

**CITY OF BUFFALO,  
NEW YORK**

*Basic Financial Statements, Required Supplementary  
Information, Supplemental and Federal  
Financial Assistance Schedules for the Year Ended  
June 30, 2013 and Independent Auditors' Reports*



**CITY OF BUFFALO, NEW YORK**

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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, 2013, 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, which represent 3.7% and 0.5%, respectively, of the assets and revenues of the governmental activities, and 6.8% and 0.4%, respectively, of the assets and revenues of the governmental funds. We also did not audit the financial statements of the Buffalo Board of Education and the City of Buffalo Urban Renewal Agency, which are shown as discretely presented component units. 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 the Buffalo Fiscal Stability Authority, the Buffalo Board of Education and the City of Buffalo Urban Renewal Agency, 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 unit, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2013, 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 accompanying supplemental schedules and Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplemental schedules and 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 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 by us and the other auditors. In our opinion, the accompanying supplemental schedules and 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 November 26, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Handwritten signature of Duesch & Malach LLP

November 26, 2013



**CITY OF BUFFALO, NEW YORK**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2013**

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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, 2013. 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 assets of the City's primary government exceeded its liabilities at the close of the fiscal year ended June 30, 2013 by \$120,763 (net position). This consists of \$321,518 net investment in capital assets, \$50,102 restricted for specific purposes, and deficit unrestricted net position of \$250,857.
- ◆ The City's total primary government net position decreased by \$4,587 for the year ended June 30, 2013. Net position decreased \$8,646 for governmental activities and increased \$4,059 for business-type activities.
- ◆ As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$242,310.
- ◆ At the end of the current fiscal year, the combined committed, assigned and unassigned fund balance for the General Fund was \$130,050, or 28.1%, of total General Fund expenditures and transfers out. Committed fund balance for the Emergency Stabilization fund is \$35,655, or 7.7% of total General Fund expenditures and transfers out, assigned fund balance is \$30,452, or 6.6% of total General Fund expenditures and transfers out, and unassigned fund balance is \$63,943, or 13.8% of total General Fund expenditures and transfers out.
- ◆ During the year ended June 30, 2013, the City adopted the provisions of Government Accounting Standards Board ("GASB") Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 establishes a framework detailing how these elements should be reported, which will result in standardizing the presentation of deferred balances and their effect on the government's net position. In addition, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting, was implemented early. The effect of the resulting restatement of beginning business-type activities net position is summarized in Note 2 of this report.
- ◆ 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 \$306,893 (\$215,715 net governmental activities general obligation bonds issued by the City, \$76,700 governmental activities general obligation bonds issued by BFSA, and \$14,478 business-type activities general obligation bonds). The City issued \$39,285 of refunding bonds during the year ended June 30, 2013.
- ◆ The total Buffalo Municipal Water Finance Authority revenue bonds outstanding within the Water System at the end of the current fiscal year were \$159,470.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**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 differences 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).

The government-wide financial statements present 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, public safety, streets and sanitation, economic assistance and opportunity, culture and recreation, and health and community services. The business-type activities of the City include a water utility, refuse collection services, and parking ramps.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also 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 immediately following this section as the first two pages of the basic financial statements.

**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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains individual governmental funds, for which 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 BFSA is reported as a major fund of the City. The City's Special Revenue and Permanent Funds, as well as the Debt Service Fund of the BFSA, are considered to be non-major funds and the data from these funds are combined into a single, aggregated presentation.

The financial statements for governmental funds can be found in the fund financial statements, following the government-wide financial statements.

**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 water system, parking, and refuse collection operations. The *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. The City has elected to present its Solid Waste and Recycling Fund as a major fund on the Proprietary Funds Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position. 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 refuse collection, parking, and water system operations. In addition, the Internal Service Fund is presented in the proprietary fund financial statements.

The proprietary fund financial statements can be found in the Basic Financial Statements section of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found in the Basic Financial Statements section 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 following the Basic Financial Statement section of this report.

### **Government-wide Financial Analysis**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$120,763 at the close of the most recent fiscal year.

**Table 1—Condensed Statement of Net Position—Primary Government (000s omitted)**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	June 30,		June 30,		June 30,	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 707,158	\$ 705,704	\$ 81,057	\$ 77,561	\$ 788,215	\$ 783,265
Capital assets	428,621	417,069	183,639	184,783	612,260	601,852
Total assets	<u>1,135,779</u>	<u>1,122,773</u>	<u>264,696</u>	<u>262,344</u>	<u>1,400,475</u>	<u>1,385,117</u>
Deferred outflows of resources	4,587	4,910	8,284	10,759	12,871	15,669
Current and other liabilities	358,612	354,922	9,392	7,846	368,004	362,768
Noncurrent liabilities	720,820	703,181	203,379	206,200	924,199	909,381
Total liabilities	<u>1,079,432</u>	<u>1,058,103</u>	<u>212,771</u>	<u>214,046</u>	<u>1,292,203</u>	<u>1,272,149</u>
Deferred inflows of resources	-	-	380	583	380	583
Net position:						
Net investment in capital assets	269,691	268,899	51,827	52,409	321,518	321,308
Restricted	50,102	51,799	-	-	50,102	51,799
Unrestricted	<u>(258,859)</u>	<u>(251,118)</u>	<u>8,002</u>	<u>6,065</u>	<u>(250,857)</u>	<u>(245,053)</u>
Total net position	<u>\$ 60,934</u>	<u>\$ 69,580</u>	<u>\$ 59,829</u>	<u>\$ 58,474</u>	<u>\$ 120,763</u>	<u>\$ 128,054</u>

The largest portion of the City’s net position reflects its investment in capital assets (such as land, buildings, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, 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, 41.5% of total net position, represents resources that are subject to external restrictions on how they may be used.

The remaining component of the City’s net position, a deficit of \$250,857, represents unrestricted net position which reflect 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 post-employment benefits (“OPEB”) obligation totals \$384,869, 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 decreased \$4,587 as a result of current year activities. Significant changes from 2012 to 2013 in the Statement of Net Position and reasons for such changes are:

- ◆ Current and other assets increased by \$4,950 due to the recording of a \$15,986 receivable relating to the recent settlement of casino revenue, offset by a decrease in due from other governments due to recognized state aid resulting from a spin-up of aid to municipalities.
- ◆ Deferred outflows of resources decreased by \$2,798, due to a decrease in fair value of hedging derivatives.
- ◆ Capital assets increased by \$10,408. A significant portion of the increase was due to additions to infrastructure and building improvements.
- ◆ Current and other liabilities increased \$5,236, due to a \$17,819 increase caused by the issuance of bond anticipation notes, primarily offset by a decrease in accounts payable and accrued liabilities of \$7,769 and a decrease in unearned revenue of \$8,424. The decrease in accounts payable and accrued liabilities was primarily due to a reduction in the year-end salaries and payroll taxes payable as a result of the timing of the year-end payroll date compared to the prior year. Unearned revenue decreased primarily due to the current year recognition of previously deferred state aid as a result of spin-up of aid to municipalities.
- ◆ Noncurrent liabilities increased by \$14,818, primarily due to a \$60,879 increase in other post-employment benefits (“OPEB”) liabilities, offset by a \$51,637 decrease in general obligation and revenue bonds payable.
- ◆ Deferred inflows of resources decreased \$203, due to current year amortization of refunding gains.

***Governmental activities.*** Governmental activities decreased the City’s net position by \$8,646; thereby, accounting for the majority of the decrease in the net position of the City. Key elements of this decrease are as shown in Table 2 on the following page.

**Table 2—Changes in Net Position—Primary Government (000s omitted)**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<u>Year Ended June 30,</u>		<u>Year Ended June 30,</u>		<u>Year Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:						
Program revenues:						
Charges for services	\$ 28,318	\$ 25,813	\$ 70,335	\$ 67,644	\$ 98,653	\$ 93,457
Operating grants and contributions	23,053	10,608	-	-	23,053	10,608
Capital grants and contributions	16,633	19,077	-	-	16,633	19,077
General revenues:						
Property taxes	123,612	127,638	-	-	123,612	127,638
Other taxes	23,314	23,393	-	-	23,314	23,393
State aid	198,322	164,596	-	-	198,322	164,596
Intergovernmental	93,004	93,982	695	477	93,699	94,459
Grants and contributions	197	290	-	-	197	290
Unrestricted investment earnings	2,454	3,325	292	456	2,746	3,781
Miscellaneous	<u>37,275</u>	<u>3,178</u>	<u>-</u>	<u>-</u>	<u>37,275</u>	<u>3,178</u>
Total revenues	<u>546,182</u>	<u>471,900</u>	<u>71,322</u>	<u>68,577</u>	<u>617,504</u>	<u>540,477</u>
Expenses:						
General government support	96,480	69,127	-	-	96,480	69,127
Public safety	309,014	310,287	-	-	309,014	310,287
Streets and sanitation	34,240	30,717	-	-	34,240	30,717
Economic assist. and opportunity	12,086	9,265	-	-	12,086	9,265
Culture and recreation	16,906	15,428	-	-	16,906	15,428
Health and community services	6,563	2,997	-	-	6,563	2,997
Education	70,323	70,323	-	-	70,323	70,323
Interest and fiscal charges	16,615	14,337	-	-	16,615	14,337
Solid Waste and Recycling	-	-	24,723	24,890	24,723	24,890
Parking	-	-	2,196	2,111	2,196	2,111
Water System	<u>-</u>	<u>-</u>	<u>32,945</u>	<u>31,896</u>	<u>32,945</u>	<u>31,896</u>
Total expenses	<u>562,227</u>	<u>522,481</u>	<u>59,864</u>	<u>58,897</u>	<u>622,091</u>	<u>581,378</u>
Excess (deficiency) of revenues over expenses	(16,045)	(50,581)	11,458	9,680	(4,587)	(40,901)
Transfers	<u>7,399</u>	<u>7,603</u>	<u>(7,399)</u>	<u>(7,603)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	<u>(8,646)</u>	<u>(42,978)</u>	<u>4,059</u>	<u>2,077</u>	<u>(4,587)</u>	<u>(40,901)</u>
Net position — beginning, as previously stated	69,580	112,558	58,474	52,499	128,054	165,057
Restatement	<u>-</u>	<u>-</u>	<u>(2,704)</u>	<u>3,898</u>	<u>(2,704)</u>	<u>3,898</u>
Net position — beginning, as restated	<u>69,580</u>	<u>112,558</u>	<u>55,770</u>	<u>56,397</u>	<u>125,350</u>	<u>168,955</u>
Net position — ending	<u>\$ 60,934</u>	<u>\$ 69,580</u>	<u>\$ 59,829</u>	<u>\$ 58,474</u>	<u>\$ 120,763</u>	<u>\$ 128,054</u>

The largest funding sources for the City's governmental activities, as a percent of total revenues, are state aid (36.3%), property taxes (22.6%) and intergovernmental (17.0%).

The largest expense categories for the City's governmental activities are public safety (55.0%), general government support (17.2%) and education (12.5%). The education category represents the City allocation to the Board.

Significant changes from 2012 to 2013 in revenues and expenses for the City include the following:

- ◆ Total revenues increased by \$74,282 in the current year as compared to last year, primarily due to the following four factors: \$10,834 of state aid was recorded in 2013 resulting from a spin-up of Aid to Municipalities; \$7,817 of previously deferred revenue was recognized in 2013 as a result of the spin-up of Aid to Municipalities; \$15,986 of revenue was recognized in 2013 relating to the recent settlement of the gaming compact between the Seneca Nation of Indians and New York State (this represents the City's share of casino revenue previously withheld by the Seneca Nation of Indians); and miscellaneous revenue of \$32,638 in 2013, which resulted from a refund of previous years' accrued expenses.
- ◆ General government support expenses were \$27,353 greater than 2012 due to a 2012 adjustment for a decrease in the estimate of judgments and claims outstanding at June 30, 2012.

**Business-type activities.** Business-type activities increased the City's net position by \$4,059. Overall, revenues and expenses remained relatively consistent from 2012 to 2013. The overall increase in net position is due to the following:

- ◆ The Solid Waste and Recycling Fund recorded a decrease in net position of \$3,125, which was the result of a decline in service charges as well as an increase in OPEB expenses, offset by a decrease in services and supplies expenses.
- ◆ The net position of the Parking Fund increased \$178. Revenues and expenses remained relatively consistent from 2012 to 2013.
- ◆ The Water System's net position increased by \$7,007. This is largely attributable to a \$3,832 increase in charges for services as a result of a scheduled rate increase.

### **Financial Analysis of the City's 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 the fund financial statements, the City reports fund balance as nonspendable, restricted, committed, assigned and unassigned. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$242,310, an increase of \$15,035 in comparison with the prior year. Unassigned fund balance is \$63,943, or 13.8% of total General Fund expenditures and transfers out. It should be noted that committed fund balance for the City's Emergency Stabilization Fund is \$35,655, or 7.7% of total General Fund expenditures and transfers out. Additionally, the City's assigned fund balances total \$31,910, or 6.9% of total General Fund expenditures and transfers out. Together, unassigned, committed and assigned fund balance total \$131,508, or 28.4% of General Fund expenditures and transfers out.

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 \$24,684 consists of \$7,631 of real estate held for sale, \$30 for Permanent Fund principal, \$963 for prepaid items, and \$16,060 to cover the deficit in the Solid Waste and Recycling Fund.

Restricted fund balance in the amount of \$86,118 are amounts constrained to specific purposes and consists of \$40,416 to finance specific capital projects, \$3,682 for future capital outlay, \$1,685 for federal and state programs, \$26,820 to pay debt service, \$111 for compliance with the Permanent Fund, \$12,244 for state mandated initiatives, and \$1,160 for emergency medical services.

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. \$35,655 of fund balance is committed for the City's Emergency Stabilization fund. Assigned fund balance in the amount of \$31,910 consists of \$4,008 to liquidate contracts and purchase orders, \$13,900 for judgments and claims, \$12,000 for the subsequent year's budget, \$544 for motor vehicle self-insurance, and \$1,458 in funds held by the BFSA. These assignments indicate management's intention to utilize these funds for the stated purposes. Unassigned fund balance totals \$63,943.

**General Fund.** 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 \$63,943, while total fund balance reached \$165,798. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balances represent 13.8% of total fund expenditures and transfers out, while total fund balance represents 35.7% of that same amount. Together, unassigned, committed and assigned fund balance totals \$130,050 or 28.0% of General Fund expenditures and transfers out. The fund balance of the City's General Fund increased by \$52,166 primarily due to several one-time increases in revenue (spin-up of aid to municipalities, recognition of previously deferred revenue, settlement of previously withheld casino revenue, and the adjustment of the estimated liability for wages and fringe benefits relating to all unsettled contracts) which were previously discussed in further detail above.

**Debt Service Fund.** The Debt Service Fund has a total fund balance of \$6,299, which is reserved solely for the purpose of payment of debt service. The increase in fund balance during the current year in the Debt Service Fund of \$2,795 is due to transfers in of excess bond proceeds from the Capital Projects Fund.

**Capital Projects Fund.** 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, the fund balance was \$40,416, of which \$31,829 was considered encumbered for contracts underway and \$8,587 was restricted for future projects. The decrease in fund balance of \$36,501 is the result of the City issuing bond anticipation notes in 2013 rather than general obligation bonds.

**BFSA Special Revenue Fund.** 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 \$13,720. Of this amount, \$12,244 is restricted by enabling legislation for state aid received on behalf of the City, \$19 is nonspendable for prepaid items and \$1,457 represents BFSA's assigned fund balance for operations.

***Other governmental funds.*** Other 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 \$1,685. This balance is restricted for use in accordance with federal and state grant regulations. The fund balance of the Special Revenue Fund increased by \$74 over the prior year, and is attributed to the expenditures incurred in the current year for revenues that will be received and recorded in future years. The BFSA Debt Service Fund has a total fund balance of \$14,251, which is restricted to pay debt service. The fund balance of the BFSA Debt Service Fund decreased by \$1,095 as a result of debt service 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. The increase of \$1 was the result of investment income.

***Enterprise 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 \$59,829. The balance includes deficit balance of \$25,881 for the Solid Waste and Recycling Fund, \$46,492 for the Parking Fund, and \$39,218 for the Water System. The underlying reasons for any changes were described under the heading Business-type activities.

***Internal Service Fund.*** 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 \$220. This represents an increase of \$9, which is primarily from the excess of charges over cost.

### **Budgetary Highlights**

The City annually adopts an operating budget for the General Fund as well as the Debt Service Fund. Annual budgets for enterprise funds serve only as financial plans. The City also adopts a capital improvement budget that determines what multi-year projects will be financed by the sale of bonds or the acquisition of capital grants. These projects are accounted for in the Capital Projects Fund. The multi-year projects of the Special Revenue Fund are established for specific projects as grant funds become available.

After adjustments for the prior year's encumbrances of \$4,217, the City's 2012-13 General Fund operating budget was increased during the year by approximately \$2,490 for payment of judgments and claims. Actual revenues were \$46,239 greater than the final budget, mostly related to the several one-time increases in revenue as previously discussed which were not budgeted. Actual expenditures were \$22,528 less than the final budget. Major positive variances include a total of \$10,332 in salaries, \$4,896 in fringe benefits, and \$4,738 in supplies and services over multiple functions.

### **Capital Assets and Debt Administration**

**Capital assets.** The City's capital assets for its governmental and business-type activities as of June 30, 2013, amounted to \$612,260 (net of accumulated depreciation). These capital assets include land, buildings, improvements other than buildings, machinery and equipment, infrastructure and construction in progress.

**Table 3—Capital Assets—Primary Government (000s omitted)**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	June 30,		June 30,		June 30,	
	2013	2012	2013	2012	2013	2012
Land	\$ 10,170	\$ 12,577	\$ 3,362	\$ 3,362	\$ 13,532	\$ 15,939
Buildings and improvements	172,833	173,221	121,529	121,642	294,362	294,863
Improvements other than buildings	17,808	13,134	154	178	17,962	13,312
Machinery and equipment	18,894	18,454	3,061	3,687	21,955	22,141
Infrastructure	207,257	195,676	54,547	55,048	261,804	250,724
Construction in progress	1,659	4,007	986	866	2,645	4,873
Total	<u>\$ 428,621</u>	<u>\$ 417,069</u>	<u>\$ 183,639</u>	<u>\$ 184,783</u>	<u>\$ 612,260</u>	<u>\$ 601,852</u>

Significant changes from 2012 to 2013 in capital assets include:

- ◆ Land decreased by \$2,407 primarily due to the adjustment of the capital asset records to reflect the previous transfer of the Convention Center to Erie County.
- ◆ Improvements other than buildings increased by \$4,650 primarily due to the completion of the Martin Luther King Jr. Park splash pad, wading pool and new shelters.
- ◆ Infrastructure increased \$11,080 due to completion of various road projects.
- ◆ Construction in progress decreased \$2,228 primarily due to the completion of the Martin Luther King Jr. Park splash pad, which was not completed until the current fiscal year.

