rate (%)	Year of Maturity	Balance 7/1/2016	Additions	Payments	Balance 6/30/2017	Due Within One Year
Governmental activities general obligations bonds issued by Buffalo Fiscal Stability Authority:								
2005BC	\$ 47,065,000	5.0	2019	\$ 4,660,000	\$ -	\$ 2,675,000	\$ 1,985,000	\$ 860,000
2007A	28,470,000	4.0-5.0	2023	16,095,000	-	2,010,000	14,085,000	2,110,000
2015A	14,170,000	3.0-5.0	2025	14,170,000	-	2,465,000	11,705,000	2,550,000
Total				<u>34,925,000</u>	<u>-</u>	<u>7,150,000</u>	<u>27,775,000</u>	<u>5,520,000</u>
Total governmental activities bonds				<u>244,348,469</u>	<u>21,618,019</u>	<u>35,192,270</u>	<u>230,774,218</u>	<u>30,809,733</u>
Unamortized premium - City				16,793,146	3,853,478	2,941,001	17,705,623	2,302,886
Unamortized premium - BFSA				<u>2,720,315</u>	<u>-</u>	<u>478,406</u>	<u>2,241,909</u>	<u>478,406</u>
Total governmental activities bonds, net				<u>\$ 263,861,930</u>	<u>\$ 25,471,497</u>	<u>\$ 38,611,677</u>	<u>\$ 250,721,750</u>	<u>\$ 33,591,025</u>
Business-type activities — general obligation bonds:								
Parking:								
2012	\$ 8,415,000	2.0-5.0	2022	\$ 6,510,000	\$ -	\$ 1,615,000	\$ 4,895,000	\$ 920,000
2016	4,066,532	2.0-5.0	2028	4,066,532	-	277,730	3,788,802	269,051
2017	2,741,981	4.0-5.0	2029	-	2,741,981	-	2,741,981	181,214
Subtotal — Parking				<u>10,576,532</u>	<u>2,741,981</u>	<u>1,892,730</u>	<u>11,425,783</u>	<u>1,370,265</u>
Water System:								
2005	\$ 6,552,147	5.0	2018	\$ 319,619	\$ -	\$ 152,150	\$ 167,469	\$ 167,469
Total				<u>10,896,151</u>	<u>2,741,981</u>	<u>2,044,880</u>	<u>11,593,252</u>	<u>1,537,734</u>
Business-type activities — Water System Revenue Bonds:								
2002	\$ 11,785,000	2.5-4.8	2018	\$ 675,000	\$ -	\$ 330,000	\$ 345,000	\$ 345,000
2006	19,917,236	3.6-4.8	2028	12,305,000	-	860,000	11,445,000	885,000
2007	13,010,000	3.6-4.4	2038	10,920,000	-	310,000	10,610,000	325,000
2007	29,220,000	5	2027	18,455,000	-	3,565,000	14,890,000	3,745,000
2010	23,975,000	2.0-6.9	2041	21,570,000	-	520,000	21,050,000	535,000
2011	2,720,000	1.5-5.1	2022	1,600,000	-	245,000	1,355,000	250,000
2012	17,150,000	1.8-4.0	2043	16,080,000	-	380,000	15,700,000	390,000
2012	2,575,000	5.6-6.3	2031	2,575,000	-	130,000	2,445,000	130,000
2015	46,655,000	2.0-5.0	2036	46,655,000	-	1,660,000	44,995,000	1,650,000
Total				<u>130,835,000</u>	<u>-</u>	<u>8,000,000</u>	<u>122,835,000</u>	<u>8,255,000</u>
Total business-type activities bonds				<u>141,731,151</u>	<u>2,741,981</u>	<u>10,044,880</u>	<u>134,428,252</u>	<u>9,792,734</u>
Unamortized premium				7,111,568	488,766	476,122	7,124,212	492,404
Unamortized discount				<u>(227,396)</u>	<u>-</u>	<u>(10,875)</u>	<u>(216,521)</u>	<u>(10,619)</u>
Total business-type activities bonds, net				<u>\$ 148,615,323</u>	<u>\$ 3,230,747</u>	<u>\$ 10,510,127</u>	<u>\$ 141,335,943</u>	<u>\$ 10,274,519</u>

Amortization of Bond Premiums and Discounts—As previously discussed, on April 19, 2017, the City issued general improvement serial bonds Series 2017A totaling \$24,360,000 and received a bond premium of \$4,342,244. The premium is being amortized on a straight-line annual basis over the life of the bonds, which mature on April 1, 2029. The total remaining unamortized premiums on bonds at June 30, 2017 are \$19,947,532 and \$7,124,212 reported in governmental activities and business-type activities, respectively. Additionally, unamortized discounts on bonds of \$216,521 are reported in business-type activities at June 30, 2017.

The City's debt service requirements for its bonds are as follows:

Governmental Activities—City of Buffalo, New York

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$ 22,308,625	\$ 7,802,703	\$ 30,111,328
2019	22,014,367	6,876,964	28,891,331
2020	22,213,488	5,780,294	27,993,782
2021	20,089,719	4,731,049	24,820,768
2022	20,646,503	3,829,792	24,476,295
2023-2027	58,416,580	7,886,424	66,303,004
2028-2029	6,837,553	411,364	7,248,917
Total	<u>\$ 172,526,835</u>	<u>\$ 37,318,590</u>	<u>\$ 209,845,425</u>

Issued by City on behalf of Component Unit—Board of Education

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$ 8,716,000	\$ 1,778,092	\$ 10,494,092
2019	8,973,000	1,457,844	10,430,844
2020	8,624,000	1,135,044	9,759,044
2021	8,695,000	809,800	9,504,800
2022	5,600,000	571,306	6,171,306
2023-2027	13,070,000	753,138	13,823,138
Total	<u>\$ 53,678,000</u>	<u>\$ 6,505,224</u>	<u>\$ 60,183,224</u>

Governmental Activities—Buffalo Fiscal Stability Authority

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$ 5,520,000	\$ 1,140,900	\$ 6,660,900
2019	5,685,000	879,063	6,564,063
2020	5,440,000	612,262	6,052,262
2021	4,690,000	373,575	5,063,575
2022	1,960,000	225,225	2,185,225
2023	4,480,000	219,225	4,699,225
Total	<u>\$ 27,775,000</u>	<u>\$ 3,450,250</u>	<u>\$ 31,225,250</u>

Business-Type Activities

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$ 9,792,734	\$ 6,340,763	\$ 16,133,497
2019	9,820,194	5,902,481	15,722,675
2020	9,852,615	5,453,065	15,305,680
2021	7,387,171	5,061,116	12,448,287
2022	7,743,082	4,717,260	12,460,342
2023-2027	36,310,006	18,523,170	54,833,176
2028-2032	28,542,450	9,462,398	38,004,848
2033-2037	14,000,000	4,749,134	18,749,134
2038-2042	10,050,000	1,360,871	11,410,871
2043	930,000	18,600	948,600
Total	<u>\$ 134,428,252</u>	<u>\$ 61,588,858</u>	<u>\$ 196,017,110</u>

Notes Payable—The Niagara International Transportation Technology Coalition and Management Council (“NITTEC”) provided a \$2,500,000 loan at 2% for 10 years to the City toward the installation of controllers to standardize the signal system and improve traffic flow on designated corridors. The outstanding balance of \$272,859 during the prior year ended June 30, 2016 has been paid off in full during the current fiscal year.

Compensated Absences—As described in Note 1, the liability for compensated absences, which totals \$28,479,976 for governmental activities and \$1,401,418 for business-type activities, represents amounts relating to sick and personal leave for employees. Payments of these liabilities are dependent upon many factors (including retirement, termination, or employees leaving service) and, therefore, timing of future payments of such are not readily determinable. Typically, the General Fund has been used to liquidate this liability within the governmental funds. The City has estimated that \$2,041,040 and \$87,467 for governmental activities and business-type activities, respectively, will be paid in the next fiscal year.

Workers’ Compensation—Accrued workers’ compensation, which totals \$8,472,167 and \$1,950,618 for governmental activities and business-type activities, respectively, represents the City’s estimate of both asserted and unasserted workers’ compensation losses. The payments related to these liabilities are dependent upon many factors and, therefore, timing of future payments are not readily determinable. The City has estimated that \$4,572,209 and \$792,647 for governmental activities and business-type activities, respectively, will be paid in the next fiscal year. Refer to Note 9 for additional information related to workers’ compensation.

Landfill Post-Closure Monitoring Costs—In accordance with the Environmental Conservation Law of the State of New York, the City is complying with post-closure monitoring of Unity Island. The cost of post-closure is based on the percentage of the landfill’s total capacity used to date, which is 100%. The City is still required to monitor the site for another 11 years, with an estimated annual cost of \$70,000 each of the remaining years. The estimate, which is subject to various changes resulting from inflation, deflation, technology or changes in the applicable laws or regulations, for the outstanding liability at June 30, 2017 was \$770,000.

OPEB Obligation—As explained in Note 8, the City provides health insurance coverage for certain retirees. The City’s annual other postemployment benefit (“OPEB”) cost is calculated based on the annual required contributions of the employer, an amount actuarially determined in accordance with the parameters of GASB. Typically, the General Fund has been used to liquidate this liability within the governmental funds. The long-term OPEB liability is estimated to be \$565,466,164 and \$29,451,000 in the governmental activities and business-type activities, respectively.

Judgments and Claims—As explained in Note 9, the City records a liability for general liability claims in the government-wide financial statements. The City’s judgments and claims liability, which totals \$13,000,000 at June 30, 2017, represents estimated amounts due for various outstanding claims. Payment of these estimated amounts are dependent upon many factors (including outstanding litigation). The City has estimated that \$4,160,000 of the aforementioned claims will be paid in the next fiscal year.

Net Pension Liability—The City reports a liability for its proportionate share of the net pension liability for the Employee Retirement System and Police and Fire Retirement System. The net pension liability is estimated to be \$85,992,769 and \$3,730,684 in the governmental activities and business-type activities, respectively. Typically, the General Fund has been used to liquidate this liability within the governmental funds. Refer to Note 7 for additional information related to the City’s net pension liability.

Debt Contracting Limitation and Unissued Bonds—The City’s debt contracting limitation under its legal debt margin at July 1, 2017, was approximately \$710.3 million. The effective borrowing capacity is \$508.2 million.