Additional information on the City's capital assets can be found in Note 5 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding for governmental activities of \$292,415, including bonds issued by BFSA. This entire amount is backed by the full faith and credit of the City. The City issued \$39,285 of refunding bonds during the year.

The BFSA's total bonded debt outstanding at the end of the current fiscal year is \$76,700.

The bonds outstanding for business-type activities at June 30, 2013 consisted of \$14,478 in general obligation bonds issued by the City and \$159,470 of revenue bonds issued by the Water Authority reported within the Water System.

**Table 4—Outstanding Bonded Debt—Primary Government (000s omitted)**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	June 30,		June 30,		June 30,	
	2013	2012	2013	2012	2013	2012
General obligation bonds	\$ 292,415	\$ 334,890	\$ 14,478	\$ 16,900	\$ 306,893	\$ 351,790
Revenue bonds	-	-	159,470	166,210	159,470	166,210
Total	<u>\$ 292,415</u>	<u>\$ 334,890</u>	<u>\$ 173,948</u>	<u>\$ 183,110</u>	<u>\$ 466,363</u>	<u>\$ 518,000</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 9% 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 \$587,664. The City had a debt-contracting margin of \$352,957 on July 1, 2013.

Additional information on the City’s long-term debt can be found in Note 12 of this report.

### **Next Year’s Budget**

The City considered current year operational expenses and estimated increases based on economic factors when establishing the fiscal year 2014 budget. The total budgeted appropriations for the City’s General Fund operations are \$377,451. This budget is relatively consistent with the fiscal year 2013 total budgeted appropriations. 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, 2013**

	Primary Government			Component Units	
	Governmental	Business-type	Total	BOE	BURA
	Activities	Activities			
<b>ASSETS</b>					
Cash and cash equivalents	\$ 394,083,365	\$47,246,904	\$ 441,330,269	\$ 298,204	\$ -
Restricted cash and cash equivalents	114,375,455	38,717,197	153,092,652	96,499,961	1,184,265
Investments	15,342,998	-	15,342,998	-	-
Receivables (net of allowances for estimated uncollectible amounts)	32,688,929	10,897,869	43,586,798	2,113,140	10,490,436
Due from other governments/agencies	23,747,692	589,435	24,337,127	66,851,458	837,023
Due from component units/ primary government	101,931,859	-	101,931,859	241,386,673	1,801,705
Internal balances	16,394,405	(16,394,405)	-	-	-
Prepaid items and other assets	962,303	-	962,303	1,746,040	139,712
Real estate acquired for resale	7,631,041	-	7,631,041	-	821,517
Capital assets not being depreciated	11,828,364	4,348,258	16,176,622	34,467,610	247,561
Capital assets, net of accumulated depreciation	<u>416,792,412</u>	<u>179,290,506</u>	<u>596,082,918</u>	<u>1,161,677,140</u>	<u>3,332,780</u>
Total assets	<u>1,135,778,823</u>	<u>264,695,764</u>	<u>1,400,474,587</u>	<u>1,605,040,226</u>	<u>18,854,999</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred loss on refunding	3,433,224	5,055,774	8,488,998	911,640	-
Bond issuance costs	1,154,201	-	1,154,201	-	-
Deferred outflows of resources - swap	-	<u>3,228,952</u>	<u>3,228,952</u>	-	-
Total deferred outflows of resources	<u>4,587,425</u>	<u>8,284,726</u>	<u>12,872,151</u>	<u>911,640</u>	<u>-</u>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	97,254,992	9,194,562	106,449,554	53,842,710	6,940,040
Due to other governments	140,396	-	140,396	32,838,034	238,706
Due to component units/primary government	243,188,378	-	243,188,378	101,680,815	251,044
Unearned revenue	209,305	196,979	406,284	-	4,943,143
Bond anticipation notes payable	17,819,168	-	17,819,168	-	-
Noncurrent liabilities:					
Due within one year	51,962,457	11,361,615	63,324,072	50,753,429	1,265,000
Due in more than one year	<u>668,857,189</u>	<u>192,017,716</u>	<u>860,874,905</u>	<u>1,756,956,942</u>	<u>17,843,266</u>
Total liabilities	<u>1,079,431,885</u>	<u>212,770,872</u>	<u>1,292,202,757</u>	<u>1,996,071,930</u>	<u>31,481,199</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred gain on refunding	-	380,345	380,345	-	-
Total deferred inflows of resources	<u>-</u>	<u>380,345</u>	<u>380,345</u>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>					
Net investment in capital assets	269,690,859	51,827,121	321,517,980	161,593,106	3,332,780
Restricted for:					
Capital outlay	3,682,403	-	3,682,403	451,666	-
Debt service	23,559,289	-	23,559,289	77,767,863	-
Grants	1,684,722	-	1,684,722	-	1,184,265
State mandated initiatives	12,244,398	-	12,244,398	-	-
Real estate held for sale	7,631,042	-	7,631,042	-	-
Judgments and claims	-	-	-	23,000,000	-
Unemployment insurance	-	-	-	3,156,044	-
Joint Schools Construction Board projects	-	-	-	17,386,077	-
Perpetual care:					
Expendable	110,562	-	110,562	551,610	-
Unexpendable	30,000	-	30,000	-	-
Other purposes	1,160,021	-	1,160,021	3,814,584	-
Unrestricted	<u>(258,858,933)</u>	<u>8,002,152</u>	<u>(250,856,781)</u>	<u>(677,841,014)</u>	<u>(17,143,245)</u>
Total net position	<u>\$ 60,934,363</u>	<u>\$59,829,273</u>	<u>\$ 120,763,636</u>	<u>\$(390,120,064)</u>	<u>\$(12,626,200)</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, 2013

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
<b>Primary government:</b>									
Governmental activities:									
General government support	\$ 96,479,546	\$ 9,844,017	\$ 4,919,996	\$ 1,160,400	\$ (80,555,133)	\$ -	\$ (80,555,133)	\$ -	\$ -
Public safety	309,013,983	13,307,930	7,732,608	1,307,404	(286,666,041)	-	(286,666,041)	-	-
Streets and sanitation	34,240,266	1,012,437	493,336	10,973,861	(21,760,632)	-	(21,760,632)	-	-
Economic assistance and opportunity	12,085,801	3,852,834	4,496,759	1,182,128	(2,554,080)	-	(2,554,080)	-	-
Culture and recreation	16,906,200	125,708	200,000	2,009,483	(14,571,009)	-	(14,571,009)	-	-
Home and community services	6,563,158	174,608	5,210,560	-	(1,177,990)	-	(1,177,990)	-	-
Education	70,322,758	-	-	-	(70,322,758)	-	(70,322,758)	-	-
Interest and fiscal charges	16,615,349	-	-	-	(16,615,349)	-	(16,615,349)	-	-
Total governmental activities	<u>562,227,061</u>	<u>28,317,534</u>	<u>23,053,259</u>	<u>16,633,276</u>	<u>(494,222,992)</u>	<u>-</u>	<u>(494,222,992)</u>	<u>-</u>	<u>-</u>
Business-type activities:									
Solid Waste and Recycling	24,722,788	18,479,004	-	-	-	(6,243,784)	(6,243,784)	-	-
Parking	2,195,907	7,721,149	-	-	-	5,525,242	5,525,242	-	-
Water System	32,945,268	44,135,124	-	-	-	11,189,856	11,189,856	-	-
Total business-type activities	<u>59,863,963</u>	<u>70,335,277</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,471,314</u>	<u>10,471,314</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 622,091,024</u>	<u>\$ 98,652,811</u>	<u>\$ 23,053,259</u>	<u>\$ 16,633,276</u>	<u>(494,222,992)</u>	<u>10,471,314</u>	<u>(483,751,678)</u>	<u>-</u>	<u>-</u>
<b>Component units:</b>									
BOE	\$ 993,030,641	\$ 2,405,476	135,005,308	\$ -				(855,619,857)	-
BURA	49,787,452	-	40,165,650	-				-	(9,621,802)
Total component units	<u>\$ 1,042,818,093</u>	<u>\$ 2,405,476</u>	<u>\$ 175,170,958</u>	<u>\$ -</u>				<u>(855,619,857)</u>	<u>(9,621,802)</u>
General revenues:									
Taxes:									
Property taxes					123,612,224	-	123,612,224	-	-
Interest and penalties					3,330,923	-	3,330,923	-	-
Mortgage taxes					1,985,969	-	1,985,969	-	-
Payments in lieu of taxes					5,744,464	-	5,744,464	-	-
Gross utility tax					12,253,131	-	12,253,131	-	-
State aid (unrestricted)					198,322,419	-	198,322,419	626,907,281	-
Intergovernmental (unrestricted)					93,004,331	695,593	93,699,924	37,283,206	-
Grants and contributions not restricted to specific programs					196,581	-	196,581	-	-
Investment earnings					2,453,504	291,594	2,745,098	1,099,753	-
Contribution from City of Buffalo					-	-	-	70,322,758	-
Miscellaneous					37,274,562	-	37,274,562	16,828,023	-
Transfers					7,399,064	(7,399,064)	-	-	-
Total general revenues and transfers					<u>485,577,172</u>	<u>(6,411,877)</u>	<u>479,165,295</u>	<u>752,441,021</u>	<u>-</u>
Change in net position					(8,645,820)	4,059,437	(4,586,383)	(103,178,836)	(9,621,802)
Net position—beginning, as restated (see note 2)					<u>69,580,183</u>	<u>55,769,836</u>	<u>125,350,019</u>	<u>(286,941,228)</u>	<u>(3,004,398)</u>
Net position—ending					<u>\$ 60,934,363</u>	<u>\$ 59,829,273</u>	<u>\$ 120,763,636</u>	<u>\$ (390,120,064)</u>	<u>\$ (12,626,200)</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, 2013**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>BFSA Special Revenue</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 392,152,283	\$ -	\$ -	\$ 92,851	\$ 1,620,607	\$ 393,865,741
Restricted cash and cash equivalents	14,927,008	6,069,872	79,077,454	12,244,398	2,056,723	114,375,455
Investments	-	-	-	-	15,342,998	15,342,998
Receivables:						
Delinquent taxes and assessments	16,295,885	-	-	-	-	16,295,885
Accounts receivable	28,622,611	-	-	-	-	28,622,611
Other receivables	30	1,833	-	-	3,917	5,780
Due from other agencies	1,062,290	-	-	-	-	1,062,290
Due from other governments	1,776,364	-	4,349,542	14,469,732	2,089,764	22,685,402
Due from other funds	33,126,581	227,086	-	-	1,455,668	34,809,335
Due from component units	67,022	-	-	-	184,022	251,044
Allowances for estimated uncollectible amounts	(12,242,503)	-	-	-	-	(12,242,503)
Net receivables	68,708,280	228,919	4,349,542	14,469,732	3,733,371	91,489,844
Prepaid items	943,691	-	-	18,612	-	962,303
Real estate acquired for resale	7,631,041	-	-	-	-	7,631,041
Total assets	<u>\$ 484,362,303</u>	<u>\$ 6,298,791</u>	<u>\$ 83,426,996</u>	<u>\$ 26,825,593</u>	<u>\$ 22,753,699</u>	<u>\$ 623,667,382</u>
<b>LIABILITIES</b>						
Accounts payable	\$ 16,793,950	\$ -	\$ 6,918,785	\$ 15,534	\$ 1,042,186	\$ 24,770,455
Accrued liabilities	57,760,974	-	-	29,245	1,247,323	59,037,542
Due to other governments and agencies	113,524	-	26,872	-	-	140,396
Due to other funds	14,114	73	7,101,457	8,609,173	2,688,188	18,413,005
Due to component units	227,136,148	-	9,917,877	4,451,205	1,683,148	243,188,378
Unearned revenue	209,305	-	-	-	-	209,305
Retainage payable	4,409	-	1,226,510	-	16,303	1,247,222
Accrued pension	8,936,696	-	-	-	-	8,936,696
Bond anticipation notes payable	-	-	17,819,168	-	-	17,819,168
Total liabilities	<u>310,969,120</u>	<u>73</u>	<u>43,010,669</u>	<u>13,105,157</u>	<u>6,677,148</u>	<u>373,762,167</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenues - property taxes	7,595,637	-	-	-	-	7,595,637
Total deferred inflows of resources	<u>7,595,637</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,595,637</u>
<b>FUND BALANCES</b>						
Nonspendable	24,635,075	-	-	18,612	30,000	24,683,687
Restricted	11,112,424	6,298,718	40,416,327	12,244,398	16,046,551	86,118,418
Committed	35,654,900	-	-	-	-	35,654,900
Assigned	30,452,321	-	-	1,457,426	-	31,909,747
Unassigned	63,942,826	-	-	-	-	63,942,826
Total fund balances	<u>165,797,546</u>	<u>6,298,718</u>	<u>40,416,327</u>	<u>13,720,436</u>	<u>16,076,551</u>	<u>242,309,578</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 484,362,303</u>	<u>\$ 6,298,791</u>	<u>\$ 83,426,996</u>	<u>\$ 26,825,593</u>	<u>\$ 22,753,699</u>	<u>\$ 623,667,382</u>

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

**CITY OF BUFFALO, NEW YORK**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Position—Governmental Activities**  
**June 30, 2013**

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

Fund balances—total governmental funds (page 17)		\$242,309,578
City capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$793,102,531 and the accumulated depreciation is \$364,490,574.		428,611,957
Buffalo Fiscal Stability Authority capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds. The cost of these assets is \$70,399 and the accumulated depreciation is \$61,580.		8,819
To recognize interest accrual on long-term debt. Accrued interest for general obligation bonds is \$3,260,696 at year end.		(3,260,696)
Property taxes are not available to pay for current period expenditures and therefore are deferred in the funds.		7,595,637
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.		220,474
Certain deferred outflows of resources represent a consumption of net position in a future period and, therefore, are not reported in the funds:		
Deferred loss on refundings		3,433,224
Long-term liabilities applicable to the City's governmental funds are not due and payable in the current period and, therefore, are not reported in the funds. The effect of these items are:		
Bonds payable (net of of BFSA mirror debt and amount due from Board)	\$(114,034,185)	
Notes payable	(1,059,753)	
Capital leases	(934,725)	
Unamortized premiums	(6,813,987)	
Compensated absences	(27,990,337)	
Workers' compensation	(7,882,908)	
Landfill post-closure monitoring	(1,050,000)	
Other post-employment benefits payable	(363,954,000)	
Judgments and claims	<u>(13,900,000)</u>	(537,619,895)
Long-term liabilities of the Buffalo Fiscal Stability Authority are not due and payable in the current period and, therefore, are not reported in the funds. The effect of these items are:		
Bonds payable	\$ (76,700,000)	
Unamortized bond issuance costs	1,154,201	
Unamortized premiums	(4,391,019)	
Other post-employment benefits payable	<u>(427,917)</u>	<u>(80,364,735)</u>
Net position of governmental activities		<u>\$ 60,934,363</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, 2013**

	<b>General</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>BFS Special Revenue</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>						
Property taxes, assessments, and other tax items	\$ 135,238,989	\$ -	\$ -	\$ -	\$ -	\$ 135,238,989
Utility and other nonproperty tax items	12,253,130	-	-	-	-	12,253,130
Intergovernmental	291,545,747	16,285,938	16,562,673	1,696,280	18,856,188	344,946,826
Investment interest	1,186,728	192,573	-	-	361,038	1,740,339
License, permit, rentals, fines, and other service charges	24,415,541	48,518	-	-	-	24,464,059
Miscellaneous	40,317,282	652,868	70,600	-	25,665	41,066,415
<b>Total revenues</b>	<b>504,957,417</b>	<b>17,179,897</b>	<b>16,633,273</b>	<b>1,696,280</b>	<b>19,242,891</b>	<b>559,709,758</b>
<b>EXPENDITURES</b>						
Current:						
General government support	53,394,976	-	-	575,941	5,362,091	59,333,008
Public safety	136,468,054	-	-	-	7,232,154	143,700,208
Streets and sanitation	9,824,236	-	-	-	1,730	9,825,966
Economic assistance and opportunity	1,302,881	-	-	-	3,476,079	4,778,960
Culture and recreation	6,863,984	-	-	-	79,186	6,943,170
Health and community services	2,535,758	-	-	-	2,657,787	5,193,545
Education	70,322,758	-	-	-	-	70,322,758
Fringe benefits	138,902,682	-	-	141,155	-	139,043,837
Other	7,412,384	-	-	-	-	7,412,384
Debt service:						
Principal	-	27,175,000	-	-	14,535,000	41,710,000
Interest and fiscal charges	831,100	9,529,563	-	-	3,839,734	14,200,397
Capital outlay:						
General government support	-	-	5,760,889	-	-	5,760,889
Public safety	-	-	5,833,251	-	-	5,833,251
Streets and sanitation	-	-	23,736,134	-	-	23,736,134
Economic assistance and opportunity	-	-	6,199,938	-	-	6,199,938
Culture and recreation	-	-	8,599,755	-	-	8,599,755
<b>Total expenditures</b>	<b>427,858,813</b>	<b>36,704,563</b>	<b>50,129,967</b>	<b>717,096</b>	<b>37,183,761</b>	<b>552,594,200</b>
Excess (deficiency) of revenues over expenditures	77,098,604	(19,524,666)	(33,496,694)	979,184	(17,940,870)	7,115,558
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	11,024,121	35,335,727	400,000	-	16,920,809	63,680,657
Transfers out	(35,956,674)	(13,536,634)	(3,404,110)	(3,384,175)	-	(56,281,593)
Issuance of refunding debt	-	39,285,000	-	-	-	39,285,000
Premium on bonds	-	1,800,988	-	-	-	1,800,988
Payment to escrow agent	-	(40,565,886)	-	-	-	(40,565,886)
<b>Total other financing sources (uses)</b>	<b>(24,932,553)</b>	<b>22,319,195</b>	<b>(3,004,110)</b>	<b>(3,384,175)</b>	<b>16,920,809</b>	<b>7,919,166</b>
Net change in fund balances	52,166,051	2,794,529	(36,500,804)	(2,404,991)	(1,020,061)	15,034,724
Fund balances—beginning	113,631,495	3,504,189	76,917,131	16,125,427	17,096,612	227,274,854
<b>Fund balances—ending</b>	<b>\$ 165,797,546</b>	<b>\$ 6,298,718</b>	<b>\$ 40,416,327</b>	<b>\$ 13,720,436</b>	<b>\$ 16,076,551</b>	<b>\$ 242,309,578</b>

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 of Governmental Funds to the Statement of Activities—Governmental Activities**  
**Year Ended June 30, 2013**

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)		\$ 15,034,724
The City's governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		12,102,314
Net disposition of capital assets is recorded in the statement of activities but not in the statement for governmental funds.		(555,775)
Buffalo Fiscal Stability Authority governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.		5,634
Revenues in the statement of activities that do not provide current financial resources and are not reported as revenues in the funds.		(565,411)
Change in net position of the internal service fund reported in governmental activities.		9,038
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, interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:		
Repayment of bonds payable	\$ 27,175,000	
Repayment of notes payable	252,080	
Capital lease payments	445,151	
Contribution from Board	(13,736,005)	
Issuance of bonds payable	(39,285,000)	
Refunded debt	40,050,000	
Net change in bond premiums	(650,762)	
Net change in accrued interest	<u>457,228</u>	14,707,692
The repayment of long-term debt by the Buffalo Fiscal Stability Authority consumes current financial resources of governmental funds. Bond issuance costs are capitalized and bond premiums deferred. The net effect of the reduction of long-term liabilities on the statement of net position consists of following adjustments:		
Repayment of bonds payable	\$ 14,535,000	
Amortization of bond premiums	713,163	
Amortization of deferred financing costs	<u>(235,008)</u>	15,013,155
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 is as follows:		
Compensated absences	\$ (3,300,415)	
Workers' compensation	(231,530)	
Judgments and claims	(300,000)	
Landfill post-closure monitoring	100,000	
Other post-employment benefits	(57,141,654)	
Amortization of deferred financing costs	<u>(3,523,592)</u>	<u>(64,397,191)</u>
Change in net position of governmental activities		<u>\$ (8,645,820)</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, 2013**

	<b>Business-type Activities—Enterprise Funds</b>				<b>Internal Service Fund</b>
	<b>Solid Waste and Recycling</b>	<b>Parking</b>	<b>Water System</b>	<b>Total</b>	
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 1,369,034	\$ 6,545,465	\$ 39,332,405	\$ 47,246,904	\$ 217,624
Restricted cash and cash equivalents	-	40,830	38,676,367	38,717,197	-
Receivables:					
Accounts receivable	13,353,699	4,554,580	18,981,010	36,889,289	7,156
Other receivables	138,711	48	843,438	982,197	-
Due from other agencies	-	-	127,425	127,425	-
Due from other governments	-	-	462,010	462,010	-
Due from other funds	-	73	-	73	-
Allowances for estimated uncollectible amounts	(12,803,444)	-	(14,170,173)	(26,973,617)	-
Net receivables	688,966	4,554,701	6,243,710	11,487,377	7,156
Total current assets	2,058,000	11,140,996	84,252,482	97,451,478	224,780
Noncurrent assets:					
Capital assets not being depreciated:					
Land	1	3,217,093	145,116	3,362,210	-
Construction in progress	-	-	986,048	986,048	-
Capital assets being depreciated:					
Buildings and infrastructure	4,069,261	74,050,158	192,905,575	271,024,994	-
Improvements other than buildings	175,071	66,513	252,393	493,977	-
Machinery and equipment	8,587,333	109,762	528,268	9,225,363	-
Accumulated depreciation	(7,652,899)	(29,026,241)	(64,774,688)	(101,453,828)	-
Total capital assets being depreciated	5,178,766	45,200,192	128,911,548	179,290,506	-
Total noncurrent assets	5,178,767	48,417,285	130,042,712	183,638,764	-
Total assets	7,236,767	59,558,281	214,295,194	281,090,242	224,780
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred loss on refunding	-	636,971	4,418,803	5,055,774	-
Deferred outflows of resources - swap	-	-	3,228,952	3,228,952	-
Total deferred outflows of resources	-	636,971	7,647,755	8,284,726	-
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	976,049	1,543	1,794,668	2,772,260	2,381
Other accrued liabilities	706,724	50,107	4,634,413	5,391,244	-
Due to other funds	16,060,342	123,800	210,336	16,394,478	1,925
Retainage payable	-	-	525,126	525,126	-
Unearned revenue	196,979	-	-	196,979	-
Due to retirement systems	266,607	-	239,325	505,932	-
Capital lease	701,865	-	-	701,865	-
Accrued compensated absences	31,584	-	57,976	89,560	-
Accrued workers' compensation	429,320	-	384,733	814,053	-
General obligation and revenue bonds payable within one year	-	2,090,000	7,666,137	9,756,137	-
Total current liabilities	19,369,470	2,265,450	15,512,714	37,147,634	4,306

(continued)

**CITY OF BUFFALO, NEW YORK**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2013**

	<u>Business-type Activities—Enterprise Funds</u>				<b>Internal Service Fund</b>
	<b>Solid Waste and Recycling</b>	<b>Parking</b>	<b>Water System</b>	<b>Total</b>	
Noncurrent liabilities:					
Capital lease	954,636	-	-	954,636	-
Accrued compensated absences	713,804	-	691,697	1,405,501	-
Accrued workers' compensation	668,204	-	294,420	962,624	-
Accrued post employment benefits	11,412,000	28,000	9,047,000	20,487,000	-
Accrued derivative liability	-	-	3,228,952	3,228,952	-
General obligation and revenue bonds	-	11,204,600	153,774,403	164,979,003	-
Total noncurrent liabilities	<u>13,748,644</u>	<u>11,232,600</u>	<u>167,036,472</u>	<u>192,017,716</u>	<u>-</u>
Total liabilities	<u>33,118,114</u>	<u>13,498,050</u>	<u>182,549,186</u>	<u>229,165,350</u>	<u>4,306</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred gain on refunding	-	204,643	175,702	380,345	-
Total deferred inflows of resources	<u>-</u>	<u>204,643</u>	<u>175,702</u>	<u>380,345</u>	<u>-</u>
<b>NET POSITION</b>					
Net investment in capital assets	3,522,266	35,800,486	12,504,369	51,827,121	-
Unrestricted	<u>(29,403,613)</u>	<u>10,692,073</u>	<u>26,713,692</u>	<u>8,002,152</u>	<u>220,474</u>
Total net position	<u>\$ (25,881,347)</u>	<u>\$ 46,492,559</u>	<u>\$ 39,218,061</u>	<u>\$ 59,829,273</u>	<u>\$ 220,474</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, 2013**

	<b>Business-type Activities—Enterprise Funds</b>				<b>Internal Service Fund</b>
	<b>Solid Waste and Recycling</b>	<b>Parking</b>	<b>Water System</b>	<b>Total</b>	
Operating revenues:					
Charges for services	\$ 18,221,207	\$ -	\$ 44,045,399	\$ 62,266,606	\$ 60,672
Other	257,797	-	89,725	347,522	-
Rent	-	7,721,149	-	7,721,149	-
Total operating revenues	<u>18,479,004</u>	<u>7,721,149</u>	<u>44,135,124</u>	<u>70,335,277</u>	<u>60,672</u>
Operating expenses:					
Services and supplies	17,005,208	109,353	14,462,771	31,577,332	51,634
Depreciation	1,120,987	1,602,975	4,851,160	7,575,122	-
Fringe benefits	6,561,926	8,593	5,608,563	12,179,082	-
Other	-	-	929,344	929,344	-
Total operating expenses	<u>24,688,121</u>	<u>1,720,921</u>	<u>25,851,838</u>	<u>52,260,880</u>	<u>51,634</u>
Operating income (loss)	<u>(6,209,117)</u>	<u>6,000,228</u>	<u>18,283,286</u>	<u>18,074,397</u>	<u>9,038</u>
Nonoperating revenues (expenses):					
Interest earnings	846	18,424	272,324	291,594	-
Interest expense	(34,667)	(474,986)	(7,093,430)	(7,603,083)	-
Other	-	-	695,593	695,593	-
Total nonoperating revenues (expenses)	<u>(33,821)</u>	<u>(456,562)</u>	<u>(6,125,513)</u>	<u>(6,615,896)</u>	<u>-</u>
Income (loss) before transfers	(6,242,938)	5,543,666	12,157,773	11,458,501	9,038
Transfers in	3,790,711	-	-	3,790,711	-
Transfers out	<u>(673,048)</u>	<u>(5,365,654)</u>	<u>(5,151,073)</u>	<u>(11,189,775)</u>	<u>-</u>
Change in net position	(3,125,275)	178,012	7,006,700	4,059,437	9,038
Total net position—beginning, as restated (see note 2)	<u>(22,756,072)</u>	<u>46,314,547</u>	<u>32,211,361</u>	<u>55,769,836</u>	<u>211,436</u>
Total net position—ending	<u>\$ (25,881,347)</u>	<u>\$ 46,492,559</u>	<u>\$ 39,218,061</u>	<u>\$ 59,829,273</u>	<u>\$ 220,474</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, 2013**

	<u>Business-type Activities—Enterprise Funds</u>				<b>Internal Service Fund</b>
	<b>Solid Waste and Recycling</b>	<b>Parking</b>	<b>Water System</b>	<b>Total</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 18,767,658	\$ 7,377,055	\$ 42,518,491	\$ 68,663,204	\$ 63,538
Payments to suppliers for goods and services	(10,401,170)	(150,634)	(8,397,252)	(18,949,056)	(49,253)
Payments to employees for services	(10,577,454)	(7,593)	(9,294,676)	(19,879,723)	-
Net cash provided (used) by operating activities	<u>(2,210,966)</u>	<u>7,218,828</u>	<u>24,826,563</u>	<u>29,834,425</u>	<u>14,285</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers from other funds	3,790,711	-	10,083,686	13,874,397	-
Transfers to other funds	(673,048)	(5,365,654)	(4,709,152)	(10,747,854)	-
Advances from (to) other funds	1,336,886	84,484	(10,721,090)	(9,299,720)	1,827
Net cash provided (used) by noncapital financing activities	<u>4,454,549</u>	<u>(5,281,170)</u>	<u>(5,346,556)</u>	<u>(6,173,177)</u>	<u>1,827</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Acquisition/construction of capital assets	(590,711)	(225,692)	(6,490,937)	(7,307,340)	-
Principal payments on bonds	(689,996)	(2,150,000)	(6,751,574)	(9,591,570)	-
Interest payments	(34,667)	(474,433)	(6,215,282)	(6,724,382)	-
Net cash used by capital and related financing activities	<u>(1,315,374)</u>	<u>(2,850,125)</u>	<u>(19,457,793)</u>	<u>(23,623,292)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest received on short-term investments	836	18,396	246,977	266,209	-
Net cash provided by investing activities	<u>836</u>	<u>18,396</u>	<u>246,977</u>	<u>266,209</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	929,045	(894,071)	269,191	304,165	16,112
Cash and cash equivalents—beginning	439,989	7,480,366	77,739,581	85,659,936	201,512
Cash and cash equivalents—ending	<u>\$ 1,369,034</u>	<u>\$ 6,586,295</u>	<u>\$ 78,008,772</u>	<u>\$ 85,964,101</u>	<u>\$ 217,624</u>

(continued)

**CITY OF BUFFALO, NEW YORK**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2013**

	<u>Business-type Activities—Enterprise Funds</u>				<u>Internal Service Fund</u>
	<u>Solid Waste and Recycling</u>	<u>Parking</u>	<u>Water System</u>	<u>Total</u>	
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>					
Operating income (loss)	\$ (6,209,117)	\$ 6,000,228	\$ 18,283,286	\$ 18,074,397	\$ 9,038
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	1,120,987	1,602,975	4,851,160	7,575,122	-
Change in assets and liabilities:					
Receivables	312,093	(344,094)	4,194,109	4,162,108	2,866
Payables	66,943	(41,281)	(4,158,965)	(4,133,303)	2,381
Other accrued liabilities	359,984	-	234,669	594,653	-
Due to retirement systems	15,502	-	(268)	15,234	-
Deferred revenue	(23,438)	-	-	(23,438)	-
Accrued compensated absences	(58,358)	-	(56,302)	(114,660)	-
Accrued workers' compensation	(103,562)	-	50,874	(52,688)	-
Accrued other post-employment benefits	2,308,000	1,000	1,428,000	3,737,000	-
Total adjustments	<u>3,998,151</u>	<u>1,218,600</u>	<u>6,543,277</u>	<u>11,760,028</u>	<u>5,247</u>
Net cash provided (used) by operating activities	<u>\$ (2,210,966)</u>	<u>\$ 7,218,828</u>	<u>\$ 24,826,563</u>	<u>\$ 29,834,425</u>	<u>\$ 14,285</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, 2013**

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	<b>Private Purpose Trust</b>	<b>Agency</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 23,909	\$ 1,446,160
Investments	32,912	-
Receivables	5,378	-
Total assets	\$ 62,199	\$ 1,446,160
<b>LIABILITIES</b>		
Due to other governments	\$ -	\$ 24,266
Amount held in custody for others	-	1,421,894
Total liabilities	-	\$ 1,446,160
<b>NET POSITION</b>		
Unrestricted	62,199	
Total net position	62,199	
Total liabilities and net position	\$ 62,199	

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, 2013**

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	<b>Private Purpose Trust</b>
<b>ADDITIONS</b>	
Investment earnings:	
Interest	\$ 439
Total additions	439
<b>DEDUCTIONS</b>	
Awards	-
Total deductions	-
Change in net position	439
Net position - beginning	61,760
Net position - ending	\$ 62,199

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, 2013**

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**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 of the City and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges 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”). As required by accounting principles generally accepted in the United States of America (“GAAP”), these financial statements present the City (the “primary government”) and its component units. The component units discussed below are included in the City’s reporting entity because of the significance of their operational or financial relationship to the City.

**Blended Component Units.** The Buffalo Municipal Water Finance Authority (the “Authority”) and the Buffalo Water Board (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.

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.

The Water System and the BFSFA are included as blended component units because exclusion would be misleading.

**Discretely Presented Component Units.** Financial data of the City’s component units that are not part of the primary government are reported in the component unit columns within the government-wide financial statements. These component units are reported in a separate column to emphasize that they are legally separate from the City. Such component units are not simply an extension of the primary government. The majority of the governing body of the Buffalo Urban Renewal Agency (“BURA”) is composed of City officials. BURA provides services to the general public. The Board of Education, City of Buffalo, New York (the “Board”) is governed by the Board of Education whose members are elected by the voters of the City in accordance with State statutes.

- 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 City has the ability to remove appointed members and to approve the BURA’s budget.
- The Board is a unit of local government created under the Constitution of the State. 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 12). 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.

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

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 Controls 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.

**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.

### ***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. The activity of the internal service fund is eliminated to avoid “doubling up” of revenues and expenses. It is the City’s policy to record transactions between funds as operating transfers.

### ***Basis of Presentation – Fund Financial Statements***

The fund financial statements provide information about the government’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. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

- *General Fund*—The General Fund is used to account for all financial resources of the primary 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 always 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 semipermanent 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*—This 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.

*Other Governmental Funds*—The other governmental funds includes 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. These include the Private Purpose Trust Fund and Agency Fund. Activities reported in the fiduciary funds include monies held in trust for prisoners, deposits that are to be returned, and payroll withholding due 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.

### ***Measure 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 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.

***Budgetary Information***

***Budgetary Basis of Accounting***—The City follows these procedures in establishing the budgetary data reflected in the financial statements.

- Formal annual operating budgets are adopted by the Council for the General Fund and the Debt Service Fund. Annual budgets for proprietary funds serve only as financial plans. The budgets are prepared on a non-GAAP budgetary basis; encumbrances are charged against appropriations in the year the commitment is incurred. Formal budgetary integration is employed during the year as a management control device. The Common Council adopts long-term budgets covering the anticipated life of the project, grant, or program for the Capital Projects Fund and the Special Revenue Fund.
- 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 as passed by the Council are adopted without any Mayoral action. 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 the Comptroller, demonstrating that the increase is necessary to meet a contingency which could not have been reasonably foreseen when the budget was adopted.

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 revenues and other financing sources over expenditures and other financing uses — GAAP basis	\$ 52,166,051
Less encumbrances	<u>(4,008,395)</u>
Excess of revenues and other financing sources over expenditures and other financing uses — basis of budgeting	<u>\$ 48,157,656</u>

***Excess of Expenditures Over Appropriations***—For the year ended June 30, 2013, an unfavorable variance of \$824,780 for transfers out occurred due to budgeted amounts for capital outlay included within other expenses and the actual expense included within transfers out.

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

***Cash, Cash Equivalents and Investments***—Cash, cash equivalents and investments consist of cash on hand, demand deposits, time deposits and short-term, highly liquid investments which are readily

convertible to known amounts of cash and have an original maturity date within 90 days or less from the date of acquisition. All highly liquid investments with an original maturity date of approximately three months or less are considered to be cash equivalents. Investments are stated at fair value which approximates cost.

**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 which represent amounts with constraints placed on their use by either external parties and/or statute.

**Prepaid Items**—Certain payments to vendors 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 expenditures/expenses when consumed rather than when purchased.

**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 five years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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:

Class	Life in 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:

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

**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, 2013, the City has three items that qualify for reporting in this category. One item is unamortized bond issuance costs of the BFSA. The BFSA has not implemented the provisions of GASB Statement No. 65; and as such, has not fully recognized the unamortized bond issuance costs in the current year. The other items that qualify as deferred outflows of resources are deferred losses on refunding and the deferred amount on the City's interest rate swap agreement.

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, 2013, the City has two items that qualify for reporting in this category. These items include deferred gains on refunding within the proprietary funds and unavailable revenue from property taxes.

***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 revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be

taken for the removal of the assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

### ***Revenues and Expenditures/Expenses***

***Program Revenues***—Amounts reported as *program revenues* include 1) charges to customers or applications 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 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, 2013, the City had a legal tax margin of approximately \$41.6 million.

***Unearned Revenue***—Certain revenues have not met the revenue recognition criteria for government-wide or fund financial purposes. At June 30, 2013, the City reported unearned revenues within the General Fund and Solid Waste and Recycling Fund in the amounts of \$209,305 and \$196,979, 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.

***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.

***Accrued Pension***—Amounts owed to the State Retirement Systems for wages paid to employees of the City, but not yet billed, are reported as liabilities in the financial statements.

***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 revenues, expenses/expenditures, assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and during the reported period. Actual results could differ from those estimates.

**Reclassifications**—Certain amounts were reclassified from the Board's, BURA's, and BFSA's financial statements to conform to the City's reporting presentation. In the BFSA's statement of net position, \$4,451,205 previously classified as due to City of Buffalo was reclassified as due to component units. The 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, \$289,233,288 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, 2013, the City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 amends the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The City also elected to early implement the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The BFSA did not implement GASB Statement No. 65 during the year ended June 30, 2013. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Other than discussed in Note 2, GASB Statement Nos. 63 and 65 did not have a material impact on the City's financial position or results from operations.

Additionally, during the year ended June 30, 2013, the City completed the process of evaluating the impact that will result from adopting GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*; GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*; and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement Nos. 60, 61 and 62 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. 66, *Technical Corrections-2012—an amendment of GASB Statements No. 10 and No. 62*, GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for the year ending June 30, 2014; and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective for the year ending June 30, 2015. The City is, therefore, unable to disclose the impact that adopting GASB Statements Nos. 66, 67, 68, 69, 70 and 71 will have on its financial position and results of operations.