The list of the City’s authorized and unissued bonds at June 30, 2017, is as follows:

Project	Total Authorized and Unissued
General Improvement Bonds—City of Buffalo	<u>\$ 13,823,557</u>

Board of Education

A summary of changes in the Board’s long-term liabilities for the year ended June 30, 2017, is as follows:

	Balance 7/1/2016 (as restated)	Additions	Reductions	Balance 6/30/2017	Due Within One Year
Governmental activities:					
Due to other governments	\$ 10,266,666	\$ -	\$ 713,334	\$ 9,553,332	\$ 713,334
Revenue bonds payable	12,140,000	-	610,000	11,530,000	630,000
JSCB bonds payable	866,365,000	133,580,000	201,155,000	798,790,000	56,220,000
Premium on bonds	96,970,915	30,906,352	16,572,058	111,305,209	10,603,632
Compensated absences	20,329,687	7,728,023	6,795,611	21,262,099	7,107,289
Pension deferral	2,953,191	-	248,725	2,704,466	258,077
Workers' compensation	43,886,801	6,451,186	8,263,987	42,074,000	8,155,000
OPEB obligation	2,852,359,000	187,766,000	504,820,000	2,535,305,000	-
Net pension liability*	<u>22,702,665</u>	<u>7,430,293</u>	<u>-</u>	<u>30,132,958</u>	<u>-</u>
Total	<u>\$ 3,927,973,925</u>	<u>\$ 373,861,854</u>	<u>\$ 739,178,715</u>	<u>\$ 3,562,657,064</u>	<u>\$ 83,687,332</u>

(*Additions to the net pension liability are shown net of reductions)

Source of Funding—Amounts due to other governments, due to City of Buffalo (bonded debt), and revenue bonds payable are repaid through annual appropriation of the Board’s general fund. Payments for compensated absences are charged to the Board’s general fund.

Due to Other Governments—In June 2000, the State Legislature passed special legislation to advance the Board \$20,000,000 in lottery aid to help pay for a litigation settlement with the Buffalo Teachers Federation. In June 2006, the Board received an additional lottery advance of \$1,400,000. The advances are recorded as long-term interest-free loans with annual maturities as shown below.

Fiscal Year Ending June 30,	Principal
2018	\$ 713,334
2019	713,334
2020	713,334
2021	713,332
2022	713,332
2023-2027	3,566,666
2028-2032	2,233,334
2033-2036	186,666
	<u>\$ 9,553,332</u>

Revenue Bonds Payable—Represents amounts due for Municipal Bond Agency Revenue Bonds, issued pursuant to the State of New York Municipal Bond Agency (the “Agency”) Act and a General Resolution and a Series Resolution to provide funds to (i) finance a portion of the cost of settling litigation involving the Board and the Buffalo Teachers Federation (ii) fund the Debt Service Reserve Fund to at least the Debt Service Reserve Fund Requirement and (iii) pay legal, accounting, financing, and other fees and expenses relating to the issuance of the Bonds.

The Bonds are special revenue obligations of the Agency and are secured by Annual Payments payable by the City from all monies legally available (which availability is, in general, dependent upon annual appropriations by the City), and amounts received by the Agency pursuant to the Agency’s statutory right to intercept State School Aid payable to the City and all funds and accounts established by the General Resolution described in the Official Statement.

The remaining annual maturities of revenue bonds payable are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$ 630,000	\$ 453,641	\$ 1,083,641
2019	645,000	440,891	1,085,891
2020	665,000	421,141	1,086,141
2021	695,000	390,466	1,085,466
2022	730,000	354,841	1,084,841
2023-2027	4,205,000	1,211,081	5,416,081
2028-2031	3,960,000	369,977	4,329,977
Total	<u>\$ 11,530,000</u>	<u>\$ 3,642,038</u>	<u>\$ 15,172,038</u>

Joint Schools Construction Board Bonds Payable—Represents bond payments due for the design, construction, and financing of public educational facilities in the City.

In September 2016, the Board issued \$133,580,000 in school facility refunding revenue bonds with an average interest rate of 5.00% to advance refund \$148,000,000 of outstanding 2009A bonds with an average interest rate of 5.08%. The net proceeds of \$167,222,021 (after payment of \$1,026,724 in underwriting fees, insurance and other issuance costs) were used to purchase United States government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased, and the liability for those bonds has been removed from the Board’s financial statements. The Board advance refunded the bonds to reduce debt service payments over 11 years by \$17,693,614 and obtained an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$16,600,079.

In prior years, the Board defeased certain general obligations and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Board’s financial statements. The amount of \$275,080,000 of these bonds defeased in the prior years are outstanding at June 30, 2017.

The remaining annual maturities of Joint Schools Construction Board bonds payable are as follows:

Fiscal Year Ending				
June 30,	Principal	Interest	Total	
2018	\$ 56,220,000	\$ 40,118,625	\$ 96,338,625	
2019	53,055,000	37,312,625	90,367,625	
2020	55,780,000	34,664,975	90,444,975	
2021	65,280,000	31,878,625	97,158,625	
2022	74,675,000	28,617,375	103,292,375	
2023-2027	341,460,000	86,995,675	428,455,675	
2028-2032	152,320,000	17,462,475	169,782,475	
Total	<u>\$ 798,790,000</u>	<u>\$ 277,050,375</u>	<u>\$ 1,075,840,375</u>	

Pension Deferral—As explained in Note 7, the Board participates in the New York and Local Employees’ Retirement System (“ERS”). In the prior year, the Board elected to participate in the alternate contribution stabilization program for ERS as enacted by New York State under Chapter 57, Laws of 2013. The program provides short-term cash relief by allowing municipalities to defer payment on a portion of the annual contribution, but requires repayment with interest in the following year. The Board made a payment of \$248,725 under this program and deferred payment of \$2,704,466. Amortization of the deferral is as follows:

Fiscal Year				
Ending June 30,	Principal	Interest	Total	
2018	\$ 258,077	\$ 101,688	\$ 359,765	
2019	267,781	91,984	359,765	
2020	277,849	81,916	359,765	
2021	288,296	71,469	359,765	
2022	299,136	60,629	359,765	
2023-2026	1,313,327	125,730	1,439,057	
Total	<u>\$ 2,704,466</u>	<u>\$ 533,416</u>	<u>\$ 3,237,882</u>	

Compensated Absences—Compensated absences, which totaled \$21,262,099 at June 30, 2017, represent amounts relating to sick and personal leave for employees. Payment of these liabilities is dependent upon many factors (including retirement, termination, or employees leaving service), and, therefore, payment of such is not readily determinable. The Board has estimated that \$7,107,289 will be paid in the next fiscal year.

Workers' Compensation—Workers' compensation obligations total \$42,074,000 at June 30, 2017, representing estimated amounts due for various outstanding claims.

OPEB Obligation—Refer to Note 8.

Net Pension Liability—The Board reported a liability, \$30,132,958, for its proportionate share of the net pension liabilities of the Employees' Retirement System and Teachers' Retirement System. Refer to Note 7 for additional information related to the Board's net pension liability.

Buffalo Urban Renewal Agency

BURA's outstanding long-term liabilities include compensated absences, other postemployment benefits ("OPEB") obligation, long-term retirement liability, net pension liability, and long-term due to other governments.

A summary of changes in BURA's long-term liabilities at June 30, 2017 follows:

	Balance 7/1/2016	Additions	Reductions	Balance 6/30/2017	Due Within One Year
Governmental activities:					
Compensated absences*	\$ 221,960	\$ 145,069	\$ -	\$ 367,029	\$ 18,351
OPEB obligation	13,992,011	2,400,344	368,227	16,024,128	-
Long-term retirement liability	143,079	-	32,547	110,532	18,422
Net pension liability*	1,196,017	-	450,023	745,994	-
Long-term due to other governments	<u>502,774</u>	<u>-</u>	<u>51,953</u>	<u>450,821</u>	<u>-</u>
Total	<u>\$ 16,055,841</u>	<u>\$ 2,545,413</u>	<u>\$ 902,750</u>	<u>\$ 17,698,504</u>	<u>\$ 36,773</u>

(*compensated absences and net pension activity is shown as net)

Compensated Absences—BURA records the value of compensated absences. The annual budgets of the operating funds provide funding for these benefits as they become payable. The value recorded in the government-wide financial statements at June 30, 2017, for governmental activities is \$367,029. Management estimates that \$18,351 is due within one year. Since payment of compensated absences is dependent upon many factors, the timing of future payments is not readily determinable.

OPEB Obligation—As explained in Note 8, BURA provides health insurance coverage for certain retirees. BURA's annual other postemployment benefits ("OPEB") cost is calculated based on the annual required contributions of the employer, an amount actuarially determined in accordance with the parameters of GASB. The estimated long-term OPEB liability is \$16,024,128 as of June 30, 2017.

Long-Term Retirement Liability—As explained in Note 7, BURA participates in the New York and Local Employees' Retirement System ("ERS"). BURA elected to amortize certain payments relating to ERS during 2011 and 2013 over ten years in accordance with Chapter 260 of the Laws of 2004 of

the State of New York. Accordingly, at June 30, 2017, BURA has recorded a liability in the amount of \$110,532, of which \$18,422 is considered due within one year.

Net Pension Liability—BURA reported a liability, \$745,994, for its proportionate share of the net pension liability of the Employees’ Retirement System. Refer to Note 7 for additional information related to BURA’s net pension liability.

Long-Term Due to Other Governments—BURA reports a long-term liability, \$450,821, which is owed to the City to be used to pay HUD for claims related to prior years’ activity. Repayment is based on the future sale of property and availability of funds. The City has recorded an intergovernmental payable for \$450,821 and a corresponding intergovernmental receivable on its statement of net position.

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 the acquisition, construction or improvement of these assets reduce the balance in this category. A reconciliation of the City’s governmental and business-type activities net investment in capital assets are shown below.

Governmental activities:

Capital assets, net of accumulated depreciation		\$ 511,262,076
Related debt:		
Serial bonds issued for capital assets	\$ (177,096,218)	
Unspent debt proceeds	<u>37,233,400</u>	
Bonds payable issued for capital assets		(139,862,818)
Deferred loss on refunding		2,730,062
Unamortized premiums		<u>(19,947,532)</u>
Net investment in capital assets—governmental activities		<u>\$ 354,181,788</u>

Business-type activities:

Capital assets, net of accumulated depreciation		\$ 188,263,155
Related debt:		
Serial bonds issued for capital assets	(134,428,252)	
Unspent debt proceeds	<u>21,165,587</u>	
Bonds payable issued for capital assets		(113,262,665)
Deferred gain on refunding		(7,755)
Deferred loss on refunding		3,737,557
Unamortized premium		(7,124,212)
Unamortized discount		<u>216,521</u>
Net investment in capital assets—business-type activities		<u>\$ 71,822,601</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 or enabling legislation.
- **Unrestricted Net Position**—This category represents net position of the City not restricted for any project or other purpose.

Nonspendable Fund Balance—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. Nonspendable fund balances maintained by the City at June 30, 2017 include:

Real estate acquired for sale	\$ 8,175,001
Long-term due from other funds	18,357,397
Prepaid items	1,854,138
Permanent Fund - corpus	<u>30,000</u>
Total	<u>\$ 28,416,536</u>

- **Real Estate Acquired for Sale**—This amount represents real estate acquired for resale.
- **Long-term Due from Other Funds**—Represents a long-term receivable from the Solid Waste and Recycling Fund for operating losses incurred in the fund since its inception.
- **Prepaid Items**—Represents amounts prepaid to vendors and employees that are applicable to future accounting periods.
- **Permanent Fund—Corpus**—Represents the amount of principal that is nonspendable due to specific purposes stipulated in the bequest which established the Forsyth Park fund.