***Stewardship, Compliance and Accountability***

***Deficit Fund Equity***—At June 30, 2013, the Solid Waste and Recycling Fund had a total net deficit of \$25,881,347. This net deficit includes accrued post-employment benefits of \$11,412,000. Although the City anticipates the deficit to be remedied by future tax rate increases or through General Fund subsidies, no formal plan exists.

The Board has a total net deficit of \$390,120,064 at June 30, 2013, which is caused primarily by its recognition of long-term liabilities including other post-employment benefits.

BURA has a total net deficit of \$12,626,200 at June 30, 2013, which is caused primarily by its recognition of long-term liabilities including other post-employment benefits.

**2. RESTATEMENT AND CHANGES TO NET POSITION**

As discussed in Note 1, during the year ended June 30, 2013 the City implemented GASB Statement No. 65. As a result of implementation, except for the BFSA, unamortized bond issuance costs have been fully recognized in the year ending June 30, 2013. Net position of the Water Board at June 30, 2012 has been restated to remove unamortized bond issuance costs of \$2,704,439.

The effect of this change to beginning net position is summarized below:

	<u>Business-type Activities</u>
	<u>Water System</u>
	<u>Water Board</u>
Beginning net position, June 30, 2012, as originally stated	\$ 34,915,800
Recognition of unamortized bond issuance costs	<u>(2,704,439)</u>
Beginning net position, June 30, 2012, as restated	<u>\$ 32,211,361</u>

**Board of Education**

The restatement of net position on the government-wide financial statement of activities is the result of the early implementation of GASB Statement No. 65. The Board had previously recorded an asset for bond issuance costs in the amount of \$40,661,091. Through June 30, 2012, \$19,686,701 had been amortized to expense. The remaining unamortized balance of \$20,974,390 was recorded as a reduction of the beginning balance of net position in the restatement.

**Buffalo Urban Renewal Agency**

BURA’s beginning net position as reflected in the Statement of Net Position and the Statement of Activities were reduced by prior period adjustments totaling \$2,769,178 as follows:

	Increase (Decrease) in Net Assets as of July 1, 2012
Capital assets	\$ (1,537,104)
Receivables, net	(1,348,735)
Real estate inventory	<u>116,661</u>
	<u>\$ (2,769,178)</u>

**Capital Assets**—The decrease to capital assets relates to the recognition of real property sold or acquired in prior years. The William Street Incubator building and land were sold in July 2007. BURA also acquired the Youth Hostel building (aka the Glenn Center) in February 2002 when the previous owner defaulted on the related mortgage with BEREC. BURA purchased the property from the previous owner for \$1 and assumed the debt owed to BEREC. These corrections of accounting errors resulted in a net decrease in net assets of \$1,537,104 at July 1, 2012.

**Receivables, Net**—The decrease to receivables relates to the recognition of \$1,044,976 owed from BEREC from the Youth Hostel transaction described above, as well as a \$303,759 miscalculation of program income by BEREC during the year ended June 30, 2012. These transactions resulted in a net decrease in net assets of \$1,348,735 at July 1, 2012.

**Real Estate Inventory**—The increase in real estate inventory reflects a correction to the purchase price of land acquired during July 2005. This correction of an error resulted in an increase in net assets of \$116,661 at July 1, 2012.

**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. Funds generally may be invested in time deposits, certificates of deposit, obligations of the U.S. government and its agencies, and the State and its municipalities. Cash in banks was fully collateralized at June 30, 2013, of which the bank carrying balance at June 30, 2013, was \$513,648,388.

At June 30, 2013, cash, cash equivalents and investments consisted of the following:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Cash on hand (uncollateralized)	\$ 10,750	\$ -	\$ -	\$ 10,750
Deposits	508,448,070	85,964,101	1,470,069	595,882,240
Investments	<u>15,342,998</u>	<u>-</u>	<u>32,912</u>	<u>15,375,910</u>
Total	<u>\$ 523,801,818</u>	<u>\$ 85,964,101</u>	<u>\$ 1,502,981</u>	<u>\$ 611,268,900</u>

Cash and cash equivalents consisted of:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Cash and cash equivalents	\$ 394,083,365	\$ 47,246,904	\$ -	\$ 441,330,269
Restricted cash and cash equivalents	114,375,455	38,717,197	-	153,092,652
Cash held in fiduciary funds	-	-	1,470,069	1,470,069
Total	<u>\$ 508,458,820</u>	<u>\$ 85,964,101</u>	<u>\$ 1,470,069</u>	<u>\$ 595,892,990</u>

**Investments**—At June 30, 2013, total investments of \$15,375,910 consisted of investments held by the BFSAs of \$15,281,526, held by the City of \$61,472 and maintained in fiduciary funds of \$32,912. Investments at June 30, 2013, consisted of the following:

	Carrying Value	Fair Value
Certificates of deposit	\$ 361,974	\$ 361,974
U.S. Treasury SLGs	763,219	763,219
U.S. Treasury bills	1,620,186	1,620,186
Federal Home Loan Mortgage corporate discount paper	4,145,503	4,212,280
Federal National Mortgage Association discount notes	6,076,930	6,191,857
Federal Home Loan Mortgage Corp. Med. Term note	470,887	475,976
Commercial paper	239,290	239,290
U.S. Dept. Housing and Urban Dev. Agency Obligation	1,618,157	1,619,301
Accrued interest	79,764	79,764
Total	<u>\$ 15,375,910</u>	<u>\$ 15,563,847</u>

Investments in fiduciary funds consist solely of certificates of deposit at June 30, 2013. 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 certifications of deposits issued with 30-day maturities and U.S. Treasuries and commercial paper due within 45 days. The credit rating of Federal Home Loan Mortgage corporate discount paper, Federal National Mortgage Association discount notes, Federal Home Loan Mortgage corporate medium term note and commercial paper, as reported by Standard & Poor's, for short-term debt is AA+.

**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***—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. For deposits, this is the risk that, in the event of a bank failure, the City’s deposits may not be returned to it. Collateral is required for deposits and certificates of deposit in an amount equal to or greater than the amount of all deposits not covered by federal deposit insurance. 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. If collateral is required, it can be in the form of a surety bond or obligations of the United States, the State, or any municipality or college of the State. Certain balances for accounts held in trust are collateralized by the State.

Deposits are collateralized with eligible securities of an aggregate market value equal to the excess of deposits not insured by the FDIC. 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.

***Credit Risk***—In compliance with the State law, City investments are limited to obligations of the United States of America, obligations guaranteed by agencies of the United States of America where the payment of principal and interest are guaranteed by the United States of America, 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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Investments are generally limited to 180 days or less.

***Governmental Activities Restricted Cash and Cash Equivalents***—General Fund restricted cash represent monies set aside as part of the funding requirements of the State for the settlement of the dispute between the Board and the Buffalo Teachers Federation. At June 30, 2013, the restricted cash amounted to \$3,814,584 and consisted of cash and cash equivalents held in a bank custodial account. The initial settlement was bonded and such restricted cash is being used to pay the debt service requirements. In addition, Debt Service Fund restricted assets of \$6,069,872 are held by a trustee for future debt service payments. Restricted cash of \$79,077,454 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 \$11,112,424, \$12,244,398, \$1,684,722, \$296,828, and \$75,173 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.

***Business-Type Activities Restricted Cash and Cash Equivalents***—Business-type restricted cash represents monies raised from the issuance of debt to fund additions to enterprise plant assets and may only be used for this purpose.

The restricted cash consists primarily of Treasury notes, Treasury bills, and certificates of deposit with a commercial bank. At June 30, 2013, \$725,264 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 money market accounts with fair values totaling \$37,951,103 at June 30, 2013. Restricted cash in the Parking Fund of \$40,830 consisted of cash and cash equivalents and is held in a bank account.

### **Board of Education**

At June 30, 2013, cash in banks was \$298,204. This amount was fully collateralized.

**Restricted Cash**—The Board has restricted cash of \$96,499,961 at June 30, 2013, for various purposes as follows:

- \$550,720 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.
- \$63,777,997 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 2003 bond proceeds to be deposited and maintained by a trustee. Such cash is held with a fiscal agent.
- Bond proceeds of \$17,227,854 at June 30, 2013, are held in trust and can only be utilized for approved project costs.
- \$13,989,866 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.
- \$339,401 represents endowment funds and can be used in accordance with the respective endowment document.
- \$614,123 is restricted to support obligations related to workers' compensation claims.

### **Buffalo Urban Renewal Agency**

**Buffalo Urban Renewal Agency**—Bank balances totaled \$1,184,265, of which \$1,173,982 was fully collateralized at June 30, 2013.

#### 4. RECEIVABLES

Receivables at June 30, 2013, for the City's individual funds and related allowances for estimated uncollectible amounts are as follows:

<b>Receivables:</b>	<u>Receivable</u>	<u>Allowance</u>	<u>Net</u>
<b>Governmental funds:</b>			
General Fund:			
Taxes	\$ 16,295,885	\$ (7,639,828)	\$ 8,656,057
Accounts receivable	28,622,611	(4,602,675)	24,019,936
Other receivables	30	-	30
Due from other agencies	1,062,290	-	1,062,290
Due from other governments	1,776,364	-	1,776,364
Due from other funds	33,126,581	-	33,126,581
Due from component unit	67,022	-	67,022
	<u>\$ 80,950,783</u>	<u>\$ (12,242,503)</u>	<u>\$ 68,708,280</u>
Debt Service Fund:			
Other receivables	\$ 1,833	\$ -	\$ 1,833
Due from other funds	227,086	-	227,086
	<u>\$ 228,919</u>	<u>\$ -</u>	<u>\$ 228,919</u>
Capital Projects Fund:			
Due from other governments	<u>\$ 4,349,542</u>	<u>\$ -</u>	<u>\$ 4,349,542</u>
BFSA Special Revenue Fund:			
Due from other governments	<u>\$ 14,469,732</u>	<u>\$ -</u>	<u>\$ 14,469,732</u>
Other governmental funds:			
Other receivables	\$ 3,917	\$ -	\$ 3,917
Due from other governments	2,089,764	-	2,089,764
Due from other funds	1,455,668	-	1,455,668
Due from component unit	184,022	-	184,022
	<u>\$ 3,733,371</u>	<u>\$ -</u>	<u>\$ 3,733,371</u>

(continued)

<b>Receivables:</b>	<u>Receivable</u>	<u>Allowance</u>	<u>(concluded) Net</u>
<b>Proprietary funds:</b>			
Solid Waste and Recycling Fund:			
Accounts receivable	\$ 13,353,699	\$ (12,752,180)	\$ 601,519
Other receivables	138,711	(51,264)	87,447
	<u>\$ 13,492,410</u>	<u>\$ (12,803,444)</u>	<u>\$ 688,966</u>
Parking Fund:			
Accounts receivable	\$ 4,554,580	\$ -	\$ 4,554,580
Other receivables	48	-	48
Due from other funds	73	-	73
	<u>\$ 4,554,701</u>	<u>\$ -</u>	<u>\$ 4,554,701</u>
Water System:			
Accounts receivable	\$ 18,981,010	\$ (14,170,173)	\$ 4,810,837
Other receivables	843,438	-	843,438
Due from other agencies	127,425	-	127,425
Due from other governments	462,010	-	462,010
	<u>\$ 20,413,883</u>	<u>\$ (14,170,173)</u>	<u>\$ 6,243,710</u>
Internal Service Fund:			
Accounts receivable	\$ 7,156	\$ -	\$ 7,156

Due from other governments at June 30, 2013, consisted of the following:

**Due from other governments:**

**Governmental funds:**

General Fund:

Due from Erie County	\$ 76,011
Due from New York State	1,663,956
Due from federal government	36,397
	<u>\$ 1,776,364</u>

Capital Projects Fund:

Due from New York State	<u>\$ 4,349,542</u>
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BFSA Special Revenue Fund:

Due from New York State	<u>\$ 14,469,732</u>
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Other governmental funds:

Special Revenue Fund:

Due from federal government	\$ 1,754,972
Due from New York State	334,792
	<u>\$ 2,089,764</u>

**Proprietary funds:**

Water System:

Due from federal government	\$ 218,015
Due from New York State	243,995
	<u>\$ 462,010</u>

## Board of Education

**Accounts Receivable**—Accounts receivable represents amounts due for tuition and health services provided to other districts and other various items.

Accounts receivable at June 30, 2013, consisted of the following:

General Fund:	
Miscellaneous revenues	\$ 1,146,465
Health Services	821,270
Tuition billing	<u>98,216</u>
Total	<u>\$ 2,065,951</u>

Due from other governments and agencies at June 30, 2013, consisted of the following:

General Fund:	
State aid - basic	\$ 11,482,761
State aid - excess	14,099,459
State aid - Medicaid	2,008,181
Miscellaneous	10,925
Special Aid Fund: Federal and state aid	<u>37,474,272</u>
Total	<u>\$ 65,075,598</u>

## Buffalo Urban Renewal Agency

Accounts receivable for BURA consist of program loans receivable, notes receivable, and advances to subgrantees. Additionally, BURA reports due from other governments.

**Program Loans**—Program loans receivable consist of several economic development loans made directly by BURA or indirectly through Buffalo Economic Renaissance Corporation (“BERC”). BERC has, in turn, loaned grant funds to qualifying developers.

Since the inception of the CDBF program in the mid-1970’s, BURA has also expended a substantial amount of grant funds directly or indirectly, through BERC, BNRC and their predecessors, and through various community-based not-for-profit organizations, on loans for business development and for the rehabilitation of commercial and residential properties. Under CDBG program reporting requirements, these loans are treated as program expenditures.

**Notes Receivable**—As of June 30, 2013, various notes from individuals, businesses and organizations were outstanding, representing funds advanced by BURA for projects designed to simulate economic development and housing improvements in the City. These notes are secured by mortgages with varying repayment terms.

**Advances to Subgrantees**—In the course of conducting various projects funded through the CDBG and other grant programs, BURA contracts with numerous subgrantees to perform program services at the community level. In connection with those subgrant contracts, BURA has advanced CDBG and other funds to provide working capital for the subgrantees. At June 30, 2013, advances to BERC and BNRC amounted to \$887,972.

***Due From Federal Government***—Due from Federal governments as of June 30, 2013, in the amount of \$2,742,818, primarily represents amounts not yet received by BURA from the Federal government for expenses incurred under Federal grant programs.

## 5. CAPITAL ASSETS

***Governmental Activities***—Capital asset activity for the primary government’s governmental activities, for the fiscal year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Reclassifications and Additions	Deletions	Balance June 30, 2013
Capital assets, not being depreciated:				
Land	\$ 12,577,380	\$ -	\$ 2,407,659	\$ 10,169,721
Construction in progress	4,007,146	1,658,642	4,007,145	1,658,643
Total capital assets, not being depreciated	<u>16,584,526</u>	<u>1,658,642</u>	<u>6,414,804</u>	<u>11,828,364</u>
Capital assets, being depreciated:				
Buildings and building improvements	274,834,203	5,746,277	1,338,000	279,242,480
Improvements other than buildings	41,485,479	6,333,881	998,989	46,820,371
Machinery and equipment	57,576,063	5,690,028	2,231,850	61,034,241
Infrastructure	<u>368,066,672</u>	<u>26,180,802</u>	<u>-</u>	<u>394,247,474</u>
Total capital assets, being depreciated	<u>741,962,417</u>	<u>43,950,988</u>	<u>4,568,839</u>	<u>781,344,566</u>
Less accumulated depreciation for:				
Buildings and building improvements	101,613,355	5,682,812	886,743	106,409,424
Improvements other than buildings	28,351,527	1,559,663	899,245	29,011,945
Machinery and equipment	39,122,750	5,244,552	2,227,076	42,140,226
Infrastructure	<u>172,390,708</u>	<u>14,599,851</u>	<u>-</u>	<u>186,990,559</u>
Total accumulated depreciation	<u>341,478,340</u>	<u>27,086,878</u>	<u>4,013,064</u>	<u>364,552,154</u>
Total capital assets being depreciated, net	<u>400,484,077</u>	<u>16,864,110</u>	<u>555,775</u>	<u>416,792,412</u>
Governmental activities capital assets, net	<u>\$ 417,068,603</u>	<u>\$ 18,522,752</u>	<u>\$ 6,970,579</u>	<u>\$ 428,620,776</u>

**Business-type Activities**—Capital asset activity for the primary government’s governmental activities, for the fiscal year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Reclassifications and Additions	Deletions	Balance June 30, 2013
Capital assets, not being depreciated:				
Land	\$ 3,362,210	\$ -	\$ -	\$ 3,362,210
Construction in progress	866,148	6,507,437	6,387,537	986,048
Total capital assets, not being depreciated	<u>4,228,358</u>	<u>6,507,437</u>	<u>6,387,537</u>	<u>4,348,258</u>
Capital assets, being depreciated:				
Buildings and building improvements	169,142,832	3,760,416	-	172,903,248
Improvements other than buildings	493,977	-	-	493,977
Machinery and equipment	8,747,699	574,546	96,882	9,225,363
Infrastructure	96,146,181	1,975,565	-	98,121,746
Total capital assets, being depreciated	<u>274,530,689</u>	<u>6,310,527</u>	<u>96,882</u>	<u>280,744,334</u>
Less accumulated depreciation for:				
Buildings and building improvements	47,500,507	3,874,112	-	51,374,619
Improvements other than buildings	316,343	23,509	-	339,852
Machinery and equipment	5,060,237	1,200,675	96,882	6,164,030
Infrastructure	41,098,501	2,476,826	-	43,575,327
Total accumulated depreciation	<u>93,975,588</u>	<u>7,575,122</u>	<u>96,882</u>	<u>101,453,828</u>
Total capital assets being depreciated, net	<u>180,555,101</u>	<u>(1,264,595)</u>	<u>-</u>	<u>179,290,506</u>
Business-type activities capital assets, net	<u>\$ 184,783,459</u>	<u>\$ 5,242,842</u>	<u>\$ 6,387,537</u>	<u>\$ 183,638,764</u>

Depreciation expense was charged to City functions and programs as follows:

Governmental activities:	
General government support	\$ 3,014,247
Public safety	6,086,219
Streets and sanitation	14,286,207
Economic assistance and opportunity	427,994
Culture and recreation	3,239,865
Health and community services	32,346
Total governmental activities depreciation expense	<u>\$ 27,086,878</u>
Business-type activities:	
Water	\$ 4,851,160
Parking	1,602,975
Solid waste and recycling	1,120,987
Total business-type activities depreciation expense	<u>\$ 7,575,122</u>

The carrying value of idle impaired assets at June 30, 2013, totaling \$256,769, in accordance with GASB, represents two impaired firehouses, a library and a community center building.

## Board of Education

Capital asset activity of the Board for fiscal year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Reclassifications and Additions	Deletions	Balance June 30, 2013
Capital assets, not being depreciated:				
Land	\$ 3,621,542	\$ 16,300	\$ 34,250	\$ 3,603,592
Construction in progress	<u>120,161,229</u>	<u>25,793,311</u>	<u>115,090,522</u>	<u>30,864,018</u>
Total capital assets, not being depreciated	<u>123,782,771</u>	<u>25,809,611</u>	<u>115,124,772</u>	<u>34,467,610</u>
Capital assets, being depreciated:				
Land improvements	5,847,373	-	70,059	5,777,314
Buildings and building improvement	1,471,212,939	192,024,745	1,932,657	1,661,305,027
Equipment	<u>20,612,496</u>	<u>1,723,599</u>	<u>687,365</u>	<u>21,648,730</u>
Total capital assets, being depreciated	<u>1,497,672,808</u>	<u>193,748,344</u>	<u>2,690,081</u>	<u>1,688,731,071</u>
Less accumulated depreciation for:				
Land improvements	4,314,711	96,042	70,059	4,340,694
Buildings and building improvement	444,636,932	64,845,951	756,331	508,726,552
Equipment	<u>12,785,334</u>	<u>1,884,561</u>	<u>683,210</u>	<u>13,986,685</u>
Total accumulated depreciation	<u>461,736,977</u>	<u>66,826,554</u>	<u>1,509,600</u>	<u>527,053,931</u>
Total capital assets being depreciated, net	<u>1,035,935,831</u>	<u>126,921,790</u>	<u>1,180,481</u>	<u>1,161,677,140</u>
Governmental activities capital assets, net	<u>\$ 1,159,718,602</u>	<u>\$ 152,731,401</u>	<u>\$ 116,305,253</u>	<u>\$ 1,196,144,750</u>

## Buffalo Urban Renewal Agency

BURA's governmental activities capital assets, recorded at cost, as of June 30, 2013, are summarized as follows:

Function and Activity	Construction				Total
	In Progress	Buildings	Equipment	Vehicles	
Economic development administration	\$ 247,561	\$ 7,223,998	\$ 598,681	\$ 105,558	\$ 8,175,798
General administration	-	-	24,866	-	24,866
Subtotal	247,561	7,223,998	623,547	105,558	8,200,664
Accumulated depreciation	-	(3,899,608)	(615,157)	(105,558)	(4,620,323)
Capital assets, net	<u>\$ 247,561</u>	<u>\$ 3,324,390</u>	<u>\$ 8,390</u>	<u>\$ -</u>	<u>\$ 3,580,341</u>

For the year ended June 30, 2013, depreciation in the amount of \$168,534 has been recorded using the straight-line method over the useful lives of the assets, which range from 5 to 50 years.

## 6. ACCRUED LIABILITIES

Accrued liabilities reported by governmental funds at June 30, 2013 were as follows:

	General Fund	BFSA Special Revenue Fund	Other Governmental Funds
Salary and employee benefits	\$ 57,760,974	\$ 29,245	\$ -
Other accruals	-	-	1,247,323
Total accrued liabilities	<u>\$ 57,760,974</u>	<u>\$ 29,245</u>	<u>\$ 1,247,323</u>

## 7. PENSION PLANS

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

**Funding Policy**—The Systems are noncontributory, except for employees who joined the ERS after July 27, 1976, who contribute 3% of their salary for the first ten years of membership, and employees who joined on or after January 10, 2010 (ERS) or January 9, 2010 (PFRS), who generally contribute 3% of their salary for their entire length of service. Those joining after April 1, 2012 (Tier 6) are required to contribute 3.5% of their annual salary until March 31, 2013, after which the contribution percentage will be based on salary. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers’ contributions based on salaries paid during the Systems’ fiscal year ending March 31.

The City is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were as follows:

	ERS	PFRS
2013	\$ 10,693,044	\$ 28,464,963
2012	9,541,431	22,218,546
2011	6,862,458	21,030,167

The City’s contributions made to the Systems were equal to 100% of the contributions required for each year.

The BFSA made 100% of its required contributions for the year ended June 30, 2013, which amounted to \$53,237, and is not included in the table above.

## Board of Education

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

Teachers' Retirement System:

**Plan Description**—The Board makes contributions to the TRS, a cost-sharing, multiple employer-defined benefit pension plan administered by the State Teachers' Retirement Board. The TRS provides retirement, disability, withdrawal, and death benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State. The TRS issues a publicly available financial report that contains financial statements and required supplementary information for the System. The report may be obtained by writing to the State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

**Funding Policy**—Plan members who joined the System 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. Employers are required to contribute at an actuarially determined rate.

Employee Retirement System:

**Plan Description**—The ERS provides retirement benefits, as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the NYSRSSL. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

**Funding Policy**—Plan members who joined the System 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. With the exception of ERS Tier V and VI employees, employees in the system more than ten years are no longer required to contribute. In addition, employees contribution rates under ERS Tier VI vary based on a sliding salary scale. The Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulated fund.

The Board's required contributions to the Systems for the current and preceding two years are as follows:

	<u>TRS</u>	<u>ERS</u>
2013	\$ 28,676,187	\$ 8,421,974
2012	33,198,819	7,129,235
2011	17,683,274	4,483,867

The Board's contributions made to the Systems were equal to 100% of the contributions required for each year.

## Buffalo Urban Renewal Agency

BURA also participates in the ERS. The payroll for all employees covered by the System for the year ended June 30, 2013, was \$2,290,246. All full-time BURA employees at June 30, 2013, were covered by the pension plan.

BURA’s required contributions for the current and preceding two years are as follows:

	<u>ERS</u>
2013	\$ 537,506
2012	503,727
2011	250,946

BURA’s contributions made to the System were equal to 100% of the contributions required for each year.

**8. OTHER POST-EMPLOYMENT BENEFITS (“OPEB”) OBLIGATION**

The City recognizes the cost of post-employment 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 125 firefighters that receive such compensation.

The number of participants as of July 1, 2012, the effective date of the biannual OPEB valuation, is as follows. There have been no significant changes in the number of employees covered.

Active employees	2,591
Retired employees	2,711
Spouses of retirees	1,552
Dependents	<u>745</u>
Total	<u>7,599</u>

**Funding Policy**—Post-employment 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, 2013, the City’s annual OPEB cost (expense) is \$103,637,000 while the Annual Required Contribution (“ARC”) is \$103,307,000. Considering the annual expense, as well as payment for current health insurance premiums which totaled approximately \$42,815,000 for retirees and their beneficiaries, the result was an increase in the net OPEB obligation of approximately \$60,822,000 for the year ended June 30, 2013.

The table presented below shows the components of the City's annual OPEB cost for 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 <u>Medical</u>	Governmental Activities <u>Disability</u>	Business-Type <u>Activities</u>	Total Primary <u>Government</u>
	(000s omitted)			
<b>Annual OPEB Cost and Net OPEB Obligation</b>				
Actuarial accrued liability ("AAL")	\$ 1,380,478	\$ 69,146	\$ 85,946	\$ 1,535,570
Unfunded actuarial accrued liability ("UAAL")	\$ 1,380,478	\$ 69,146	\$ 85,946	\$ 1,535,570
Normal cost — beginning of the year	\$ 38,419	\$ 1,455	\$ 2,730	\$ 42,604
Amortization factor based on 30 years	26.2	26.2	26.2	26.2
Annual covered payroll	\$ 157,852	\$ 2,434	\$ 12,281	\$ 172,567
UAAL as a percentage of covered payroll	874.5%	2840.8%	699.8%	889.8%
<b>Level Dollar Amortization</b>				
<b>Calculation of ARC Under Projected Unit Credit Method</b>				
ARC normal cost with interest — end of year	\$ 38,419	\$ 1,455	\$ 2,730	\$ 42,604
UAAL over 30 years with interest — end of year	52,751	2,642	3,285	58,678
Interest	<u>1,823</u>	<u>82</u>	<u>120</u>	<u>2,025</u>
Annual required contribution ("ARC")	92,993	4,179	6,135	103,307
Interest on net OPEB obligation	8,826	3,448	670	12,944
Adjustment to ARC	<u>(8,601)</u>	<u>(3,360)</u>	<u>(653)</u>	<u>(12,614)</u>
Annual OPEB cost (expense)	93,218	4,267	6,152	103,637
Contributions for the year ended June 30, 2013	<u>(35,597)</u>	<u>(4,803)</u>	<u>(2,415)</u>	<u>(42,815)</u>
Increase in net OPEB obligation	57,621	(536)	3,737	60,822
Net OPEB obligation — June 30, 2012	<u>220,662</u>	<u>86,207</u>	<u>16,750</u>	<u>323,619</u>
Net OPEB obligation — June 30, 2013	<u>\$ 278,283</u>	<u>\$ 85,671</u>	<u>\$ 20,487</u>	<u>\$ 384,441</u>
Percent of annual OPEB cost contributed	38%	113%	39%	41%

**Funding Status and Funding Progress**—As of July 1, 2012, the most recent actuarial valuation date, the OPEB plan was unfunded, resulting in an unfunded accrued liability of \$1,535,570,000. The City’s schedule of contributions for the three most recent fiscal years is shown below:

Year Ended June 30,	Annual OPEB Cost	Contributions Made	Percentage Contributed	Net OPEB Obligation
(000s omitted)				
2013	\$ 103,307	\$ 42,815	41.4%	\$ 384,441
2012	112,394	45,742	40.7%	323,619
2011	108,012	42,640	39.5%	256,500

**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, 2012 actuarial valuation, the liability was computed using the projected unit credit method. The actuarial assumptions utilized a 4% 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%. The valuation assumes healthcare cost trends as follows: both pre-65 and post-65 medical and prescriptions, 8.8%; all reduced by decrements to reach a rate of 4.5% in 2082.

**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**

**Post-employment 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, 2013 there were no retirees of the BFSFA 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 30 years.

The following table summarizes the BFSA's annual OPEB for the year ended June 30, 2013.

**Annual OPEB Cost and Net OPEB Obligation**

	(000s omitted)
ARC normal cost with interest — end of year	\$ 67
UAAL over 30 years with interest — end of year	12
Interest on net OPEB obligation	<u>15</u>
Annual required contribution (ARC)	94
ARC adjustment	(37)
Contributions for the year ended June 30, 2013	<u>-</u>
Increase in net OPEB obligation	57
Net OPEB obligation—June 30, 2012	<u>371</u>
Net OPEB obligation—June 30, 2013	<u><u>\$ 428</u></u>

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	Net OPEB Obligation
(000s omitted)			
2013	\$ 57	0.0%	\$ 428
2012	57	0.0%	371
2011	35	0.0%	314

As of June 30, 2012, the most recent actuarial valuation date, the actuarial accrued liability for future benefits was \$116,194, all of which is unfunded. The annual payroll of employees eligible to be covered by the Plan was \$319,377, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 36%.

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 45 Paragraph 35b.

*Inflation growth rate* – A 4% 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. Vision and dental plans were based on a 3.5% rate reduced to 3% after year 2, and the dental plan was based on a rate of 3%.

*Health insurance premiums* – 2012 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 4.0% 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 post-employment 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.

***Accounting Policy***—The accrual basis of accounting is used. The fair market value of assets, if any, is determined by the market value of assets, if any, and paid by a willing buyer or a willing seller.

**Annual OPEB Costs and Net OPEB Obligation**—The Board’s OPEB cost (expense) is calculated based on the annual required contribution of the employer. The Board has engaged an actuary to calculate the ARC and related information per the provisions of GASB for employers in plans with more than 100 total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The components of the Board’s annual OPEB cost for the year, the amount actually contributed to the Board’s Plan, and the Board’s net OPEB obligation to the Board’s Plan at June 30, 2013, are as follows:

<b>Annual OPEB Cost</b>	(000's omitted)
Normal cost	\$ 63,185
Amortization of UAL	104,633
Interest	<u>6,713</u>
Annual required contribution (ARC)	174,531
Interest on net OPEB obligation	19,137
Adjustment to ARC	<u>(27,667)</u>
Annual OPEB cost (expense)	166,001
Contributions for the year ended June 30, 2013	<u>(60,065)</u>
Increase in net OPEB obligation	105,936
Net OPEB obligation—June 30, 2012	<u>478,422</u>
Net OPEB obligation—June 30, 2013	<u>\$ 584,358</u>
Percent of annual OPEB cost contributed	36.2%

**Funding Status and Funding Progress**—As of June 30, 2013, the accrued liability for benefits was \$1,881,696,000, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$283,103,000, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 665%. The total post-employment health insurance cost to the Board was \$60,065,000 for the year ended June 30, 2013.

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 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 ARCs of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of contributions made to the plan is presented below:

Year Ended June 30,	Annual OPEB Cost	Contributions Made	Percentage Contributed
(000s omitted)			
2013	\$ 166,001	\$ 60,065	36.2%
2012	161,944	60,349	37.3%
2011	153,898	58,256	37.9%

**Methods and Assumptions**—Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided and the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members up to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following assumptions, presented on the following page, were made:

The June 30, 2013 actuarial valuation utilized the projected unit cost method. The actuarial assumptions include a 4% investment rate of return (net of administrative expenses), which is the expected short-term investment rate of the Board’s own assets since currently the plan has no assets at the valuation date in order to establish a plan investment rate. The assumed rate for all pre-65 healthcare benefits is initially at 8.5% and decreases to a 5% long-term trend rate after eight years. For all post-65 healthcare benefits this rate initially is at 7.0% and decreases to a 5% long-term trend rate after six years. Both rates include a 3% inflation assumption. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The amortization period at June 30, 2013 was 26 years.

**Buffalo Urban Renewal Agency**

**Plan Description**—BURA provides continuation of medical insurance coverage to employees that retire under the New York Retirement Systems 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. Healthcare benefits for nonunion employees are similar to those of union employees. The retiree’s share of premium cost range from 0% to 25%, depending on the employee length of service.

The number of participants as of June 30, 2013, was as follows:

Active employees	36
Retired employees	33
Spouses of retired employees	<u>24</u>
	<u>93</u>

**Funding Policy**—BURA currently pays for post-employment health insurance 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.

**Annual Other Post-employment Benefit Cost**—For the fiscal year ended June 30, 2013, BURA’s annual OPEB cost of \$2,735,088 and the Annual Required Contribution is \$3,059,646. The payment of current health insurance premiums, which totaled \$721,690 for retirees and their beneficiaries, resulted in a net OPEB cost of \$11,818,266 for the year ended June 30, 2013.

**Annual OPEB Cost and Net OPEB Obligation**—BURA’s annual OPEB cost is calculated based on the ARC of the employer. BURA has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB for employers in plans with fewer than 100 total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (of funding excess) over a period not to exceed 30 years. The components of BURA’s annual OPEB cost for the year, the amount actually contributed to the plan and changes in BURA’s net OPEB obligation to the Retiree Health Plan at June 30, 2013, are as follows:

	(000's omitted)
Annual required contribution — including interest	\$ 3,060
Contributions made	<u>(722)</u>
Increase in net OPEB obligation	2,338
Net OPEB obligation—June 30, 2012	<u>9,480</u>
Net OPEB obligation—June 30, 2013	<u>\$ 11,818</u>

BURA is required to report the annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year June 30, 2013 and the two preceding fiscal years.

Year ended	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
<u>June 30,</u>	<u></u>	<u></u>	<u></u>
2013	\$ 2,735,088	26.39%	\$ 11,818,266
2012	2,735,088	20.39%	9,480,310
2011	2,735,088	14.00%	7,126,937

**Funding Status and Funding Progress**—As of June 30, 2013, the actuarial accrued liability for benefits was \$28,717,970, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$2,290,246, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 1,254%.

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 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.

**Methods and Assumptions**—Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The simplifying assumptions made are presented on the following page.

*Retirement Age for Active Employees* – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 55, or at the first subsequent year in which the member would qualify for benefits.

*Marital Status* – Marital status of members at the calculation date were assumed to continue throughout retirement.

*Mortality* – Life expectancies were based on the RP 2000 Mortality Life Tables for males and for females.

*Turnover* – Nongroup-specific-age-based turnover data from GASB were used as the basis for assigning active members a probability of remaining employees until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

*Health Care Cost Trend Rate* – The expected rate of increase in healthcare insurance premiums was based on projections of the Health and Human Services Office of the Actuary. A rate of 9 percent initially, reduced to an ultimate rate of 4.7 percent after six years, was used.

*Health Insurance Premiums* – The June 30, 2012 health insurance premiums for retirees were used as the basis for the calculation of the present value of total benefits to be paid.

*Inflation Rate* – The expected long-term inflation assumption of 3 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in the Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability insurance Trust Funds for an intermediate growth scenario.

*Payroll Growth Rate* – The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of BURA's short-term investment portfolio, a discount rate of 4.9% was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2013, was 25 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, 2011, 2012, and 2013, the City incurred expenditures of, \$4,505,275, \$1,676,143 and \$5,539,094, respectively, for property damage and personal injury claims. For the fiscal years ended June 30, 2011, 2012, and 2013, the City expensed \$6,211,642, \$6,855,061, and \$6,034,245, 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. At June 30, 2013, the City estimated the following general liabilities:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Workers' compensation — fire and police medical	\$ 3,580,894	\$ -
Workers' compensation — other employees	<u>4,302,014</u>	<u>1,776,677</u>
	<u>\$ 7,882,908</u>	<u>\$ 1,776,677</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 proprietary funds since June 30, 2011, are shown in the following chart:

	<u>Workers' Compensation</u>
Estimated claims — June 30, 2011	\$ 1,938,296
Claims incurred	449,073
Payments 2011-2012	<u>(558,001)</u>
Estimated claims — June 30, 2012	1,829,368
Claims incurred	159,705
Payments 2012-2013	<u>(212,396)</u>
Estimated claims — June 30, 2013	<u>\$ 1,776,677</u>

The City has estimated claims arising during the ordinary course of its operation which are probable of a future loss to total \$13,900,000 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 \$10,000,000 to \$18,000,000.

### **Board of Education**

***Judgments, Claims, and Contingencies***—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 as a liability. 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 provision 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.

## 10. LEASE OBLIGATIONS

**Capital Leases**—The City has entered into lease agreements as a lessee for financing the acquisition of various capital assets (computer equipment, traffic signals and recycling totes). Lease principal payments for governmental activities are recorded as expenditures in the appropriate fund and as reduction in capital lease liability within enterprise funds. In the government-wide financial statements, no principal payments are reflected as expenditures.

The City's future minimum lease payments under capital leases as of June 30, 2013, are as follows:

Fiscal Year Ending June 30,	Governmental Activities	Business-Type Activities
2014	\$ 486,584	\$ 724,663
2015	486,584	724,663
2016	-	241,554
Total minimum lease payments	973,168	1,690,881
Less: amount representing interest	(38,443)	(34,380)
Present value of minimum lease payments	<u>\$ 934,725</u>	<u>\$ 1,656,501</u>

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities
Assets:		
Building improvements	\$ 4,317,228	\$ -
Infrastructure	3,926,320	-
Equipment	-	2,800,000
Total assets	8,243,548	2,800,000
Less: accumulated depreciation	(1,823,682)	(1,166,667)
Total assets, net	<u>\$ 6,419,866</u>	<u>\$ 1,633,333</u>

**Operating Leases**—Operating lease obligations are primarily for rental of space and equipment. Lease expenditures/ expenses for the year were approximately \$280,594. The future minimum rental payments required by the primary government for noncancelable operating leases are as follows:

Fiscal Year Ending June 30,	
2014	\$ 212,548
2015	92,032
Total	<u>\$ 304,580</u>

### Buffalo Fiscal Stability Authority

The BFSA leases its office space from a City-related entity under the terms of an expired operating lease with a month to month arrangement. Rental expense amounted to \$43,020 for the year ended June 30, 2013.