Restricted Fund Balance—In the fund financial statements, restricted fund balances are amounts constrained to specific purposes (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation. Restricted fund balances of the City at June 30, 2017 are shown below:

	General Fund	Debt Service Fund	Capital Projects Fund	BFSA Special Revenue Fund	Nonmajor Governmental Funds	Total
Capital projects	\$ -	\$ -	\$ 37,171,106	\$ -	\$ -	\$ 37,171,106
Capital outlay	4,674,402	-	-	-	-	4,674,402
Debt service	-	11,875,384	-	-	5,979,148	17,854,532
Grants	-	-	-	-	3,732,714	3,732,714
State mandated initiatives	-	-	-	669,039	-	669,039
Emergency medical services	1,451,234	-	-	-	-	1,451,234
Permanent fund - interest	-	-	-	-	110,814	110,814
Total	<u>\$ 6,125,636</u>	<u>\$ 11,875,384</u>	<u>\$ 37,171,106</u>	<u>\$ 669,039</u>	<u>\$ 9,822,676</u>	<u>\$ 65,663,841</u>

- **Restricted for Capital Projects**—Represents funds that have been reserved to fund future capital projects and the purchase of capital assets. This amount includes commitments for the expenditures of monies within the Capital Projects Fund.
- **Restricted for Capital Outlay**—This category represents amounts set aside for future departmental capital expenditures.

- **Restricted for Debt Service**—Represents resources that have been legally restricted for principal and interest payments that will be made in future periods.
- **Restricted for Grants**—This category includes federal and state monies that have been restricted as they can only be used for specific purposes as authorized by grantor agencies. This amount includes \$3,732,714 which is restricted by commitments for the expenditure of money within the Special Revenue Fund.
- **Restricted for State Mandated Initiatives**—Represents money provided by the State through aid and incentives for municipalities that is held by the BFSAs on behalf of the City. At June 30, 2017, \$669,039 of fund balance was restricted for state aid that did not meet the BFSAs Special Revenue Fund revenue recognition criteria.
- **Restricted for Emergency Medical Services**—Represents funds that have been restricted as they can only be used for specific purposes as outlined within emergency ambulance service agreement.
- **Restricted for Permanent Fund – Interest**—Represents the amount of interest earnings on the nonspendable principal that is reserved to be used for specific purpose stipulated in the bequest which established the Forsyth Park fund. The interest earnings are limited to the purchase or erection of works of art to be placed in the park system of the City of Buffalo.

Committed Fund Balance—In the fund financial statements, commitments are amounts that are subject to a purpose constraint imposed by a formal action of the City’s highest level of decision-making authority. The City’s policy requires commitments to be adopted through formal action (adoption of an ordinance) of the Common Council. As of June 30, 2017, the City reported the commitment described below:

- **Committed to Emergency Stabilization**—Represents a minimum of 30 days of the prior fiscal year’s total general fund operating expenditures. If during a fiscal year, the City has extraordinary operating or capital needs that could not be anticipated and cannot be funded with current budget resources, the City may use this fund. At June 30, 2017, the City reported \$38,754,190 within its Emergency Stabilization Fund.

Assigned Fund Balance—In the fund financial statements, assignments are not legally required segregations but are segregated for a specific purpose by the City. For example, the amount appropriated to reduce the tax levy as determined through the budget process and finalized when the tax rates are established would be considered assigned fund balance. The Common Council authorizes the Comptroller to make a determination of the assigned amounts of fund balance. At June 30, 2017 assigned fund balance includes:

	General Fund	BFSAs Special Revenue Fund	Total
Encumbrances	\$ 9,321,996	\$ -	\$ 9,321,996
Motor vehicle self-insurance	738,702	-	738,702
Subsequent year's expenditures	12,187,075	-	12,187,075
Judgments and claims	13,000,000	-	13,000,000
Specific use	-	568,667	568,667
Total	\$ 35,247,773	\$ 568,667	\$ 35,816,440

- ***Assigned to Encumbrances***—Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures of monies are recorded, is employed as part of the City’s budgetary control mechanism for all funds. Unencumbered appropriations lapse at fiscal year-end.
- ***Assigned to Motor Vehicle Self-Insurance***—Represents fund balance set aside for motor vehicle self-insurance.
- ***Assigned to Subsequent Year’s Expenditures***—Represents available fund balance being appropriated to meet expenditure requirements in the 2017-2018 fiscal year.
- ***Assigned to Judgments and Claims***—Represents amounts assigned to cover potential settlement of various claims and litigation.
- ***Assigned to Specific Use***—Represents fund balance within the special revenue funds that is assigned for a specific purpose. The assignment’s purpose relates to each fund’s operations and represents amounts within funds that are not restricted or committed.

If the City must use funds for emergency expenditures, the Common Council shall authorize the Comptroller to expend funds first from funds classified under GASB as nonspendable (if funds become available) then restricted funds. The use of committed and assigned funds, as classified by GASB, 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. RELATED PARTY TRANSACTIONS

The City provides annual support to the Board of Education. During the year ended June 30, 2017, the City contributed \$70,322,758 in economic support for operating purposes (\$58,615,112) and school tax relief reimbursement (\$11,707,646).

Buffalo Fiscal Stability Authority

The Act and other legal documents of the BFSA establish various legal financial relationships between the BFSA, the City and the City of Buffalo School District (the “District”). The resulting financial transactions between the BFSA, the City, and the District include the receipt and use of revenues as well as BFSA debt issuances to fund financeable costs of the City.

The receipt and remittance of revenues in 2017 include:

- The receipt and remittance to the City of sales tax revenues. Revenues of \$125,815,507 were recorded, of which \$75,022,307 was or will be paid to the City and \$43,389,176 was designated for the District.
- State aid of \$161,335,236 was received during 2017. No amounts were accrued at June 30, 2017.
- Distributions paid or accrued to the City in 2017 totaled \$243,728,012, which includes \$75,022,307 of sales tax receipts, \$168,487,148 of State aid and other revenue, and interest receipts of \$218,557.

Board of Education

During the year ended June 30, 2017, the Board transferred \$13,887,906 to the City for payment of the Board’s portion of principal and interest on long-term debt.

Board Urban Renewal Agency

The City is the primary sponsor of the programs conducted by BURA and is a nominal recipient of most of BURA’s federal and state funding. BURA is a related entity to the City, Buffalo Economic Renaissance Corporation (“BERC”) and the Buffalo Neighborhood Revitalization Corporation (“BNRC”).

In the past, BNRC received loans or grants from BURA under the CDBG program, the Section 108 Loan program, as well as various New York State grant programs. In turn, loan or grants were utilized to qualifying individuals and businesses for purposes of property rehabilitation, home acquisitions for low income individuals, or business development and expansion.

For the year ended June 30, 2017, no loans or grants were provided by BURA to BERC or BNRC. Under subrecipient agreements with BERC and BNRC, certain program income (such as loan repayments and interest) earned through the CDBG program may generally be retained as supplemental BURA funding, subject to applicable Federal regulations. The subrecipient agreements with these entities also provide that, upon termination of the subrecipient agreements, all unused program income, and any CDBG assets held by BERC and BNRC will revert to BURA.

In 2010, the City notified BERC that effective May 1, 2010 the subrecipient agreements between BERC and BURA had expired. Additionally, BURA demanded the return of any unexpended program income. In order to ensure that any such program income is returned to BURA, BERC established an escrow account in the initial amount of \$800,000 and an agreement was reached whereby BERC would transfer to BURA such program income, if any, from real estate operations.

Furthermore, BERC was required to transfer control of all of its CDBG loans to BURA during the year ended June 30, 2012. On June 1, 2016, loans amounting to \$1,339,950 were transferred from BERC to BURA. The outstanding balance of these loans, reported in the CDBG Fund, on June 30, 2017 is \$3,307,125. BURA maintains an allowance equal to this amount.

At June 30, 2017, net amounts due from related parties consisted of:

Due from BNRC, net of payables	\$ 10,628
Total	<u>\$ 10,628</u>

The City is presently engaged in a transaction to dissolve BERC. On October 20, 2010, the Board of BERC approved a plan to dissolve BERC. Under the plan, the majority of BERC’s assets and liabilities ultimately will be transferred to BURA. It is anticipated that the dissolution of BERC and the transfer of BERC’s assets and liabilities to BURA will be completed by January 2018.

14. INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables are generally short-term in nature and exist because of temporary advances or payments made on behalf of other funds. The composition of interfund balances as of June 30, 2017 is as follows:

Fund	Interfund	
	Receivable	Payable
Governmental funds:		
General Fund	\$ 44,479,924	\$ 5,054,082
Debt Service Fund	58,634	1,355,553
Capital Projects Fund	-	18,023,892
BFSA Special Revenue Fund	-	7,776,399
Nonmajor governmental funds	<u>1,801,307</u>	<u>548,914</u>
Total governmental funds	<u>46,339,865</u>	<u>32,758,840</u>
Proprietary funds:		
Solid Waste and Recycling Fund	184,505	18,357,397
Parking Fund	4,967,814	-
Water System	-	379,454
Internal Service Fund	<u>3,525</u>	<u>18</u>
Total proprietary funds	<u>5,155,844</u>	<u>18,736,869</u>
Total	<u>\$ 51,495,709</u>	<u>\$ 51,495,709</u>

To improve cash management, all City disbursements are made from a consolidated account in the General Fund. Also, the cash balances of certain capital funds are consolidated to maximize investment return. Both of these cash management practices, as well as normal delays in processing interfund transfers and reimbursements, are the main reasons why interfund receivables and payables exist.

Included within the General Fund's due from other funds totaling \$44,479,924 is a portion in the amount of \$18,357,397, which is considered long-term and has been reserved within nonspendable fund balance.

The City made the following transfers during the year ended June 30, 2017:

Transfers out:	Transfers in:						Total
	General Fund	Debt Service Fund	Capital Projects Fund	BFSA Special Revenue Fund	Nonmajor Governmental Funds	Solid Waste & Recycling Fund	
General Fund	\$ -	\$ 24,256,051	\$ 3,580,000	\$ -	\$ -	\$ 3,640,960	\$ 31,477,011
Debt Service Fund	-	-	-	280,765	6,753,018	-	7,033,783
Capital Projects Fund	-	2,042,762	-	-	-	-	2,042,762
Solid Waste & Recycling Fund	673,078	-	-	-	-	-	673,078
Parking Fund	6,200,000	165,652	-	-	-	-	6,365,652
Water System	6,261,162	-	-	-	-	-	6,261,162
Total	<u>\$ 13,134,240</u>	<u>\$ 26,464,465</u>	<u>\$ 3,580,000</u>	<u>\$ 280,765</u>	<u>\$ 6,753,018</u>	<u>\$ 3,640,960</u>	<u>\$ 53,853,448</u>

The City records the receipt of all property taxes levied as revenue in the General Fund and records a transfer to the Debt Service Fund where the payment on long-term debt is reported. Based on the financing and operation agreements of the Water Board, revenues collected are transferred to the Water Authority and Water Enterprise Fund to cover their operational costs. Other transfers are the result of indirect costs.