**Board of Education**

Operating lease obligations are primarily for rental of space and equipment. Lease expenses for the year were approximately \$4,479,989. The future minimum rental payments required for noncancelable leases are as follows:

Fiscal Year Ending June 30,	
2014	\$ 3,985,737
2015	3,518,251
2016	3,326,793
2017	3,449,807
2018	3,576,967
2019-2023	16,257,014
2024-2028	<u>13,861,082</u>
Total	<u>\$ 47,975,651</u>

**11. SHORT-TERM DEBT**

Bond anticipation notes issued in anticipation of proceeds from the subsequent sale of bonds are recorded as current liabilities of the funds that will actually receive the proceeds from the issuance of the bonds. Such notes may be classified as long-term debt when (1) the intention is to refinance the debt on a long-term basis and (2) the intention can be substantiated through a post balance sheet issuance of long-term debt or by an acceptable financing agreement. State law requires that bond anticipation notes issued for capital purposes be converted to long-term financing within seven years after the original issue date. The following table presents a summary of changes in the City’s short-term debt for the year ended June 30, 2013:

Description	Interest Rate	Maturity Date	Balance July 1, 2012	Issued	Paid	Balance June 30, 2013
Bond anticipation notes	1.0%	4/30/2014	<u>\$ -</u>	<u>\$ 17,819,168</u>	<u>\$ -</u>	<u>\$ 17,819,168</u>

**12. 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 the 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, long-term loans, capital leases, compensated absences, workers' compensation, landfill post-closure monitoring liability, other post-employment benefits ("OPEB") obligations, accrued derivative liability, and judgments and claims.

A summary of changes in the City's long-term debt at June 30, 2013 follows:

	Balance 7/1/2012	Additions	Decreases	Balance 6/30/2013	Due Within One Year
<b>Governmental activities:</b>					
Bonds payable:					
General obligations bonds, net - City	\$ 243,655,000	\$ 39,285,000	\$ 67,225,000	\$ 215,715,000	\$ 24,980,000
General obligations bonds, net - BFSAs	91,235,000	-	14,535,000	76,700,000	13,540,000
Premiums	6,163,225	1,800,988	1,150,226	6,813,987	-
Premiums - BFSAs	5,104,182	-	713,163	4,391,019	-
Total bonds payable	346,157,407	41,085,988	83,623,389	303,620,006	38,520,000
Notes payable	1,311,833	-	252,080	1,059,753	257,121
Capital leases	1,379,876	-	445,151	934,725	459,798
Compensated absences	24,689,922	23,945,736	20,645,321	27,990,337	1,283,867
Workers' compensation	7,651,378	6,053,379	5,821,849	7,882,908	4,271,671
Landfill post-closure monitoring	1,150,000	-	100,000	1,050,000	70,000
OPEB	306,869,000	97,485,000	40,400,000	363,954,000	-
OPEB-BFSAs	371,263	56,654	-	427,917	-
Judgments and claims	13,600,000	1,864,953	1,564,953	13,900,000	7,100,000
Total governmental activities	<u>\$ 703,180,679</u>	<u>\$ 170,491,710</u>	<u>\$ 152,852,743</u>	<u>\$ 720,819,646</u>	<u>\$ 51,962,457</u>
<b>Business-type activities:</b>					
Bonds payable:					
General obligations bonds - Parking	\$ 15,360,000	\$ -	\$ 2,150,000	\$ 13,210,000	\$ 2,090,000
General obligations bonds - Water	1,540,158	-	271,753	1,268,405	301,137
Water System revenue bonds	166,210,000	-	6,740,000	159,470,000	7,365,000
Premiums	1,310,261	-	262,914	1,047,347	-
Discounts	(271,604)	-	(10,992)	(260,612)	-
Total bonds payable	184,148,815	-	9,413,675	174,735,140	9,756,137
Capital leases	2,346,497	-	689,996	1,656,501	701,865
Compensated absences	1,609,720	1,085,840	1,200,499	1,495,061	89,560
Workers' compensation	1,829,368	159,705	212,396	1,776,677	814,053
OPEB	16,750,000	6,152,000	2,415,000	20,487,000	-
Accrued derivative liability	5,137,442	-	1,908,490	3,228,952	-
Total business-type activities	<u>\$ 211,821,842</u>	<u>\$ 7,397,545</u>	<u>\$ 15,840,056</u>	<u>\$ 203,379,331</u>	<u>\$ 11,361,615</u>

**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 BFSAs are secured by sales tax and state aid. The debt issued by the City to the BFSAs 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.

In September 2012, the City issued \$31,745,000 of refunding bonds, consisting of \$11,230,000 (Series 2012D) and \$20,515,000 (Series 2012E) of Board of Education refunding bonds. The Series 2012D and 2012E bonds were issued at premium of \$1,800,988. Principal payments for Series 2012D and 2012E began December 1, 2012 and mature on December 1, 2023 and February 1, 2024, respectively. Together, these bonds refund the previously issued Dormitory Authority State of New York bonds identified as 2002D, 2002E, 2002F, and 2002G. Collectively, they bore interest rates ranging between 2.75% and 5.50%. The 2012 refunding bonds bear interest rates ranging between 1.0% and 5.0%. The payment to an escrow agent of \$33,171,307 was used to purchase direct obligations from the United States of America and fund transaction costs with the remaining cash proceeds from the sale of bonds, and placed in an irrevocable trust to pay for all future debt service payments of the original bonds. As a result, the original bonds are considered fully refunded and the liability of those bonds, the outstanding balance at the time of the 2012 refinancing totaled \$33,025,000, has been removed from the financial statements. The 2012 refinancing resulted in an aggregate difference in debt service between the refunding and refunded debt of \$6,621,311, and a net present value economic gain of \$5,913,273.

In April 2013, the City issued \$7,540,000 (Series 2013A) of refunding serial bonds. Principal payments for Series 2013A began February 1, 2013 and mature on February 1, 2019. These bonds refund the previously issued Series 2004A refunding serial bonds. Series 2004A bore interest rates ranging between 1.50% and 5.60%. The 2013 refunding bonds bear interest rates ranging between 0.83% and 2.24%. The payment to an escrow agent of \$7,394,579 was used to purchase direct obligations from the United States of America and fund transaction costs with the remaining cash proceeds from the sale of bonds, and placed in an irrevocable trust to pay for all future debt service payments of the original bonds. As a result, the original bonds are considered fully refunded and the liability of those bonds, the outstanding balance at the time of the 2013 refinancing totaled \$7,025,000, has been removed from the financial statements. The 2013 refinancing resulted in an aggregate difference in debt service between the refunding and refunded debt of \$620,266, and a net present value economic gain of \$525,198.

Principal and interest are paid semiannually, generally in equal installments. A summary of additions and payments of bonds payable for the year ended June 30, 2013 is as follows:

Calendar Year Issued	Original Amount	Interest Rate (%)	Fiscal Year of Last Installment	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Due Within One Year
<b>Governmental activities general obligations bonds issued by City of Buffalo:</b>								
1974	\$ 4,200,000	5.6	2014	\$ 250,000	\$ -	\$ 125,000	\$ 125,000	\$ 125,000
1999	36,996,000	5.0	2014	2,005,000	-	2,005,000	-	-
2002	23,825,000	2.5-5	2022	3,320,000	-	1,060,000	2,260,000	1,105,000
2004	10,285,000	1.5-5.6	2025	7,445,000	-	7,445,000	-	-
2004	15,245,000	2-4.2	2016	6,230,000	-	1,465,000	4,765,000	1,525,000
2005	26,167,250	5.0	2025	13,335,715	-	2,027,958	11,307,757	2,072,106
2005	34,346,833	5.0	2019	12,469,022	-	3,756,242	8,712,780	3,985,492
2006	25,275,917	5.0	2022	16,525,000	-	1,730,000	14,795,000	1,816,000
2007	22,226,126	5.0	2023	17,032,699	-	1,197,715	15,834,984	1,256,551
2008	22,000,000	3.0-5.25	2023	17,215,000	-	1,215,000	16,000,000	1,275,000
2009	21,500,000	1.35-6.0	2024	17,940,000	-	1,195,000	16,745,000	1,230,000
2010	21,985,000	2.0-5.0	2025	19,590,000	-	1,120,000	18,470,000	1,175,000
2011	12,825,000	3.0-5.0	2021	12,725,000	-	4,260,000	8,465,000	4,280,000
2012	22,265,000	2.0-4.0	2026	20,895,000	-	1,190,000	19,705,000	1,230,000
2012	3,480,000	3.0-4.0	2022	3,480,000	-	-	3,480,000	-
2012	21,640,000	2.0-5.0	2023	21,640,000	-	1,730,000	19,910,000	1,705,000
2012	4,255,000	2.0-4.0	2024	4,215,000	-	355,000	3,860,000	335,000
2013	7,540,000	0.83-3.54	2025	-	7,540,000	-	7,540,000	610,000
Total				<u>196,312,436</u>	<u>7,540,000</u>	<u>31,876,915</u>	<u>171,975,521</u>	<u>23,725,149</u>
<b>Governmental activities – issued on behalf of Discretely Presented Component Unit – Board – general obligations bonds:</b>								
2001	\$ 14,105,000	4.0-5.0	2012	\$ 1,000,000	\$ -	\$ 1,000,000	\$ -	\$ -
2002	34,250,000	2.5-5.375	2020	3,755,000	-	1,840,000	1,915,000	1,915,000
2003	3,725,000	2.75-5.5	2014	736,000	-	736,000	-	-
2003	5,344,000	2.75-5.5	2018	3,368,000	-	3,368,000	-	-
2003	26,691,000	2.75-5.5	2019	17,512,000	-	17,512,000	-	-
2003	17,239,000	2.75-5.5	2019	11,409,000	-	11,409,000	-	-
2004	2,700,000	2.0-4.875	2022	1,795,000	-	145,000	1,650,000	155,000
2005	7,258,477	5.0	2016	3,230,820	-	777,005	2,453,815	858,371
2006	2,483,000	5.0	2020	1,625,000	-	170,000	1,455,000	179,000
2007	5,889,000	5.0	2019	3,856,000	-	474,000	3,382,000	497,000
2008	8,920,000	3.0-5.25	2023	6,975,000	-	490,000	6,485,000	515,000
2009	3,530,000	2.5-5.0	2024	2,940,000	-	195,000	2,745,000	200,000
2010	4,900,000	2.5-4.0	2025	4,330,000	-	275,000	4,055,000	280,000
2011	21,825,000	3.0-4.0	2021	21,720,000	-	3,190,000	18,530,000	3,300,000
2012	4,900,000	3.0-4.0	2026	4,605,000	-	265,000	4,340,000	270,000
2012	15,355,000	2.0-5.0	2021	14,905,000	-	30,000	14,875,000	25,000
2012	5,000,000	2.0-3.25	2027	5,000,000	-	290,000	4,710,000	290,000
2012	6,720,000	2.0-4.0	2025	6,655,000	-	770,000	5,885,000	790,000
2012	11,230,000	1.0-4.0	2023	-	11,230,000	905,000	10,325,000	835,000
2012	20,515,000	1.0-5.0	2024	-	20,515,000	1,640,000	18,875,000	1,810,000
Total				<u>115,416,820</u>	<u>31,745,000</u>	<u>45,481,005</u>	<u>101,680,815</u>	<u>11,919,371</u>

(continued)

Calendar Year Issued	Original Amount	Interest Rate (%)	Fiscal Year of Last Installment	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Due Within One Year
Less bonds issued by City to BFSAs:								
2005A	26,167,250	4.0-5.0	2025	(13,335,715)	-	(2,027,958)	(11,307,757)	(2,072,106)
2005BC	41,605,310	5.0	2019	(15,699,842)	-	(4,533,247)	(11,166,595)	(4,843,863)
2006A	27,758,917	4.0-5.0	2020	(18,150,001)	-	(1,900,000)	(16,250,001)	(1,995,000)
2007A	28,115,126	4.0-5.0	2023	(20,888,698)	-	(1,671,715)	(19,216,983)	(1,753,551)
Total mirror bonds				<u>(68,074,256)</u>	<u>-</u>	<u>(10,132,920)</u>	<u>(57,941,336)</u>	<u>(10,664,520)</u>
Net governmental activities general obligation bonds issued by the City of Buffalo				<u>243,655,000</u>	<u>39,285,000</u>	<u>67,225,000</u>	<u>215,715,000</u>	<u>24,980,000</u>
<b>Governmental activities general obligations bonds issued by Buffalo Fiscal Stability Authority:</b>								
2004	\$ 25,745,000	4.0-5.25	2015	\$ 9,165,000	\$ -	\$ 2,895,000	\$ 6,270,000	\$ 3,055,000
2005A	28,030,000	4.0-5.0	2025	15,475,000	-	2,000,000	13,475,000	2,045,000
2005BC	47,065,000	5.0	2019	23,380,000	-	6,140,000	17,240,000	4,805,000
2006A	27,270,000	4.0-5.0	2020	19,980,000	-	1,830,000	18,150,000	1,900,000
2007A	28,470,000	4.0-5.0	2023	23,235,000	-	1,670,000	21,565,000	1,735,000
Total				<u>91,235,000</u>	<u>-</u>	<u>14,535,000</u>	<u>76,700,000</u>	<u>13,540,000</u>
Total governmental activities bonds				<u>334,890,000</u>	<u>39,285,000</u>	<u>81,760,000</u>	<u>292,415,000</u>	<u>38,520,000</u>
Unamortized premium - City				6,163,225	1,800,988	1,150,226	6,813,987	-
Unamortized premium - BFSAs				<u>5,104,182</u>	<u>-</u>	<u>713,163</u>	<u>4,391,019</u>	<u>-</u>
Total governmental activities bonds, net				<u>\$ 346,157,407</u>	<u>\$ 41,085,988</u>	<u>\$ 83,623,389</u>	<u>\$ 303,620,006</u>	<u>\$ 38,520,000</u>
<b>Business-type activities — general obligation bonds:</b>								
Parking:								
2001	11,660,000	4.0-5.3	2017	\$ 800,000	\$ -	\$ 800,000	\$ -	\$ -
2002	21,310,000	2.5-5.375	2022	3,995,000	-	1,275,000	2,720,000	1,330,000
2012	8,415,000	2.0-5.0	2022	8,315,000	-	75,000	8,240,000	75,000
2012	2,250,000	2.0-4.0	2024	2,250,000	-	-	2,250,000	685,000
Subtotal — Parking				<u>15,360,000</u>	<u>-</u>	<u>2,150,000</u>	<u>13,210,000</u>	<u>2,090,000</u>
Water System:								
2005	6,552,147	5.0	2018	1,540,158	-	271,753	1,268,405	301,137
Total				<u>16,900,158</u>	<u>-</u>	<u>2,421,753</u>	<u>14,478,405</u>	<u>2,391,137</u>
<b>Business-type activities — Water System Revenue Bonds:</b>								
1998	\$ 16,325,000	4.0-4.75	2013	\$ 290,000	\$ -	\$ 290,000	\$ -	\$ -
1998	49,715,000	4.0-5.0	2013	3,330,000	-	3,330,000	-	-
2002	11,785,000	2.5-4.75	2018	1,855,000	-	275,000	1,580,000	290,000
2003	3,901,741	5.6-6.31	2031	460,000	-	110,000	350,000	110,000
2006	19,917,236	3.6-4.84	2028	15,515,000	-	770,000	14,745,000	790,000
2007	13,010,000	3.6-4.375	2038	12,045,000	-	265,000	11,780,000	275,000
2007	29,220,000	5	2027	28,900,000	-	-	28,900,000	3,440,000
2008	62,020,000	3.7-5.07	2036	58,065,000	-	1,010,000	57,055,000	1,410,000
2010	23,975,000	2.0-6.89	2040	23,515,000	-	470,000	23,045,000	480,000
2011	2,720,000	1.53-5.12	2022	2,510,000	-	220,000	2,290,000	225,000
2012	17,150,000	1.75-4	2037	17,150,000	-	-	17,150,000	345,000
2012	2,575,000	5.6-6.31	2031	2,575,000	-	-	2,575,000	-
Total				<u>166,210,000</u>	<u>-</u>	<u>6,740,000</u>	<u>159,470,000</u>	<u>7,365,000</u>
Total business-type activities bonds				<u>183,110,158</u>	<u>-</u>	<u>9,161,753</u>	<u>173,948,405</u>	<u>9,756,137</u>
Unamortized bond premium				1,310,261	-	262,914	1,047,347	-
Unamortized bond discount				<u>(271,604)</u>	<u>-</u>	<u>(10,992)</u>	<u>(260,612)</u>	<u>-</u>
Total business-type activities bonds, net				<u>\$ 184,148,815</u>	<u>\$ -</u>	<u>\$ 9,413,675</u>	<u>\$ 174,735,140</u>	<u>\$ 9,756,137</u>

The City's debt service requirements for bonds in the aggregate and for each of the five succeeding fiscal years are as follows:

**Governmental Activities — City of Buffalo, New York**

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	\$ 23,725,149	\$ 7,119,717	\$ 30,844,866
2015	20,552,504	6,188,016	26,740,520
2016	18,183,554	5,380,972	23,564,526
2017	15,443,446	4,669,019	20,112,465
2018	14,790,809	4,031,284	18,822,093
2019-2023	66,197,438	10,745,389	76,942,827
2024-2026	13,082,621	873,975	13,956,596
Total	<u>\$ 171,975,521</u>	<u>\$ 39,008,372</u>	<u>\$ 210,983,893</u>

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	\$ 11,919,371	\$ 3,743,066	\$ 15,662,437
2015	11,968,083	3,251,670	15,219,753
2016	12,052,361	2,730,541	14,782,902
2017	11,708,000	2,201,739	13,909,739
2018	8,726,000	1,796,798	10,522,798
2019-2023	37,797,000	4,490,667	42,287,667
2024-2027	7,510,000	376,187	7,886,187
Total	<u>\$ 101,680,815</u>	<u>\$ 18,590,668</u>	<u>\$ 120,271,483</u>

**Governmental Activities — Buffalo Fiscal Stability Authority**

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	\$ 13,540,000	\$ 3,513,517	\$ 17,053,517
2015	14,265,000	2,814,503	17,079,503
2016	8,780,000	2,175,244	10,955,244
2017	7,935,000	1,763,844	9,698,844
2018	6,380,000	1,360,594	7,740,594
2019-2023	22,955,000	2,573,794	25,528,794
2024-2025	2,845,000	91,397	2,936,397
Total	<u>\$ 76,700,000</u>	<u>\$ 14,292,893</u>	<u>\$ 90,992,893</u>

## Business-Type Activities

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	\$ 9,756,137	\$ 7,350,986	\$ 17,107,123
2015	10,220,852	6,931,843	17,152,696
2016	10,661,797	6,521,333	17,183,130
2017	10,122,152	6,107,446	16,229,598
2018	9,732,468	5,685,818	15,418,286
2019-2023	41,675,000	22,624,816	64,299,816
2024-2028	36,315,000	14,997,269	51,312,269
2029-2033	23,295,000	7,948,652	31,243,652
2034-2038	13,910,000	4,036,883	17,946,883
2039 and thereafter	8,260,000	861,185	9,121,185
Total	<u>\$ 173,948,405</u>	<u>\$ 83,066,232</u>	<u>\$ 257,014,637</u>

**Water Authority**—On May 9, 2008, the water system issued \$62,020,000 par revenue bonds to refund \$62,300,000 of previously existing debt. The water system refunded the Series 2005B auction rate security bonds because of the increased costs and uncertainty of the auction rate market and the downgrade of the bond insurer on the issue. The Series 2008A bonds are variable rate demand obligations backed by a direct pay letter of credit.

Of the \$62,020,000 variable bonds issued, \$61,500,000 are hedged by an interest rate swap agreement between the water system and Citibank, N.A, NY (“Swap Provider”) that converts the water system’s variable-rate exposure relating to the Series 2008-A Bonds to a fixed rate. The Swap Provider is an affiliate of the Underwriter and remarketing agent for the Series 2008-A Bonds. Under the terms of the Swap Agreement, the water system will pay the Swap Provider a fixed rate of 3.7% and the Swap Provider will pay the water system a variable rate equal to 70% of one-month LIBOR. The obligation of the Swap Provider to make payments to the system under the Swap Agreement does not affect the water system’s obligation to pay, when due, the principal and interest on the Series 2008-A Bonds. The coupon is reset weekly and paid monthly. The Swap Agreement will expire by its terms on the final maturity of the Series 2005-B Bonds on July 1, 2035. The water system entered into this swap agreement to hedge its interest rate exposure over the life of the bonds. Upon the occurrence of certain events of default or termination events identified in the Swap Agreement, either the water system or the Swap Provider may terminate the Swap Agreement in accordance with its terms. Such termination will require the payment of a termination amount by one party that attempts to compensate the other party for its economic losses at the time of termination. The water system shall have the right to terminate the swap at par beginning on and after July 1, 2015.

The Swap was deemed effective using the synthetic instrument method. At June 30, 2013, the notional amount of the bonds is \$56,575,000. The amount that the water system received from the Swap Provider (a variable rate payment equal to 70% of one-month LIBOR), \$85,063 exceeded the variable rate paid by the water system (variable rate demand obligation) to the Swap Provider, \$75,273, by \$9,790. The fair value of the SWAP at June 30, 2013 based on quoted market prices is negative \$3,228,952 and is recorded as a derivative liability within the noncurrent liabilities on the Statement of Net Position.

**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 at June 30, 2013, was \$1,059,753. The loan repayment schedule at June 30, 2013, is as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	\$ 257,121	\$ 21,195	\$ 278,316
2015	262,264	16,053	278,317
2016	267,509	10,807	278,316
2017	272,859	5,457	278,316
Total	<u>\$ 1,059,753</u>	<u>\$ 53,512</u>	<u>\$ 1,113,265</u>

**Capital Leases**—During the year ended June 30, 2012, JP Morgan Chase Bank, N.A. provided a \$2,800,000 lease-purchase agreement at 1.7% for 4 years to the City’s Solid Waste and Recycling Fund for the purchase of recycling totes. The outstanding balance at June 30, 2013, was \$1,656,501. Refer to Note 10 for additional information related to the City’s capital leases.

**Compensated Absences**—As described in Note 1, the liability for compensated absences, which totals \$27,990,337 for governmental activities and \$1,495,061 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, 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 \$1,283,867 and \$89,560 for governmental activities and business-type activities, respectively, will be paid in the next fiscal year.

**Workers’ Compensation**—Accrued workers’ compensation, which totals \$7,882,908 and \$1,776,677 for governmental activities and business-type activities, respectively, represents the City’s best estimate of both asserted and unasserted workers’ compensation losses. The payments related to these liabilities are dependent upon many factors and, therefore, payments are not readily determinable. The City has estimated that \$4,271,671 and \$814,053 for governmental activities and business-type activities, respectively, will be paid in the next fiscal year. Refer to Note 9 for 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 Squaw Island. The cost of postclosure 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 15 years, with an estimated annual cost of \$70,000 - \$100,000 per year. 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, 2013 was \$1,050,000.

**OPEB**—Liabilities related to other post-employment benefits include the accrued liability for both medical and firefighters’ disability, as discussed in Note 8.

**Judgments and Claims**—The City’s judgments and claims liability, which totals \$13,900,000 at June 30, 2013, 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 \$7,100,000 will be paid in the next fiscal year.

**Debt Contracting Limitation and Unissued Bonds**—The City’s debt contracting limitation under its legal debt margin at July 1, 2013, was approximately \$587.6 million. The effective borrowing capacity is \$327.6 million.

The list of the City’s authorized and unissued bonds at June 30, 2013, is as follows:

Project	Total Authorized and Unissued
General Improvement Bonds—City of Buffalo	<u>\$ 26,621,885</u>

**Board of Education**

A summary of changes in Board’s long-term liabilities for the year ended June 30, 2013, is as follows:

	Balance July 1, 2012	New issues/ Additions	Maturities/ Reductions	Balance June 30, 2013	Due Within One Year
Governmental activities:					
Due to other governments	\$ 13,120,000	\$ -	\$ 713,333	\$ 12,406,667	\$ 713,334
Revenue bonds payable	21,970,000	13,860,000	21,970,000	13,860,000	555,000
JSCB bonds payable	1,075,465,000	62,540,000	115,050,000	1,022,955,000	32,830,000
Deferred bond premium	103,284,253	14,536,553	10,829,419	106,991,387	7,633,866
Compensated absences	21,404,569	8,294,263	8,113,229	21,585,603	8,181,849
Workers' compensation	38,715,555	10,285,995	6,037,393	42,964,157	-
Other long-term debt EPC	1,671,844	-	832,287	839,557	839,380
Other postemployment benefits	478,422,000	166,001,000	60,065,000	584,358,000	-
Judgments, claims and contingencies	-	1,750,000	-	1,750,000	-
<b>Total</b>	<u>\$ 1,754,053,221</u>	<u>\$ 277,267,811</u>	<u>\$ 223,610,661</u>	<u>\$ 1,807,710,371</u>	<u>\$ 50,753,429</u>

**Source of Funding**—Amounts due to other governments, due to City of Buffalo (bond debt), revenue bonds payable, other long-term debt — Energy Performance Contracts (“EPC”), and judgments, claims, and contingencies are repaid through annual appropriation of 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 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 follows:

Fiscal Year Ending June 30,	Principal
2014	\$ 713,334
2015	713,332
2016	713,334
2017	713,334
2018	713,332
2019-2023	3,566,668
2024-2028	3,566,666
2029-2033	1,566,666
2034-2036	140,000
	<u>\$ 12,406,666</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.

In October 2012, the Board issued \$13,860,000 in Municipal Bond Bank Agency revenue refunding bonds with an average coupon rate of 04%. The net proceeds of \$14,711,299 (after payment of \$452,792 in issuance costs), along with \$7,800,000 in stabilization and debt service reserve funds were used to refund \$21,970,000 of outstanding Agency bonds with an average coupon rate of 5.24% and accrued interest of \$541,299. The approximate net present value savings of this refunding was \$5,200,000.

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	\$ 555,000	\$ 527,616	\$ 1,082,616
2015	575,000	510,666	1,085,666
2016	590,000	493,191	1,083,191
2017	610,000	472,141	1,082,141
2018	630,000	453,641	1,083,641
2019-2023	3,500,000	1,924,806	5,424,806
2024-2028	4,375,000	1,041,264	5,416,264
2029-2031	3,025,000	222,328	3,247,328
Total	<u>\$ 13,860,000</u>	<u>\$ 5,645,653</u>	<u>\$ 19,505,653</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 April 2013, the Board issued \$62,540,000 in school facility revenue refunding bonds with an average coupon rate of 4.98%. The net proceeds of \$72,945,879 (after payment of \$1,025,595 in issuance costs), along with \$313,932 of other funds were used to advance refund \$68,840,000 of outstanding school facility revenue bonds with an average coupon rate of 5.61% and accrued interest of \$4,419,811. The net proceeds 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; however, the entire amount of the defeased debt is outstanding at June 30, 2013. The Board advance refunded the bonds to take advantage of more favorable interest rates. The approximate net present value savings of this refund was \$10,300,000.

The Board defeases bonded debt 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. As of June 30, 2013, \$240,345,000 of bonds outstanding are considered defeased.

Remaining annual maturities are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	\$ 32,830,000	\$ 53,330,376	\$ 86,160,376
2015	37,445,000	51,662,213	89,107,213
2016	39,355,000	49,789,963	89,144,963
2017	56,585,000	47,822,213	104,407,213
2018	59,515,000	44,997,763	104,512,763
2019-2023	348,405,000	175,638,275	524,043,275
2024-2028	333,230,000	83,114,813	416,344,813
2029-2032	115,590,000	10,811,825	126,401,825
Total	<u>\$1,022,955,000</u>	<u>\$ 517,167,441</u>	<u>\$ 1,540,122,441</u>

**Compensated Absences**—Compensated absences, which totaled \$21,585,603 at June 30, 2013, 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 \$8,181,849 will be paid in the next fiscal year.

**Workers' Compensation**—Workers' compensation obligations total \$42,964,157 at June 30, 2013, represent estimated amounts due for various outstanding claims.

**Other Long-Term Debt — EPC**—The other long-term debt represents amounts due for equipment installed at school facilities to improve energy efficiency. Payments totaled \$832,287 during the year leaving a balance of \$839,577 at year-end. The remaining annual maturities are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	\$ 839,557	\$ 7,093	\$ 846,650

**OPEB**—Refer to Note 8.

#### **Buffalo Urban Renewal Agency**

The summary of changes in long-term liabilities for the year ended June 30, 2013, is as follows:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Due Within One Year
Governmental activities:					
Section 108 loans	\$ 8,555,000	\$ -	\$ (1,265,000)	\$ 7,290,000	\$ 1,265,000
OPEB	9,480,310	2,337,956	-	11,818,266	-
Total	<u>\$ 18,035,310</u>	<u>\$ 2,337,956</u>	<u>\$ (1,265,000)</u>	<u>\$ 19,108,266</u>	<u>\$ 1,265,000</u>

**Section 108 Loans**—BURA is indebted to the Federal Financing Bank under promissory notes for advances received under HUD Section 108 Loan Guarantee Program. There are two types of HUD Section 108 programs. Under the first type, promissory notes are payable in 20 annual installments of principal and interest beginning in August 1983. Under the second type, effective on October 30, 1986, interest on promissory notes is payable in 12 semiannual installments, starting with the first February and August after loan issuance. The entire principal amount of the loan is due at the same time as the 12th semiannual interest payment is due. Interest rates vary on each loan and are determined by HUD based on prevailing market rates at the time of loan issuance.

As of June 30, 2013, future maturities of the Section 108 loans are as follows:

Fiscal Year Ending June 30,	
2014	\$ 1,265,000
2015	2,155,000
2016	1,085,000
2017	1,035,000
2018	1,035,000
Thereafter	<u>715,000</u>
	7,290,000
Less current portion	<u>(1,265,000)</u>
Total long-term obligations	<u>\$ 6,025,000</u>

**Fannie Mae**—During the years ended June 30, 2006, 2007 and 2008, BURA borrowed an aggregate amount of \$6,000,000 from the Federal Mortgage Loan Association (“Fannie Mae”). These funds were used to construct a new 24-unit housing development known as Sycamore Village. The \$6 million was fully repaid by BURA as of March 30, 2011 from a combination of proceeds from the sales of the homes and BURA general funds. As of June 30, 2013, twelve market rate homes were completed and sold. Construction costs in the amount of \$247,561 for the remaining unsold units are reported as construction in progress in the general fund and the statement of net position.

**OPEB**—Refer to Note 8.

### 13. 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.

Capital assets, net of accumulated depreciation	\$ 428,620,776
Related debt:	
Serial bonds issued	\$ (190,734,185)
Unspent proceeds from serial bonds	<u>40,416,327</u>
Debt issued for capital assets	(150,317,858)
Deferred loss on refunding	3,433,224
Bond issuance costs-BFSA	1,154,201
Unamortized premiums	(11,205,006)
Nittec loan	(1,059,753)
Capital leases	<u>(934,725)</u>
Net investment in capital assets	<u>\$ 269,690,859</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.

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, 2013 include:

Real estate held for sale	\$ 7,631,042
Long-term receivable	16,060,342
Prepaid items	962,303
Permanent fund - corpus	<u>30,000</u>
Total	<u>\$ 24,683,687</u>

*Real Estate Held for Sale*—This amount represents real estate acquired for resale.

*Long-term Receivable*—Represents a long-term receivable from the Solid Waste and Refuse 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 respective bequest and trust agreements.

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, 2013 include:

Restricted for:	
Capital projects	\$ 40,416,327
Capital outlay	3,682,403
Debt service	26,819,985
Grants	1,684,722
State mandated initiatives	12,244,398
Emergency medical services	1,160,021
Permanent fund - interest	<u>110,562</u>
Total	<u>\$ 86,118,418</u>

*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.

Within the fund balance restricted for capital projects, certain funds (\$31,829,233) have been restricted to fund future contractually obligated capital projects and the purchase of certain capital assets (encumbrances). The City considers encumbrances to be significant for amounts that are encumbered in excess of \$500,000.

As of June 30, 2013, the Capital Projects Fund reported the following significant encumbrances:

<u>Description</u>	<u>Amount</u>
Reconstruction of streets	\$ 16,845,716
Improvements to parks	1,846,409
Reconstruction of building	<u>1,699,827</u>
Total	<u>\$ 20,391,952</u>

*Capital Outlay*—This category represents amounts set aside for future departmental capital expenditures.

*Debt Service*—Represents funds to be used toward the future repayment of bonded debt.

*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 \$1,684,722 which is restricted by commitments for the expenditure of money within the Special Revenue Fund.

*State Mandated Initiatives*—Represents money provided by the State through aid and incentives for municipality that is held by the BFSAs on behalf of the City. At June 30, 2013, \$14,645,657 of fund balance was restricted for state aid that did not meet the BFSAs Special Revenue Fund revenue recognition criteria.

*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.

*Permanent Fund – Interest*—Represents the amount of interest earnings on the nonspendable principal, that is reserved to be used for specific purposes stipulated in the respective bequest and trust agreements.

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, 2013, the City reported the following commitment:

*Economic 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, 2013, the City reported \$35,654,900 within its Economic Stabilization fund.

The Common Council authorizes the Comptroller to make a determination of the assigned amounts of fund balance. Assigned funds represent amounts intended to be used for a specific purpose. 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. In the fund financial statements, assignments by the City at June 30, 2013 include:

Assigned to:	
Encumbrances	\$ 4,008,395
Motor vehicle self-insurance	543,926
Subsequent year's expenditures	12,000,000
Judgments and claims	13,900,000
BFSA special revenue	<u>1,457,426</u>
Total	<u>\$ 31,909,747</u>

*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. The City considers encumbrances to be significant for amounts that are encumbered in excess of \$500,000. Other than those previously disclosed in the Capital Projects Fund, the City does not report any significant encumbrances in any major fund or nonmajor funds in the aggregate.

*Motor Vehicle Self-Insurance*—Represents fund balance set aside for motor vehicle self-insurance.

*Subsequent Year’s Expenditures*—Represents available fund balance being appropriated to meet expenditure requirements in the 2013-2014 fiscal year.

*Judgments and Claims*—Represents amounts assigned to cover the settlement of various claims and litigation.

*BFSA Special Revenue*—Represents fund balance within the BFSA special revenue fund that is assigned for a specific purpose.

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 54 as nonspendable (if funds become available) then restricted funds. The use of committed and assigned funds as classified by GASB 54 will occur after the exhaustion of available restricted funds. Finally, if no other fund balances are available the City will use unassigned fund balance.

#### 14. INTERFUND BALANCES AND ACTIVITY

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 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. These receivables and payables are short term in nature and are typically repaid in less than one year.

At June 30, 2013, a schedule summarizing individual fund interfund receivables and payables is as follows:

	Interfund	
	<u>Receivable</u>	<u>Payable</u>
Governmental activities:		
General Fund	\$ 33,126,581	\$ 14,114
Debt Service Fund	227,086	73
Capital Projects Fund	-	7,101,457
BFSA Special Revenue Fund	-	8,609,173
Other governmental funds	<u>1,455,668</u>	<u>2,688,188</u>
	<u>34,809,335</u>	<u>18,413,005</u>
Business-type activities:		
Solid Waste and Recycling Fund	-	16,060,342
Parking Fund	73	123,800
Water System	-	210,336
Internal Service Fund	<u>-</u>	<u>1,925</u>
	<u>73</u>	<u>16,396,403</u>
Total government-wide	<u>\$ 34,809,408</u>	<u>\$ 34,809,408</u>

The long-term portion in the amount of \$16,060,342, included within the General Fund's due from other funds totaling \$33,126,581, has been set aside as nonspendable fund balance.

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. A schedule on the following page presents the interfund transfers for the year ended June 30, 2013.

A schedule summarizing interfund transfers during the year ended June 30, 2013 is as follows:

Transfers out:	Transfers in:					Total
	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Solid Waste & Recycling Fund	
General Fund	\$ -	\$ 31,931,895	\$ 400,000	\$ -	\$ 3,624,779	\$ 35,956,674
Debt Service Fund	-	-	-	13,536,634	-	13,536,634
Capital Projects Fund	-	3,238,178	-	-	165,932	3,404,110
BFSA Special Revenue Fund	-	-	-	3,384,175	-	3,384,175
Solid Waste & Recycling Fund	673,048	-	-	-	-	673,048
Parking Fund	5,200,000	165,654	-	-	-	5,365,654
Water System	5,151,073	-	-	-	-	5,151,073
<b>Total</b>	<b>\$ 11,024,121</b>	<b>\$ 35,335,727</b>	<b>\$ 400,000</b>	<b>\$ 16,920,809</b>	<b>\$ 3,790,711</b>	<b>\$ 67,471,368</b>

## 15. COMMITMENTS AND CONTINGENCIES

**Grant Programs**—The City participates in a number of grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of these programs may be conducted, in accordance with grantor requirements, on a periodic basis. Accordingly, the City’s compliance with applicable grant requirements will be established at some future date. The amounts, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City believes, based upon its review of current activity and prior experience, the amount of such disallowances, if any, will be minimal.