15. LABOR RELATIONS

Approximately 2,839 of the City’s employees are covered by a total of eight collective bargaining agreements. The following table shows, for each union, the dates through which a contract has been negotiated.

Union	Expiration Date
Pipe Caulkers	6/30/16
Firefighters	6/30/17
Blue Collar	6/30/19
White Collar	6/30/19
Police	6/30/19
Crossing Guards	8/31/19
Building Inspectors	6/30/20
Operating Engineers	6/30/20

16. COMMITMENTS

Encumbrances—Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year-end, valid outstanding encumbrances (those for which performance under the executory contract is expended in the next year) and re-appropriated and become part of the subsequent year’s budget pursuant to state regulations.

The City considers encumbrances to be significant for amounts that are encumbered in excess of \$500,000. The City has a total of \$68,261,376 encumbrances outstanding at June 30, 2017. In the General Fund, encumbrances of \$9,321,996 are supported by assigned fund balance. The Capital Projects Fund and Special Revenue Fund have \$34,173,402 and \$24,765,978 of outstanding encumbrances, respectively. As of June 30, 2017, the City had the following significant encumbrances:

Description	General Fund	Capital Projects Fund	Special Revenue Fund
Buildings	\$ -	\$ -	\$ 1,487,314
Building rehabilitation	-	-	6,579,735
General improvements	532,687	8,134,922	1,842,143
Bridges	-	6,142,322	-
Streets	3,123,940	6,907,719	-

Board of Education

Encumbrances—At June 30, 2017, the amount of encumbrances expected to be honored upon performance by the vendor in the next year were \$3,360,611 in the Board’s general fund.

Construction Commitment—As of June 30, 2017, the Board has approximately \$13,703,000 committed to various renovations.

17. TAX ABATEMENTS

The City is subject to programs entered into by Erie County Industrial Development Agency (“ECIDA”). These programs have the stated purpose of increasing business activity and employment in the region. Economic development agreements are entered into by the ECIDA 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 abatements, the unrealized property tax revenue is \$7,839,686. However, during 2017, the City collected \$3,630,829 related to these new incentivized projects.

Additionally, the City offers other tax exemptions subject to various NYS programs such as land banks, historic properties, home improvements, mixed use properties, business investment properties and property improvements in an Empire Zone. These programs provide real property tax exemptions on certain allowable properties in accordance with the regulations of the NYS Real Property Tax Laws or the Not-For-Corporation Laws of New York. Absent such exemptions, the unrealized property tax revenue is \$10,340,465. However, during 2017, the City collected \$4,083,031 related to the NYS programs.

18. CONTINGENCIES

Litigation—The City is involved in litigation in the ordinary course of its operations. 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 expenditures, if any, which may be disallowed cannot be determined at this time, management expects any amounts to be immaterial.

Revenue Sharing—On July 3, 2007, the Seneca Nation of Indians opened the Seneca Buffalo Creek Casino, which engages in Class III Gaming pursuant to authority contained in the Seneca Nation/New York State Gaming Compact (the "Compact"), which was made effective on August 18, 2002. After the conclusion of the initial fourteen year period of the Compact, the Compact was automatically extended in December 2016 for an additional seven years without objection by the Seneca Nation or the State. During the fiscal year ended June 30, 2017, the Seneca Nation notified State officials that they would be making their final casino revenue sharing payment as of December 31, 2016 under their interpretation of the Compact. New York State and the City contend that the revenue sharing payments are due from the Seneca Nation and that the compact requires that the Seneca Nation to make future payments.

Landfill Postclosure—As discussed in Note 11, the City is responsible to perform specified operation and maintenance functions at a landfill site for a period of thirty years. At June 30, 2017, the liability is \$770,000. The landfill postclosure care liability is an estimate and is subject to changes resulting from inflation, deflation, technology or changes in applicable laws or regulations.

Board of Education

Litigation—Various types of claims have been asserted against the Board by various claimants. Claims probable of resulting in an unfavorable outcome to the Board have been reasonably estimated and recorded in the government-wide financial statements. The claims are in various stages of processing and some may ultimately be brought to trial. Claims are paid and ultimately funded by the fund associated with the loss. For claims not accrued, the ultimate outcome of the suits cannot presently be determined and no provisions for loss if any, has been made in the accompanying financial statements. It is the opinion of management that there will not be any material adverse effects on the Board’s financial statements as a result of these actions.

State Aid—The State periodically reviews its distribution of aid to school boards throughout the State. Thus, revenues recorded as of June 30, 2017 are subject to potential revision.

Grants—The Board has received grants, which are subject to audit by agencies of the State and federal governments. Such audits may result in disallowances and request for a return of funds. Based on prior years’ experience, the Board’s administration believes disallowances, if any, will be immaterial.

Buffalo Urban Renewal Agency

Grants—In the normal course of operations, the Agency 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 granting of funds. Any disallowed expenditures resulting from such audits could become a liability of the Agency. While the amount of expenditures, if any, which may be disallowed cannot be determined at this time, management expects any such amounts to be immaterial.

Litigation—Various legal actions are pending against the Agency. 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 financial condition or results of operation of the Agency.

19. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 31, 2017, which is the date the financial statements are available for issuance, and have determined there are no subsequent events, except for the item listed below, that require disclosure under generally accepted accounting principles.

- On July 18, 2017, the City of Buffalo Common Council approved a five year extension with the Pipe Caulkers union contract through June 30, 2022.

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BUFFALO, NEW YORK
Schedule of Funding Progress—Other Post-Employment Benefits Plan
Year Ended June 30, 2017
(Amounts expressed in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
City of Buffalo:						
As of July 1, 2016	\$ -	\$ 1,458,274	\$ 1,458,274	0.0%	\$ 211,899	688.2%
As of July 1, 2014	-	1,428,412	1,428,412	0.0%	197,060	724.9%
As of July 1, 2012	-	1,535,570	1,535,570	0.0%	172,567	889.8%
Buffalo Fiscal Stability Authority:						
As of June 30, 2015	\$ -	\$ 338	\$ 338	0.0%	\$ 361	93.6%
As of June 30, 2012	-	116	116	0.0%	319	36.4%
Buffalo Urban Renewal Agency:						
As of June 30, 2017	\$ -	\$ 20,178	\$ 20,178	0.0%	\$ 2,242	900.0%
As of June 30, 2014	-	16,499	16,499	0.0%	2,027	814.0%
As of June 30, 2011	-	11,818	11,818	0.0%	2,290	516.1%

BUFFALO BOARD OF EDUCATION
Schedule of Changes in the Board's Total OPEB Liability and Related Ratios
For the Year Ended June 30, 2017*
(Amounts expressed in thousands)

Total OPEB Liability	
Service cost	\$ 105,405
Interest	82,361
Differences between expected and actual experience	(202,349)
Changes of assumptions	(238,475)
Benefit payments	<u>(63,996)</u>
Net changes in total OPEB liability	<u>(317,054)</u>
Total OPEB liability—beginning, as restated	<u>2,852,359</u>
Total OPEB liability—ending	<u><u>\$ 2,535,305</u></u>
Covered-employee payroll	\$ 344,791
Board's net OPEB liability as a percentage of covered-employee payroll	735.3%

*Information prior to the year ended June 30, 2017 is not available.

The notes to the Required Supplementary Information are an integral part of this schedule.

CITY OF BUFFALO, NEW YORK
Schedule of the Local Government's Proportionate Share of the
Net Pension Liability (Asset)—Teachers' Retirement System
Last Four Fiscal Years*

	Year Ended June 30,			
	2017	2016	2015	2014
Board of Education ("BOE"):				
Measurement date	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
BOE's proportion of the net pension liability (asset)	1.651498%	1.668248%	1.695591%	1.695591%
BOE's proportionate share of the net pension liability (asset)	<u>\$ 17,688,235</u>	<u>\$ (173,277,759)</u>	<u>\$ (188,878,283)</u>	<u>\$ (10,757,018)</u>
BOE's covered-employee payroll	\$ 259,159,687	\$ 264,357,397	\$ 259,159,687	\$ 258,505,177
BOE's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	6.8%	(65.5%)	(72.9%)	(4.2%)
Plan fiduciary net position as a percentage of the total pension liability	99.0%	110.5%	111.5%	100.7%

*Information prior to the year ended June 30, 2014 is not available.

CITY OF BUFFALO, NEW YORK
Schedule of the Local Government's Contributions—
Teachers' Retirement System
Last Four Fiscal Years*

	Year Ended June 30,			
	2017	2016	2015	2014
Board of Education ("BOE"):				
Contractually required contribution	\$ 34,062,426	\$ 33,792,412	\$ 43,929,324	\$ 40,700,597
Contributions in relation to the contractually required contribution	<u>(34,062,426)</u>	<u>(33,792,412)</u>	<u>(43,929,324)</u>	<u>(40,700,597)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
BOE's covered-employee payroll	\$ 308,322,717	\$ 259,159,687	\$ 258,505,177	\$ 248,023,907
Contributions as a percentage of covered-employee payroll	11.0%	13.0%	17.0%	16.4%

*Information prior to the year ended June 30, 2014 is not available.

CITY OF BUFFALO, NEW YORK
Schedule of the Local Government's Proportionate Share of the
Net Pension Liability—Police and Fire Retirement System
Last Four Fiscal Years*

	Year Ended June 30,			
	2016	2016	2015	2014
City of Buffalo ("City"):				
Measurement date	March 31, 2017	March 31, 2016	March 31, 2015	March 31, 2014
City's proportion of the net pension liability	3.2577408%	3.1811703%	3.5779889%	3.5779889%
City's proportionate share of the net pension liability	<u>\$ 67,521,629</u>	<u>\$ 94,187,680</u>	<u>\$ 9,848,756</u>	<u>\$ 14,895,509</u>
City's covered-employee payroll	\$ 131,271,249	\$ 131,399,856	\$ 121,626,842	\$ 130,718,240
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	51.4%	71.7%	8.1%	11.4%
Plan fiduciary net position as a percentage of the total pension liability	93.5%	90.2%	99.0%	98.5%

*Information prior to the year ended June 30, 2014 is not available.

CITY OF BUFFALO, NEW YORK
Schedule of the Local Government's Contributions—
Police and Fire Retirement System
Last Four Fiscal Years*

	Year Ended June 30,			
	2017	2016	2015	2014
City of Buffalo ("City"):				
Contractually required contribution	\$ 30,655,038	\$ 23,005,037	\$ 40,418,943	\$ 30,767,293
Contributions in relation to the contractually required contribution	<u>(30,655,038)</u>	<u>(23,005,037)</u>	<u>(40,418,943)</u>	<u>(30,767,293)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 134,207,252	\$ 130,265,189	\$ 123,270,081	\$ 137,177,059
Contributions as a percentage of covered-employee payroll	22.8%	17.7%	32.8%	22.4%

*Information prior to the year ended June 30, 2014 is not available.

CITY OF BUFFALO, NEW YORK
Schedule of the Local Governments' Proportionate Share of the
Net Pension Liability—Employees' Retirement System
Last Four Fiscal Years*

	Year Ended June 30,			
	2017	2016	2015	2014
Measurement date	March 31, 2017	March 31, 2016	March 31, 2015	March 31, 2014
Plan fiduciary net position as a percentage of the total pension liability	94.7%	90.7%	97.9%	97.2%
City of Buffalo ("City"):				
City's proportion of the net pension liability	0.2342962%	0.2177420%	0.2151949%	0.2151949%
City's proportionate share of the net pension liability	<u>\$ 22,014,998</u>	<u>\$ 34,948,192</u>	<u>\$ 7,269,810</u>	<u>\$ 9,724,354</u>
City's covered-employee payroll	\$ 75,362,488	\$ 66,139,468	\$ 59,801,701	\$ 57,291,143
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	29.2%	52.8%	12.2%	17.0%
Buffalo Fiscal Stability Authority ("BFSA"):				
BFSA's proportion of the net pension liability	0.0019883%	0.0018893%	0.0018411%	0.0018411%
BFSA's proportionate share of the net pension liability	<u>\$ 186,826</u>	<u>\$ 303,242</u>	<u>\$ 62,198</u>	<u>\$ 67,581</u>
BFSA's covered-employee payroll	\$ 386,979	\$ 354,794	\$ 334,762	\$ 348,621
BFSA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	48.3%	85.5%	18.6%	19.4%
Board of Education ("BOE"):				
BOE's proportion of the net pension liability	0.132444%	0.141447%	0.142493%	0.142493%
BOE's proportionate share of the net pension liability	<u>\$ 12,444,723</u>	<u>\$ 22,702,665</u>	<u>\$ 4,813,758</u>	<u>\$ 6,439,054</u>
BOE's covered-employee payroll	\$ 53,178,712	\$ 51,421,185	\$ 50,901,094	\$ 49,237,845
BOE's proportionate share of the net pension liability as a percentage of its covered-employee payroll	23.4%	44.2%	9.5%	13.1%
Buffalo Urban Renewal Agency ("BURA"):				
BURA's proportion of the net pension liability	0.0079393%	0.0074517%	0.0080528%	0.0080528%
BURA's proportionate share of the net pension liability	<u>\$ 745,994</u>	<u>\$ 1,196,017</u>	<u>\$ 272,042</u>	<u>\$ 363,893</u>
BURA's covered-employee payroll	\$ 2,314,866	\$ 2,317,443	\$ 2,107,411	\$ 2,259,204
BURA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	32.2%	51.6%	12.9%	16.1%

*Information prior to the year ended June 30, 2014 is not available.

CITY OF BUFFALO, NEW YORK
Schedule of the Local Governments' Contributions—
Employees' Retirement System
Last Four Fiscal Years*

	Year Ended June 30,			
	2017	2016	2015	2014
City of Buffalo ("City"):				
Contractually required contributions	\$ 10,020,599	\$ 10,243,551	\$ 11,374,650	\$ 11,646,194
Contributions in relation to the contractually required contribution	<u>(10,020,599)</u>	<u>(10,243,551)</u>	<u>(11,374,650)</u>	<u>(11,646,194)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 77,691,737	\$ 63,077,840	\$ 63,457,322	\$ 59,261,548
Contributions as a percentage of covered-employee payroll	12.9%	16.2%	17.9%	19.7%
Buffalo Fiscal Stability Authority ("BFSA"):				
Contractually required contributions	\$ 58,035	\$ 67,365	\$ 62,469	\$ 75,625
Contributions in relation to the contractually required contribution	<u>(58,035)</u>	<u>(67,365)</u>	<u>(62,469)</u>	<u>(75,625)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
BFSA's covered-employee payroll	\$ 386,979	\$ 354,794	\$ 334,762	\$ 348,621
Contributions as a percentage of covered-employee payroll	15.0%	19.0%	18.7%	21.7%
Board of Education ("BOE"):				
Contractually required contributions	\$ 6,004,084	\$ 6,923,385	\$ 7,335,763	\$ 8,494,573
Contributions in relation to the contractually required contribution	<u>(6,363,848)</u>	<u>(7,283,149)</u>	<u>(7,695,528)</u>	<u>(5,070,646)</u>
Contribution deficiency (excess)	<u>\$ (359,764)</u>	<u>\$ (359,764)</u>	<u>\$ (359,765)</u>	<u>\$ 3,423,927</u>
BOE's covered-employee payroll	\$ 53,178,712	\$ 51,421,185	\$ 50,901,094	\$ 40,651,043
Contributions as a percentage of covered-employee payroll	12.0%	14.2%	15.1%	12.5%
Buffalo Urban Renewal Agency ("BURA"):				
Contractually required contributions	\$ 367,814	\$ 346,327	\$ 393,546	\$ 466,649
Contributions in relation to the contractually required contribution	<u>(367,814)</u>	<u>(346,327)</u>	<u>(393,546)</u>	<u>(466,649)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
BURA's covered-employee payroll	\$ 2,247,303	\$ 2,335,268	\$ 2,097,796	\$ 2,252,172
Contributions as a percentage of covered-employee payroll	16.4%	14.8%	18.8%	20.7%

*Information prior to the year ended June 30, 2014 is not available.

CITY OF BUFFALO, NEW YORK
Schedule of Revenues, Expenditures, and Changes in Fund
Balances—Budget and Actual (Non-GAAP Budgetary Basis)—General Fund
Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Budgetary</u>	<u>Variance with</u>
	<u>Adopted</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Final Budget</u>
REVENUES				
Property taxes, assessments, and other tax items	\$ 136,822,997	\$ 136,822,997	\$ 138,089,290	\$ 1,266,293
Utility and other nonproperty tax items	13,175,000	13,175,000	11,691,266	(1,483,734)
Federal aid	2,345,600	2,345,600	1,418,562	(927,038)
State aid	184,137,586	184,137,586	179,664,950	(4,472,636)
Local sources and other	83,210,000	83,210,000	82,282,637	(927,363)
Investment interest	750,000	750,000	622,001	(127,999)
Charges for services	15,569,274	15,569,274	13,164,123	(2,405,151)
Licenses and permits	5,281,405	5,281,405	4,960,690	(320,715)
Fines	11,891,500	11,891,500	10,796,047	(1,095,453)
Miscellaneous	16,947,014	16,947,014	6,155,708	(10,791,306)
Total revenues	<u>470,130,376</u>	<u>470,130,376</u>	<u>448,845,274</u>	<u>(21,285,102)</u>
EXPENDITURES				
Current:				
General government support:				
Legislative	4,860,558	5,160,086	5,031,320	128,766
Executive	2,545,127	2,547,481	2,110,081	437,400
Audit and control	3,427,225	3,450,480	2,878,092	572,388
Law	3,890,513	3,897,128	3,531,838	365,290
Assessment	3,566,602	3,992,167	3,286,347	705,820
Public works, parks and streets	7,164,963	8,507,491	8,450,479	57,012
Management information systems	3,892,794	4,038,282	3,892,494	145,788
Administration and finance	11,232,671	11,279,057	8,533,993	2,745,064
Human resources	5,386,160	6,218,959	6,125,208	93,751
Other	19,316,500	20,803,258	20,710,162	93,096
Public safety:				
Administration and finance	2,694,431	2,806,499	2,536,668	269,831
Police	88,261,210	89,516,752	92,362,800	(2,846,048)
Fire	59,200,108	59,673,955	63,138,638	(3,464,683)
Public works, parks and streets	1,748,736	1,698,416	1,566,997	131,419
Permit and inspection services	6,497,474	6,500,124	5,818,440	681,684
Streets and sanitation:				
Public works, parks and streets	13,556,826	15,031,798	14,724,094	307,704
Economic assistance and opportunity:				
Executive	2,500,727	2,561,939	2,176,629	385,310
Community services	222,419	222,419	157,065	65,354
Culture and recreation:				
Public works, parks and streets	5,597,414	5,797,219	6,250,888	(453,669)
Community services	2,701,080	2,934,998	2,861,268	73,730
Other	895,000	866,000	441,000	425,000
Health and community services:				
Public works, parks and streets	1,257,683	1,312,527	1,219,868	92,659
Community services	1,365,369	1,368,018	1,145,648	222,370
Other	-	151,302	151,302	-
Education	70,322,758	70,322,758	70,322,758	-
Fringe benefits	140,890,189	140,188,615	135,762,197	4,426,418
Other	2,700,000	7,793,885	8,882,722	(1,088,837)
Debt service	390,316	390,316	303,277	87,039
Total expenditures	<u>466,084,853</u>	<u>479,031,929</u>	<u>474,372,273</u>	<u>4,659,656</u>
Excess (deficiency) of revenues over expenditures	<u>4,045,523</u>	<u>(8,901,553)</u>	<u>(25,526,999)</u>	<u>(16,625,446)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	13,134,239	13,134,239	13,134,240	1
Transfers out	<u>(27,856,054)</u>	<u>(31,036,054)</u>	<u>(31,477,011)</u>	<u>(440,957)</u>
Total other financing sources (uses)	<u>(14,721,815)</u>	<u>(17,901,815)</u>	<u>(18,342,771)</u>	<u>(440,956)</u>
Net change in fund balances *	(10,676,292)	(26,803,368)	(43,869,770)	(17,066,402)
Fund balances—beginning	<u>149,478,017</u>	<u>149,478,017</u>	<u>149,478,017</u>	<u>-</u>
Fund balances—ending	<u>\$ 138,801,725</u>	<u>\$ 122,674,649</u>	<u>\$ 105,608,247</u>	<u>\$(17,066,402)</u>

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

The note to the required supplementary information is an integral part of this schedule.

CITY OF BUFFALO, NEW YORK
Notes to the Required Supplementary Information
Year Ended June 30, 2017

1. BUDGETARY INFORMATION

Budgetary Basis of Accounting—Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and Debt Service Fund. The Capital Projects Fund is appropriated on a project-length basis. No formal budget is adopted for the Special Revenue Fund. Appropriation limits, where applicable, for the Special Revenue Fund are maintained based on individual grant and programs accepted by the City. The periods of such grants and program vary from the City’s fiscal year.

The appropriated budget is prepared by fund, function, department, division, agency or other purpose. The Comptroller may make transfers of appropriations within a department, transfers of appropriations between departments are made by the Common Council. The total expenditures for each function may not exceed the original appropriation during the fiscal year without Council approval. Increases over budget appropriations as originally adopted require a two-thirds vote of approval by the Council after certification by both the Mayor and Comptroller, demonstrating that the increase is necessary to meet a contingency which could not have been reasonably foreseen when the budget was adopted.

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. Significant encumbrances are disclosed in the notes to the financial statements.

The City reports its budgetary status with the actual data, including outstanding encumbrances as charges against budget appropriations. The following table includes a reconciliation of the budgetary-basis (i.e., non-GAAP) and the GAAP-basis operating results.

Excess of expenditures and other financing uses over revenues and other financing sources—GAAP basis	\$ (34,547,774)
Less: encumbrances	<u>(9,321,996)</u>
Excess of revenues and other financing sources over expenditures and other financing uses—non-GAAP budgetary basis	<u>\$ (43,869,770)</u>

Excess of Expenditures Over Appropriations—For the year ended June 30, 2017, the City had budgetary expenditures in excess of the final budget amount within public safety of \$2,846,048 and \$3,464,683 pertaining to police and fire, respectively which was caused by the effects of unanticipated overtime and wages in addition to the purchase of vehicles within the police department. Further, the City had budgetary expenditures in excess of the final budget amount of \$453,669 within culture and recreation pertaining to public works, parks and streets as a result of new positions and related wages not forecasted within the budget, while other expenditures related to excess workers’ compensation claims recognized in the current year were \$1,088,837 over appropriations. Additionally, transfers out exceeded the final budget by \$440,957 as a result of unbudgeted transfers to the Solid Waste and Recycling Fund for operating purposes.

2. OPEB LIABILITY—BUFFALO BOARD OF EDUCATION

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 Mutual General Obligation AA 20-Year Bond rate as of the measurement date, which increased from 2.92% to 3.56% at June 30, 2017. Mortality rates were updated to rates based on the 2015 NYSTRS mortality rates. Finally, the healthcare cost trend rate was 9.0% at June 30, 2017.

SUPPLEMENTARY INFORMATION

CITY OF BUFFALO, NEW YORK
Schedule of Revenues, Expenditures, and Changes in Fund Balances—
Budget and Actual (Non-GAAP Budgetary Basis)—Debt Service Fund
Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Budgetary Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Adopted</u>	<u>Final</u>		
REVENUES				
Intergovernmental charges	\$ 13,887,909	\$ 13,887,909	\$ 13,887,906	\$ (3)
Investment interest	61,796	61,796	60,043	(1,753)
License, permit, rentals, fines, and other service charges	81,028	81,028	153,903	72,875
Miscellaneous	<u>263</u>	<u>263</u>	<u>1,092,444</u>	<u>1,092,181</u>
Total revenues	<u>14,030,996</u>	<u>14,030,996</u>	<u>15,194,296</u>	<u>1,163,300</u>
EXPENDITURES				
Debt service:				
Principal	33,636,081	33,636,081	28,042,270	5,593,811
Interest and fiscal charges	<u>10,084,603</u>	<u>10,084,603</u>	<u>9,236,006</u>	<u>848,597</u>
Total expenditures	<u>43,720,684</u>	<u>43,720,684</u>	<u>37,278,276</u>	<u>6,442,408</u>
Excess (deficiency) of revenues over expenditures	<u>(29,689,688)</u>	<u>(29,689,688)</u>	<u>(22,083,980)</u>	<u>7,605,708</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	24,421,708	24,421,708	26,464,465	2,042,757
Transfers out	-	-	(7,033,783)	(7,033,783)
Issuance of refunding bonds	225,250	225,250	-	(225,250)
Premium on bonds	<u>3,214,770</u>	<u>3,214,770</u>	<u>2,785,232</u>	<u>(429,538)</u>
Total other financing sources (uses)	<u>27,861,728</u>	<u>27,861,728</u>	<u>22,215,914</u>	<u>(5,645,814)</u>
Net change in fund balances *	(1,827,960)	(1,827,960)	131,934	1,959,894
Fund balances—beginning	<u>11,743,450</u>	<u>11,743,450</u>	<u>11,743,450</u>	<u>-</u>
Fund balances—ending	<u>\$ 9,915,490</u>	<u>\$ 9,915,490</u>	<u>\$ 11,875,384</u>	<u>\$ 1,959,894</u>

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

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Special Revenue Fund — This fund is used to account for all of the special federal and state grants that are restricted for noncapital purposes by the grant award.

BFSA DEBT SERVICE FUND

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Buffalo Fiscal Stability Authority Debt Service Fund — This fund is used to account for debt issued by the BFSA.

PERMANENT FUND

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Permanent Fund — This fund is used to purchase objects to enhance the beauty of the Park System in the City of Buffalo.

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CITY OF BUFFALO, NEW YORK
Combining Balance Sheet—
Nonmajor Governmental Funds
June 30, 2017

	<u>Special Revenue</u>	<u>BFSA Debt Service</u>	<u>Permanent</u>	<u>Total Nonmajor Funds</u>
ASSETS				
Restricted cash and cash equivalents	\$ 4,742,746	\$ 74,480	\$ 75,210	\$ 4,892,436
Investments	-	6,347,498	61,472	6,408,970
Receivables:				
Other receivables	-	-	4,132	4,132
Intergovernmental receivables	97,039	-	-	97,039
Due from other funds	1,801,307	-	-	1,801,307
Total assets	<u>\$ 6,641,092</u>	<u>\$ 6,421,978</u>	<u>\$ 140,814</u>	<u>\$ 13,203,884</u>
LIABILITIES				
Accounts payable	\$ 2,244,699	\$ 14,562	\$ -	\$ 2,259,261
Accrued liabilities	-	412,467	-	412,467
Due to other governments	130,566	-	-	130,566
Due to other funds	533,113	15,801	-	548,914
Total liabilities	<u>2,908,378</u>	<u>442,830</u>	<u>-</u>	<u>3,351,208</u>
FUND BALANCES				
Nonspendable	-	-	30,000	30,000
Restricted	3,732,714	5,979,148	110,814	9,822,676
Total fund balances	<u>3,732,714</u>	<u>5,979,148</u>	<u>140,814</u>	<u>9,852,676</u>
Total liabilities and fund balances	<u>\$ 6,641,092</u>	<u>\$ 6,421,978</u>	<u>\$ 140,814</u>	<u>\$ 13,203,884</u>

CITY OF BUFFALO, NEW YORK
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances—
Nonmajor Governmental Funds
Year Ended June 30, 2017

	<u>Special Revenue</u>	<u>BFSA Debt Service</u>	<u>Permanent</u>	<u>Total Nonmajor Funds</u>
REVENUES				
Intergovernmental	\$ 27,368,429	\$ -	\$ -	\$ 27,368,429
Investment interest	532	117,541	13	118,086
Miscellaneous	38,720	-	-	38,720
Total revenues	<u>27,407,681</u>	<u>117,541</u>	<u>13</u>	<u>27,525,235</u>
EXPENDITURES				
Current:				
General government support	684,222	-	-	684,222
Public safety	1,708,342	-	-	1,708,342
Streets and sanitation	25,177	-	-	25,177
Economic assistance and opportunity	25,884,638	-	-	25,884,638
Culture and recreation	344,911	-	-	344,911
Health and community services	208,224	-	-	208,224
Debt service:				
Principal	-	7,150,000	-	7,150,000
Interest and fiscal charges	-	1,317,516	-	1,317,516
Total expenditures	<u>28,855,514</u>	<u>8,467,516</u>	<u>-</u>	<u>37,323,030</u>
Excess (deficiency) of revenues over expenditures	<u>(1,447,833)</u>	<u>(8,349,975)</u>	<u>13</u>	<u>(9,797,795)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	6,753,018	-	6,753,018
Total other financing sources (uses)	<u>-</u>	<u>6,753,018</u>	<u>-</u>	<u>6,753,018</u>
Net change in fund balances	(1,447,833)	(1,596,957)	13	(3,044,777)
Fund balances—beginning	5,180,547	7,576,105	140,801	12,897,453
Fund balances—ending	<u>\$ 3,732,714</u>	<u>\$ 5,979,148</u>	<u>\$ 140,814</u>	<u>\$ 9,852,676</u>

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WATER SYSTEM

The Water System is used to account for the City's water treatment and distribution system and is responsible for water delivery to the residents of the City. The Water System is comprised of the Water Board, Water Authority and Water Enterprise.

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CITY OF BUFFALO, NEW YORK
Combining Schedule of Net Position—Water System
June 30, 2017

	Water Board	Water Authority	Water Enterprise	Eliminations	Total Water System
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 7,075,719	\$ 318,957	\$ 181,067	\$ -	\$ 7,575,743
Restricted cash and cash equivalents	-	21,165,586	1	-	21,165,587
Investments	25,130,360	-	-	-	25,130,360
Receivables:					
Accounts receivable	20,654,666	-	-	-	20,654,666
Other receivables	1,447,183	-	-	-	1,447,183
Due from other agencies	127,425	-	-	-	127,425
Intergovernmental receivables	222,313	-	32,510	-	254,823
Due from other funds	687,875	106,348,988	14,531,143	(121,568,006)	-
Allowances	(16,215,746)	-	-	-	(16,215,746)
Net receivables	<u>6,923,716</u>	<u>106,348,988</u>	<u>14,563,653</u>	<u>(121,568,006)</u>	<u>6,268,351</u>
Total current assets	<u>39,129,795</u>	<u>127,833,531</u>	<u>14,744,721</u>	<u>(121,568,006)</u>	<u>60,140,041</u>
Noncurrent assets:					
Capital assets not being depreciated:					
Land	145,116	-	-	-	145,116
Construction in progress	954,526	-	-	-	954,526
Total capital assets not being depreciated	<u>1,099,642</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,099,642</u>
Capital assets being depreciated:					
Buildings and infrastructure	224,015,541	-	-	-	224,015,541
Improvements other than buildings	252,393	-	-	-	252,393
Machinery and equipment	1,154,421	-	-	-	1,154,421
Accumulated depreciation	(85,295,569)	-	-	-	(85,295,569)
Total capital assets being depreciated	<u>140,126,786</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>140,126,786</u>
Total noncurrent assets	<u>141,226,428</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>141,226,428</u>
Total assets	<u>180,356,223</u>	<u>127,833,531</u>	<u>14,744,721</u>	<u>(121,568,006)</u>	<u>201,366,469</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred loss on refunding	-	3,528,858	-	-	3,528,858
Deferred outflows—relating to pensions	1,472,632	-	1,472,635	(1,472,635)	1,472,632
Total deferred outflows of resources	<u>1,472,632</u>	<u>3,528,858</u>	<u>1,472,635</u>	<u>(1,472,635)</u>	<u>5,001,490</u>
LIABILITIES					
Current liabilities:					
Accounts payable	374,219	15,839	24,103	-	414,161
Retainages payable	974,886	-	-	-	974,886
Other accrued liabilities	-	2,825,453	299,618	-	3,125,071
Due to other funds	123,135,263	-	-	(122,755,809)	379,454
Due to retirement systems	-	-	239,988	-	239,988
Accrued compensated absences	-	-	54,347	-	54,347
Accrued workers' compensation	-	-	293,088	-	293,088
General obligation and revenue bonds payable within one year	-	8,629,369	168,171	-	8,797,540
Total current liabilities	<u>124,484,368</u>	<u>11,470,661</u>	<u>1,079,315</u>	<u>(122,755,809)</u>	<u>14,278,535</u>

(continued)

CITY OF BUFFALO, NEW YORK
Combining Schedule of Net Position—Water System
June 30, 2017

	Water Board	Water Authority	Water Enterprise	Eliminations	Total Water System
Noncurrent liabilities:					
Accrued compensated absences	-	-	752,740	-	752,740
Accrued workers' compensation	-	-	329,036	-	329,036
Accrued other post-employment benefits plan	-	-	11,888,000	-	11,888,000
General obligation and revenue bonds payable	-	119,891,728	-	-	119,891,728
Net pension liability	-	-	1,875,678	-	1,875,678
Total noncurrent liabilities	<u>-</u>	<u>119,891,728</u>	<u>14,845,454</u>	<u>-</u>	<u>134,737,182</u>
Total liabilities	<u>124,484,368</u>	<u>131,362,389</u>	<u>15,924,769</u>	<u>(122,755,809)</u>	<u>149,015,717</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred gain on refunding	-	-	7,755	-	7,755
Deferred inflows—relating to pensions	284,832	-	284,832	(284,832)	284,832
Total deferred inflows of resources	<u>284,832</u>	<u>-</u>	<u>292,587</u>	<u>(284,832)</u>	<u>292,587</u>
NET POSITION					
Net investment in capital assets	16,058,263	-	-	21,165,587	37,223,850
Unrestricted	41,001,392	-	-	(21,165,587)	19,835,805
Total net position	<u>\$ 57,059,655</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,059,655</u>

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CITY OF BUFFALO, NEW YORK
Combining Schedule of Revenues, Expenses, and Changes in Net Position—
Water System
Year Ended June 30, 2017

	Water Board	Water Authority	Water Enterprise	Eliminations	Total Water System
Operating revenues:					
Charges for services	\$ 42,597,220	\$ -	\$ -	\$ -	\$ 42,597,220
Other	407,029	-	-	-	407,029
Total operating revenues	<u>43,004,249</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,004,249</u>
Operating expenses:					
Services and supplies	10,349,193	95,884	6,639,533	-	17,084,610
Fringe benefits	-	-	5,002,293	-	5,002,293
Depreciation	5,802,756	-	-	-	5,802,756
Other	1,513,612	-	-	(93,088)	1,420,524
Total operating expenses	<u>17,665,561</u>	<u>95,884</u>	<u>11,641,826</u>	<u>(93,088)</u>	<u>29,310,183</u>
Operating income (loss)	<u>25,338,688</u>	<u>(95,884)</u>	<u>(11,641,826)</u>	<u>93,088</u>	<u>13,694,066</u>
Nonoperating revenues (expenses):					
Interest earnings	197,696	-	4,471	-	202,167
Interest expense	(5,789,107)	-	-	-	(5,789,107)
Other	667,177	-	-	-	667,177
Total nonoperating revenues (expenses)	<u>(4,924,234)</u>	<u>-</u>	<u>4,471</u>	<u>-</u>	<u>(4,919,763)</u>
Income (loss) before transfers	20,414,454	(95,884)	(11,637,355)	93,088	8,774,303
Transfers in	-	95,884	11,637,355	(11,733,239)	-
Transfers out	<u>(17,306,526)</u>	<u>-</u>	<u>-</u>	<u>11,045,364</u>	<u>(6,261,162)</u>
Change in net position	3,107,928	-	-	(594,787)	2,513,141
Total net position—beginning	<u>53,951,727</u>	<u>-</u>	<u>-</u>	<u>594,787</u>	<u>54,546,514</u>
Total net position—ending	<u>\$ 57,059,655</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,059,655</u>

CITY OF BUFFALO, NEW YORK
Combining Schedule of Cash Flows—
Water System
Year Ended June 30, 2017

	Water Board	Water Authority	Water Enterprise	Eliminations	Total Water System
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 42,931,866	\$ -	\$ -	\$ -	\$ 42,931,866
Payments to suppliers for goods and services	(12,882,664)	(81,670)	(6,335,649)	-	(19,299,983)
Payments to employees for services	-	-	(5,337,692)	-	(5,337,692)
Net cash provided by (used for) operating activities	<u>30,049,202</u>	<u>(81,670)</u>	<u>(11,673,341)</u>	<u>-</u>	<u>18,294,191</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from other funds	-	95,884	11,637,355	-	11,733,239
Transfers to other funds	(17,306,526)	-	-	-	(17,306,526)
Advances from other funds	3,666,449	3,523,335	240,936	-	7,430,720
Advances to other funds	(8,001,003)	-	(40,155)	-	(8,041,158)
Net cash provided by (used for) noncapital financing activities	<u>(21,641,080)</u>	<u>3,619,219</u>	<u>11,838,136</u>	<u>-</u>	<u>(6,183,725)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition/construction of capital assets	(11,842,126)	-	-	-	(11,842,126)
Disposal of capital assets	47,210	-	-	-	47,210
Principal payments on bonds	-	(8,000,000)	(152,152)	-	(8,152,152)
Proceeds from issuance of debt	667,177	-	-	-	667,177
Interest payments	(5,789,107)	(46,977)	(16,961)	-	(5,853,045)
Net cash used for capital and related financing activities	<u>(16,916,846)</u>	<u>(8,046,977)</u>	<u>(169,113)</u>	<u>-</u>	<u>(25,132,936)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received on short-term investments	197,696	-	4,471	-	202,167
Net cash provided by investing activities	<u>197,696</u>	<u>-</u>	<u>4,471</u>	<u>-</u>	<u>202,167</u>
Net increase (decrease) in cash and cash equivalents	(8,311,028)	(4,509,428)	153	-	(12,820,303)
Cash and cash equivalents—beginning	40,517,107	25,993,971	180,915	-	66,691,993
Cash and cash equivalents—ending	<u>\$ 32,206,079</u>	<u>\$ 21,484,543</u>	<u>\$ 181,068</u>	<u>\$ -</u>	<u>\$ 53,871,690</u>

(continued)

CITY OF BUFFALO, NEW YORK
Combining Schedule of Cash Flows—
Water System
Year Ended June 30, 2017

	Water Board	Water Authority	Water Enterprise	Eliminations	(concluded) Total Water System
Reconciliation of operating income (loss) to net cash provided by (used for) by operating activities:					
Operating income (loss)	\$ 25,338,688	\$ (95,884)	\$ (11,641,826)	\$ 93,088	\$ 13,694,066
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation expense	5,802,756	-	-	-	5,802,756
(Increase) in receivables	(798,375)	-	(30,082)	-	(828,457)
(Increase) decrease in deferred outflows—relating to pensions	2,413,233	-	2,413,233	(2,413,233)	2,413,233
Increase (decrease) decrease in payables	(386,955)	14,214	333,966	-	(38,775)
(Decrease) in accrued liabilities	-	-	(1,050,407)	-	(1,050,407)
(Decrease) in retirement systems	-	-	(45,268)	-	(45,268)
Increase in compensated absences	-	-	179,781	-	179,781
(Decrease) in workers' compensation	-	-	(167,593)	-	(167,593)
Increase in accrued other postemployment benefits obligation	-	-	655,000	-	655,000
(Decrease) in net pension liability	(2,130,153)	-	(2,130,153)	2,130,153	(2,130,153)
Increase (decrease) in deferred inflows—relating to pensions	(189,992)	-	(189,992)	189,992	(189,992)
Total adjustments	<u>4,710,514</u>	<u>14,214</u>	<u>(31,515)</u>	<u>(93,088)</u>	<u>4,600,125</u>
Net cash provided by (used for) operating activities	<u>\$ 30,049,202</u>	<u>\$ (81,670)</u>	<u>\$ (11,673,341)</u>	<u>\$ -</u>	<u>\$ 18,294,191</u>

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AGENCY FUND

The Agency Fund is used to account for money and property received and held in the capacity of custodian or agent. The Agency Fund is custodial in nature and does not involve measurement of results of operations. Agency funds, such as payroll withholdings, are reported as liabilities.

CITY OF BUFFALO, NEW YORK
Schedule of Changes in Assets and Liabilities
Agency Fund
Year Ended June 30, 2017

	Balance			Balance
	July 1, 2016	Increases	Decreases	June 30, 2017
ASSETS				
Cash and cash equivalents	\$ 1,930,467	\$ 12,559,961	\$ 12,643,160	\$ 1,847,268
Due from other funds	180	12,483,256	12,483,436	-
Receivables	804	539	804	539
Total assets	<u>\$ 1,931,451</u>	<u>\$ 25,043,756</u>	<u>\$ 25,127,400</u>	<u>\$ 1,847,807</u>
LIABILITIES				
Accounts payable	\$ 182,889	\$ 23,671,383	\$ 23,653,743	\$ 200,529
Intergovernmental payables	23,175	5,716	3,175	25,716
Amounts held in custody for others:				
Surety bonds and deposits	22,751	-	22,751	-
Prisoner property	1,455,644	402,024	491,980	1,365,688
Fire insurance proceeds	228,569	-	-	228,569
Medical reimbursements	8,558	63,517	65,275	6,800
Miscellaneous - other	9,865	12,110,877	12,100,237	20,505
Total amounts held in custody for others	<u>1,725,387</u>	<u>12,576,418</u>	<u>12,680,243</u>	<u>1,621,562</u>
Total liabilities	<u>\$ 1,931,451</u>	<u>\$ 36,253,517</u>	<u>\$ 36,337,161</u>	<u>\$ 1,847,807</u>

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FEDERAL AWARDS INFORMATION

CITY OF BUFFALO, NEW YORK
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

<u>Federal Grantor/Pass-through Grantor/Program Title (1a)</u>	<u>Federal CFDA Number (1b)</u>	<u>Pass-Through Entity Identifying Number (1c)</u>	<u>Passed through to Subrecipients</u>	<u>Total Federal Expenditures (1d)</u>
U.S. DEPARTMENT OF AGRICULTURE:				
<i>Direct program:</i>				
Local Food Promotion Program	10.172	N/A	\$ -	\$ 16,001
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>-</u>	<u>16,001</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:				
<i>Direct programs:</i>				
Community Development Block Grants/Entitlement Grants	14.218	N/A	9,918,016	18,271,493
Emergency Solutions Grant Program	14.231	N/A	1,196,121	1,241,346
HOME Investment Partnerships Program	14.239	N/A	5,335,681	5,335,681
Housing Opportunities for Persons with AIDS	14.241	N/A	<u>467,661</u>	<u>476,054</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>16,917,479</u>	<u>25,324,574</u>
U.S. DEPARTMENT OF JUSTICE:				
<i>Passed through New York State Division of Criminal Justice Services:</i>				
Juvenile Accountability Block Grants	16.523	T612246	-	<u>2,814</u>
<i>Direct programs:</i>				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	<u>10,313</u>	<u>315,712</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>10,313</u>	<u>318,526</u>
U.S. DEPARTMENT OF TRANSPORTATION:				
<i>Passed through New York State Department of Transportation:</i>				
Highway Planning and Construction	20.205	See note 4	-	12,753,303
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	D033967	-	2,779
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	D034003	-	<u>685,989</u>
Total Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research			<u>-</u>	<u>688,768</u>
State and Community Highway Safety	20.600	T005689	<u>7,800</u>	<u>7,800</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>7,800</u>	<u>13,449,871</u>

(continued)

CITY OF BUFFALO, NEW YORK
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

(concluded)

<u>Federal Grantor/Pass-through Grantor/Program Title (1a)</u>	<u>Federal CFDA Number (1b)</u>	<u>Pass-Through Entity Identifying Number (1c)</u>	<u>Passed through to Subrecipients</u>	<u>Total Federal Expenditures (1d)</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:				
<i>Passed through Erie County:</i>				
Homeland Security Preparedness Technical Assistance Program	97.067	C183629	-	11,383
<i>Passed through New York State Division of Homeland Security/Emergency Services:</i>				
Homeland Security Preparedness Technical Assistance Program	97.067	C152330	-	51,331
Homeland Security Preparedness Technical Assistance Program	97.067	C152340	-	263,768
Homeland Security Preparedness Technical Assistance Program	97.067	C152350	-	56,587
Homeland Security Preparedness Technical Assistance Program	97.067	C152360	-	41,618
Homeland Security Preparedness Technical Assistance Program	97.067	C191949	-	1,675
Homeland Security Preparedness Technical Assistance Program	97.067	C198259	-	47,985
Total Homeland Security Preparedness Technical Assistance Program			-	474,347
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4204DRNY	-	186,253
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			-	660,600
TOTAL FEDERAL FINANCIAL ASSISTANCE (1e)			<u>\$ 16,935,592</u>	<u>\$ 39,769,572</u>

The notes to the schedule of expenditures of federal awards are an integral part of this schedule.

CITY OF BUFFALO, NEW YORK
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the City of Buffalo, New York (the “City”) under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (“CFR”) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City. The following notes were identified on the Schedule:

- (a) Includes all federal award programs of the City of Buffalo, New York. The federal expenditures of the Buffalo Board of Education (the “Board”) and the City of Buffalo Urban Renewal Agency (“BURA”) have not been included.
- (b) Source: Catalog of Federal Domestic Assistance.
- (c) Pass-through entity identifying numbers are presented where available.
- (d) Prepared under accounting principles generally accepted in the United States of America and includes all federal award programs.
- (e) A reconciliation to the financial statements is available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. The City has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

3. AMOUNTS PROVIDED TO SUBRECIPIENTS

Certain program funds are passed through the City to subrecipient organizations. The City identifies, to the extent practical, the total amount provided to subrecipients from each federal program; however, the Schedule does not contain separate schedules disclosing how the subrecipients outside of the City’s control utilize the funds. The City requires subrecipients receiving funds to submit separate audit reports disclosing the use of the program funds.

4. DETAIL OF FEDERAL HIGHWAY ADMINISTRATION (CFDA 20.205) EXPENDITURES

Detail of highway administration expenditures for the year ended June 30, 2017 with their corresponding pass-through grantor numbers are as follows:

	Expenditures Year Ended June 30, 2017	CFDA No.	Pass-through Grantor Number
West Ferry Street Bridge over Black Rock Canal	\$ 617,373	20.205	D017626
Bailey Avenue Bridge over Cazenovia Creek	8,413,302	20.205	D017846
North Buffalo-Rails to Trails	177,757	20.205	D022061
Kenmore Avenue Reconstruction - Starin to Main Street	356,507	20.205	D030039
Niagara Street Gateway	228,922	20.205	D030444
Ohio Street Reconstruction Project	226,934	20.205	D034228
Buffalo-Niagara Medical Campus - Phase 3	100,592	20.205	D034267
Niagara Street - Porter Avenue to Ontario Street	306,522	20.205	D034866
South Ogden Street Bridge Over Buffalo River	28,000	20.205	D034896
Safety Improvement Project - Parkside/Florence	395,745	20.205	D034899
Cars on Main - Lower Main	1,595,216	20.205	D035251
Buffalo Riverwalk Shoreline Trail Project	306,433	20.205	D034936
Total	<u>\$ 12,753,303</u>		

Certified Public Accountants

**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**

To the Honorable Comptroller of
the City of Buffalo, New York:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Buffalo, New York (the "City") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 31, 2017. Our report includes a reference to other auditors who audited the financial statements of the Buffalo Fiscal Stability Authority and the Buffalo Board of Education, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. We have also audited the financial statements of the Buffalo Urban Renewal Agency (the "Agency"). This report does not include the results of our testing of internal control over financial reporting and compliance and other matters of the Agency which are reported on separately in our reported dated September 22, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting ("internal control") to determine the 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item 2017-001 to be a material weakness.

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 by those charged with governance. During our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



October 31, 2017

Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT
ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH THE UNIFORM GUIDANCE**

To the Honorable Comptroller of
the City of Buffalo, New York:

Report on Compliance for Each Major Federal Program

We have audited the City of Buffalo, New York's (the "City") compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2017. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The City's basic financial statements include the operations of the Buffalo Board of Education (the "Board") and the Buffalo Urban Renewal Agency (the "Agency"), which received \$93,025,400 and \$49,112,812, respectively, in federal awards which are not included in the City's Schedule of Expenditures of Federal Awards for the year ended June 30, 2017. Our compliance audit, described below, did not include the operations of the Board or the Agency. Our audit did not include the operations of the Board since other auditors were engagement to perform such audit in accordance with the Uniform Guidance. Our audit did not include the operations of the Agency since its compliance is reported separately in our report dated September 22, 2017 based on our audit of the operations of the Agency in accordance with the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with the compliance requirements referred to above that is required to be reported in accordance with the Uniform Guidance and is described in the accompanying schedule of findings and questioned costs as item 2017-002. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



October 31, 2017

CITY OF BUFFALO, NEW YORK
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of report the auditor issued on whether the financial statements audited
 (which report includes a reference to other auditors) Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Significant deficiency(ies) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported
Noncompliance material to the financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Federal Awards:

Internal control over major programs:

Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiency(ies) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
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Identification of major federal programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.205	Highway Planning and Construction
97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs?	\$ <u>1,193,087</u>
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Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
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Section II. FINANCIAL STATEMENT FINDINGS SECTION

We consider the deficiency presented below to be a material weakness in internal control.

Finding 2017-001—Solid Waste and Recycling Fund Deficit

Criteria—Program revenues within a business-type activity should be adequate to meet the expenses of providing the services for which the fund is responsible.

Condition and Context—Annual operating deficits of the Solid Waste and Recycling Fund over the last several years have caused a fiscal strain to the City's General Fund. The City's General Fund has provided significant interfund advances to provide sufficient cash for current Solid Waste and Recycling Fund operations. As of June 30, 2017, the General Fund has advanced a \$18,357,397 loan to the Solid Waste and Recycling Fund. Due to its consistently weakening financial position, the Solid Waste and Recycling Fund's ability to repay this advance is questionable. Further, on an annual basis the General Fund makes a budgeted transfer to the Solid Waste and Recycling Fund. For the year ending June 30, 2017 this transfer amounted to \$3,640,960.

For more than seven years, the Solid Waste and Recycling Fund has reported operating losses. From 2011 to 2016, the operating expenses, on average, have increased about 1.2% per year while operating revenues over the same period, on average, have decreased by 0.3% per year. During the current year ending June 30, 2017, both revenues and expenses decreased from the prior year resulting in an operating loss of \$3,150,130 which was an improvement of \$1,261,666 from prior year's loss of \$4,411,796.

Cause—The Solid Waste and Recycling Fund's charges for services are not adequate to support the current level of spending within the fund. As a result, the General Fund is providing the Solid Waste and Recycling Fund with interfund loans and operating transfers that are bridging the gap between revenues and expenses.

Effect or Potential Effect—The Solid Waste and Recycling Fund is not adequately supporting its program expenses with charges for services.

Recommendation—Consistent with Section 216.58 of the City's Charter, we recommend that the City establish appropriate Solid Waste and Recycling Fund basic residential and commercial rates that will generate sufficient revenue to support program expenses within the fund. We further recommend that the City seek legal opinion to determine the appropriateness of the budgeted operating transfer made from the General Fund to the Solid Waste and Recycling Fund.

The City should develop a formal plan to have the General Fund recover the amounts advanced to the Solid Waste and Recycling Fund. The plan would require that not only should the basic residential and commercial rates generate sufficient revenue to support program expenses within the fund, the rates should also enable repayment to the General Fund for the prior advances with interest. If the City ascertains that such a funding plan is not feasible the City should determine the appropriateness of having the General Fund subsidize the Solid Waste and Recycling Fund.

View of Responsible Officials and Planned Corrective Action Plan—The Department of Public Works has changed a number of practices in the last few years to reduce their costs. A new agreement for the management of our Transfer Station has lowered the cost of tipping by almost 30% and saves approximately \$1.5M annually. Additionally to reduce costs, the routing schedule has been restructured, which has resulted in manpower efficiencies.

A newly hired Director of Recycling will continue our trend of increased recycling tonnage, which diverts waste and reduces disposal fees.

The City will continue to analyze opportunities to increase revenue and lower the costs of providing service to our residents.

Section III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

Finding 2017-002—Equipment and Real Property Management

Criteria—OMB Uniform Guidance §200.313 states that property records for equipment acquired with Federal funds should be maintained accurately and shall include a description of the property, a serial number or other identification number, the source of funding for the property (including the Federal award identification number), who holds title, the acquisition date, cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sales price of the property. Further, a physical inventory of all Federal equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the differences. The recipient shall, in connection with the inventory, verify the existence, current utilization and continued need for the equipment.

Condition and Context—The City was unable to provide us with a listing of equipment acquired through federal awards for the year ended June 30, 2017.

Cause—For the year ended June 30, 2016, property records were maintained by the prior year Principal Auditor. However, as the Principal Auditor retired during the year, this responsibility was not assigned to any other City employee and property records over the \$5,000 were not documented.

Effect or Potential Effect—The required property records were not fully documented during the fiscal year ended June 30, 2017 as required by the Uniform Guidance. Therefore, Federally funded equipment could go undetected and asset valuations could be misleading.

Recommendation—Since an inventory count is required every two years in accordance with the Uniform Guidance, we recommend that the City implement procedures during next years' count to ensure that a complete equipment listing is maintained as was previously completed in the past.

View of Responsible Officials and Planned Corrective Action Plan—Management of the City has assigned this responsibility to a new employee for the year ended June 30, 2018.

CITY OF BUFFALO, NEW YORK
Summary Schedule of Prior Audit Findings and Corrective Action Plan
Year Ended June 30, 2017
(Follow up on June 30, 2016 Findings)

Finding 2016-001—Solid Waste and Recycling Fund Deficit

See Finding 2017-001 within the Schedule of Findings and Questioned Costs for current status.