### Board of Education

**State Aid**—The State periodically reviews its distribution of aid to school boards throughout the State. Thus, revenues recorded as of June 30, 2013, are subject to potential revision.

**Health Insurance Litigation**—On September 1, 2005, following a competitive bid process, the Board selected one insurance carrier to provide four health care plans to Board employees — three HMO plans and one traditional indemnity plan. Prior to September 1, 2005, the Board paid three insurance carriers to provide the same four plans. Some of the Board’s unions, including the Buffalo Teachers’ Federation (“BTF”), challenged the Board’s decision to go to a single carrier in arbitration. On October 21, 2006, the arbitrator in the BTF arbitration ruled that the Board must return to multiple carriers effective January 1, 2007, and reinstate all teachers laid off effective September 1, 2005, with “make whole” monetary damages, including back pay and benefits with interest at the statutory judgment rate. The arbitrator also retained jurisdiction to decide any unresolved claims for reimbursement of out-of-pocket expenses incurred by individual teachers under the signed carrier arrangement. The Board appealed the decision and the Appellate Division ruled that while the Board violated the contract in moving to a single carrier for health care, the Board is not required to reinstate all laid off teachers. The BTF moved and the Board cross-moved to appear to the Court of Appeals. The leave to appeal was denied. Subsequently, BTF commenced a contempt proceeding in the Supreme Court, which remains pending. The Court has agreed to several continuances of the return date with the expectation that negotiation of a successor collective bargaining agreement may resolve the health insurance issue. Contract negotiations are continuing.

**Construction Commitment**—As of June 30, 2013, the Board has approximately \$6,900,000 committed to various renovations.

**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**

BURA owns the land immediately east of the Waterfront School in the City. BURA fully investigated the land to the satisfaction of the New York State Department of Environmental Conservation ("NYSDEC") at the cost of approximately \$250,000. A formal agreement with the NYSDEC to accept BURA's investigation of the site as full settlement for any obligations it has for this site is pending.

BURA is a defendant in litigation commenced by a proposed recipient of Federal HOME funds. This matter was only recently commenced against BURA and has not entered the pre-trial discovery stage. It involves a claim of contract breach and/or detrimental reliance as to BURA related to an alleged promise to provide funding for plaintiff's project. BURA has taken the position that it is not liable under any theory of liability and will vigorously defend the case and seek dismissal of the action.

BURA is a defendant in litigation commenced by a contractor of the City and BURA related to demolition of structures. This matter is in the early stages of litigation. It involves a claim of contract breach for claimed additional costs incurred by the contractor and not paid by BURA. BURA will take the position that the additional work was not authorized, not documented or included in the base price of the original agreement and, therefore, no damages under the contract have resulted.

BURA is a defendant in a litigation commenced by a hold over tenant of BURA for breach of the original lease terms. This matter was only recently commenced against BURA and has not entered the pre-trial discovery stage. It involves a claim of contract breach and/or detrimental reliance as to BURA related to costs incurred by the tenant during rehabilitation and improvement of the leased premises. BURA has taken the position that it is not liable under any theory of liability and will vigorously defend the case and seek dismissal of the action.

BURA is a defendant in a personal injury matter in which the claimant/infant alleges injury from lead paint at a residence where BURA provided lead paint remediation funds to the owner. The outcome cannot be determined at this early stage of litigation.

**16. LABOR RELATIONS**

Approximately 2,988 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.

<u>Union</u>	<u>Expiration Date</u>
Firefighters	6/30/17
Operating Engineers	6/30/13
Crossing Guards	8/31/12
Building Inspectors	6/30/12
White Collar	6/30/11
Blue Collar	6/30/11
Police	6/30/10
Pipe Caulkers	6/30/04

**17. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through November 26, 2013, which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

\* \* \* \* \*

## REQUIRED SUPPLEMENTARY INFORMATION



**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, 2013**

	Budgeted Amounts		Budgetary Actual Amounts	Variance with Final Budget
	Adopted	Final		
<b>REVENUES</b>				
Property taxes, assessments, and other tax items	\$133,377,502	\$133,377,502	\$135,238,989	\$ 1,861,487
Utility and other nonproperty tax items	13,825,000	13,825,000	12,253,130	(1,571,870)
Charges for services	14,325,985	14,325,985	13,718,843	(607,142)
Investment interest	1,000,000	1,000,000	1,186,728	186,728
Federal aid	802,650	951,912	1,188,276	236,364
State aid	200,567,940	200,567,940	216,461,584	15,893,644
Local sources and other	74,737,536	74,737,536	73,895,887	(841,649)
Licenses and permits	3,585,710	3,585,710	3,408,023	(177,687)
Fines	8,494,550	8,494,550	7,288,675	(1,205,875)
Miscellaneous	7,801,857	7,851,857	40,317,282	32,465,425
Total revenues	458,518,730	458,717,992	504,957,417	46,239,425
<b>EXPENDITURES</b>				
Current:				
General government support:				
Legislative	4,356,546	4,361,703	4,196,448	165,255
Executive	1,626,631	1,635,918	1,417,384	218,534
Audit and control	2,871,359	3,028,219	2,601,490	426,729
Law	3,630,277	3,647,093	3,204,589	442,504
Assessment	2,014,404	2,039,404	1,670,079	369,325
Public works, parks and streets	6,376,234	6,796,143	6,421,346	374,797
Management information systems	3,343,453	3,398,307	3,041,467	356,840
Administration and finance	12,164,131	12,185,552	9,514,989	2,670,563
Human resources	6,238,081	6,713,272	5,278,152	1,435,120
Other	19,385,240	18,835,440	17,894,761	940,679
Public safety:				
Administration and finance	1,330,942	1,593,217	1,461,927	131,290
Police	78,432,869	79,100,604	77,365,091	1,735,513
Fire	54,613,937	54,732,822	51,358,514	3,374,308
Public works, parks and streets	1,808,244	1,808,244	1,641,096	167,148
Permit and inspection services	5,692,294	5,745,456	5,372,602	372,854
Streets and sanitation:				
Public works, parks and streets	12,455,790	12,750,255	10,445,826	2,304,429
Economic assistance and opportunity:				
Executive	1,606,818	2,069,740	1,490,748	578,992
Community services	215,919	215,919	104,160	111,759
Culture and recreation:				
Public works, parks and streets	5,094,396	5,282,544	5,110,895	171,649
Community services	1,945,593	2,112,593	1,927,453	185,140
Other	200,000	128,480	128,480	-
Health and community services:				
Public works, parks and streets	1,135,672	1,136,116	1,042,924	93,192
Community services	1,070,520	1,100,014	870,801	229,213
Other	-	634,500	634,500	-
Education	70,322,758	70,322,758	70,322,758	-
Fringe benefits	144,508,720	143,711,983	138,943,696	4,768,287
Other	4,150,000	8,406,289	7,569,765	836,524
Debt service	898,900	903,067	835,267	67,800
Total expenditures	447,489,728	454,395,652	431,867,208	22,528,444
Excess of revenues over expenditures	11,029,002	4,322,340	73,090,209	68,767,869
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	12,580,120	12,580,120	11,024,121	(1,555,999)
Transfers out	(35,131,894)	(35,131,894)	(35,956,674)	(824,780)
Total other financing sources (uses)	(22,551,774)	(22,551,774)	(24,932,553)	(2,380,779)
Net change in fund balances *	(11,522,772)	(18,229,434)	48,157,656	66,387,090
Fund balances—beginning	113,631,495	113,631,495	113,631,495	-
Fund balances—ending	\$102,108,723	\$ 95,402,061	\$161,789,151	\$ 66,387,090

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

**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, 2013**

	<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>
<b>REVENUES</b>				
Intergovernmental charges	\$16,966,622	\$16,966,922	\$ 16,285,938	\$ (680,984)
Investment interest	365,164	365,164	192,573	(172,591)
License, permit, rentals, fines, and other service charges	217,461	217,461	48,518	(168,943)
Miscellaneous	17,637	17,637	652,868	635,231
Total revenues	<u>17,566,884</u>	<u>17,567,184</u>	<u>17,179,897</u>	<u>(387,287)</u>
<b>EXPENDITURES</b>				
Debt service:				
Principal	37,144,922	37,144,922	27,175,000	9,969,922
Interest and fiscal charges	13,587,104	13,587,104	9,529,563	4,057,541
Total expenditures	<u>50,732,026</u>	<u>50,732,026</u>	<u>36,704,563</u>	<u>14,027,463</u>
Excess (deficiency) of revenues over expenditures	<u>(33,165,142)</u>	<u>(33,164,842)</u>	<u>(19,524,666)</u>	<u>13,640,176</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	32,097,549	32,097,549	35,335,727	3,238,178
Transfers out	-	-	(13,536,634)	(13,536,634)
Proceeds of debt issuance	-	-	39,285,000	39,285,000
Premium on bonds	-	-	1,800,988	1,800,988
Payment to escrow agent	-	-	(40,565,886)	(40,565,886)
Total other financing sources (uses)	<u>32,097,549</u>	<u>32,097,549</u>	<u>22,319,195</u>	<u>(9,778,354)</u>
Net change in fund balances *	(1,067,593)	(1,067,293)	2,794,529	3,861,822
Fund balances—beginning	<u>3,504,189</u>	<u>3,504,189</u>	<u>3,504,189</u>	<u>-</u>
Fund balances—ending	<u>\$ 2,436,596</u>	<u>\$ 2,436,896</u>	<u>\$ 6,298,718</u>	<u>\$ 3,861,822</u>

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

**CITY OF BUFFALO, NEW YORK**  
**Schedule of Funding Progress—Other Post-Employment Benefits Obligations**  
**Year Ended June 30, 2013**  
**(Amounts expressed in thousands)**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability ("AAL")</b>	<b>Unfunded AAL ("UAAL")</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
<b>City of Buffalo:</b>						
7/1/2012	\$ -	\$ 1,535,570	\$ 1,535,570	0.0%	\$ 172,567	889.8%
7/1/2010	-	1,637,159	1,637,159	0.0%	185,120	884.4%
7/1/2008	-	1,227,967	1,227,967	0.0%	179,288	684.9%
<b>Buffalo Fiscal Stability Authority :</b>						
6/30/2012	\$ -	\$ 116	\$ 116	0.0%	\$ 319	36.4%
6/30/2011	-	83	83	0.0%	228	36.4%
1/1/2008	-	225	225	0.0%	371	60.6%
<b>Board of Education:</b>						
6/30/2013	\$ -	\$ 1,881,696	\$ 1,881,696	0.0%	\$ 283,103	664.7%
6/30/2012	-	1,815,174	1,815,174	0.0%	277,774	653.5%
6/30/2011	-	1,681,374	1,681,374	0.0%	276,562	608.0%
<b>Buffalo Urban Renewal Agency:</b>						
6/30/2013	\$ -	\$ 28,718	\$ 28,718	0.0%	\$ 2,290	1254.1%
6/30/2012	-	28,718	28,718	0.0%	2,960	970.2%
6/30/2011	-	28,718	28,718	0.0%	2,821	1018.0%

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## SUPPLEMENTAL SCHEDULES



# 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.

Federal and State Grant Fund — This fund is used to account for all 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.

Forsyth Park 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—**  
**Other Governmental Funds**  
**June 30, 2013**

	<u>Special Revenue</u>	<u>BFSA Debt Service</u>	<u>Permanent</u>	<u>Total Nonmajor Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,620,607	\$ -	\$ -	\$ 1,620,607
Restricted cash and cash equivalents	1,684,722	296,828	75,173	2,056,723
Investments	-	15,281,526	61,472	15,342,998
Receivables				
Other receivables	-	-	3,917	3,917
Due from other governments	2,089,764	-	-	2,089,764
Due from other funds	1,455,668	-	-	1,455,668
Due from component units	184,022	-	-	184,022
Total assets	<u>\$ 7,034,783</u>	<u>\$15,578,354</u>	<u>\$ 140,562</u>	<u>\$ 22,753,699</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 1,042,186	\$ -	\$ -	\$ 1,042,186
Accrued liabilities	-	1,247,323	-	1,247,323
Due to other funds	2,608,424	79,764	-	2,688,188
Due to component units	1,683,148	-	-	1,683,148
Retainage payable	16,303	-	-	16,303
Total liabilities	<u>5,350,061</u>	<u>1,327,087</u>	<u>-</u>	<u>6,677,148</u>
<b>FUND BALANCES</b>				
Nonspendable	-	-	30,000	30,000
Restricted	<u>1,684,722</u>	<u>14,251,267</u>	<u>110,562</u>	<u>16,046,551</u>
Total fund balances	<u>1,684,722</u>	<u>14,251,267</u>	<u>140,562</u>	<u>16,076,551</u>
Total liabilities and fund balances	<u>\$ 7,034,783</u>	<u>\$15,578,354</u>	<u>\$ 140,562</u>	<u>\$ 22,753,699</u>

**CITY OF BUFFALO, NEW YORK**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—**  
**Other Governmental Funds**  
**Year Ended June 30, 2013**

	<u>Special Revenue</u>	<u>BFSA Debt Service</u>	<u>Permanent</u>	<u>Total Nonmajor Governmental Funds</u>
<b>REVENUES</b>				
Intergovernmental	\$ 18,856,188	\$ -	\$ -	\$ 18,856,188
Investment interest	1,225	358,936	877	361,038
Miscellaneous	25,665	-	-	25,665
Total revenues	<u>18,883,078</u>	<u>358,936</u>	<u>877</u>	<u>19,242,891</u>
<b>EXPENDITURES</b>				
Current:				
General government support	5,362,091	-	-	5,362,091
Public safety	7,232,154	-	-	7,232,154
Streets and sanitation	1,730	-	-	1,730
Economic assistance and opportunity	3,476,079	-	-	3,476,079
Culture and recreation	79,186	-	-	79,186
Health and community services	2,657,787	-	-	2,657,787
Debt service:				
Principal	-	14,535,000	-	14,535,000
Interest and fiscal charges	-	3,839,734	-	3,839,734
Total expenditures	<u>18,809,027</u>	<u>18,374,734</u>	<u>-</u>	<u>37,183,761</u>
Excess (deficiency) of revenues over expenditures	<u>74,051</u>	<u>(18,015,798)</u>	<u>877</u>	<u>(17,940,870)</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	-	16,920,809	-	16,920,809
Total other financing sources	<u>-</u>	<u>16,920,809</u>	<u>-</u>	<u>16,920,809</u>
Net change in fund balances	74,051	(1,094,989)	877	(1,020,061)
Fund balances—beginning	<u>1,610,671</u>	<u>15,346,256</u>	<u>139,685</u>	<u>17,096,612</u>
Fund balances—ending	<u>\$ 1,684,722</u>	<u>\$14,251,267</u>	<u>\$ 140,562</u>	<u>\$ 16,076,551</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 Statement of Net Position—**  
**Water System**  
**June 30, 2013**

	<u>Water Board</u>	<u>Water Authority</u>	<u>Water Enterprise</u>	<u>Eliminations</u>	<u>Total Water System</u>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 38,965,727	\$ 223,575	\$ 143,103	\$ -	\$ 39,332,405
Restricted cash and cash equivalents	-	38,676,367	-	-	38,676,367
Receivables:					
Accounts receivable	18,966,830	-	14,180	-	18,981,010
Other receivables	841,759	-	1,679	-	843,438
Due from other agencies	127,425	-	-	-	127,425
Due from other governments	218,015	243,995	-	-	462,010
Due from other funds	-	119,860,171	13,485,672	(133,345,843)	-
Allowances for estimated uncollectible amounts	<u>(14,170,173)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(14,170,173)</u>
Net receivables	<u>5,983,856</u>	<u>120,104,166</u>	<u>13,501,531</u>	<u>(133,345,843)</u>	<u>6,243,710</u>
Total current assets	<u>44,949,583</u>	<u>159,004,108</u>	<u>13,644,634</u>	<u>(133,345,843)</u>	<u>84,252,482</u>
Noncurrent assets:					
Capital assets not being depreciated:					
Land	145,116	-	-	-	145,116
Construction in progress	986,048	-	-	-	986,048
Capital assets being depreciated:					
Buildings and infrastructure	192,905,575	-	-	-	192,905,575
Improvements other than buildings	252,393	-	-	-	252,393
Machinery and equipment	528,268	-	-	-	528,268
Accumulated depreciation	<u>(64,774,688)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(64,774,688)</u>
Total capital assets being depreciated	128,911,548	-	-	-	128,911,548
Total noncurrent assets	<u>130,042,712</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>130,042,712</u>
Total assets	<u>174,992,295</u>	<u>159,004,108</u>	<u>13,644,634</u>	<u>(133,345,843)</u>	<u>214,295,194</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred loss on refunding	-	4,418,803	-	-	4,418,803
Deferred outflows of resources - swap	<u>3,228,952</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,228,952</u>
Total deferred outflows of resources	<u>3,228,952</u>	<u>4,418,803</u>	<u>-</u>	<u>-</u>	<u>7,647,755</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	1,709,497	12,294	72,877	-	1,794,668
Other accrued liabilities	-	3,253,691	1,380,722	-	4,634,413
Due to other funds	133,539,611	-	16,568	(133,345,843)	210,336
Retainage payable	525,126	-	-	-	525,126
Due to retirement systems	-	-	239,325	-	239,325
Accrued compensated absences	-	-	57,976	-	57,976
Accrued workers' compensation	-	-	384,733	-	384,733
General obligation and revenue bonds payable within one year	<u>-</u>	<u>7,365,000</u>	<u>301,137</u>	<u>-</u>	<u>7,666,137</u>
Total current liabilities	<u>135,774,234</u>	<u>10,630,985</u>	<u>2,453,338</u>	<u>(133,345,843)</u>	<u>15,512,714</u>

(continued)

**CITY OF BUFFALO, NEW YORK**  
**Combining Statement of Net Position—**  
**Water System**  
**June 30, 2013**

	<u>Water Board</u>	<u>Water Authority</u>	<u>Water Enterprise</u>	<u>Eliminations</u>	<u>Total Water System</u>
Noncurrent liabilities:					
Accrued compensated absences	-	-	691,697	-	691,697
Accrued workers' compensation	-	-	294,420	-	294,420
Accrued post-employment benefits	-	-	9,047,000	-	9,047,000
Accrued derivative liability	3,228,952	-	-	-	3,228,952
General obligation and revenue bonds payable	-	152,791,926	982,477	-	153,774,403
Total noncurrent liabilities	<u>3,228,952</u>	<u>152,791,926</u>	<u>11,015,594</u>	<u>-</u>	<u>167,036,472</u>
Total liabilities	<u>139,003,186</u>	<u>163,422,911</u>	<u>13,468,932</u>	<u>(133,345,843)</u>	<u>182,549,186</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred gain on refunding	-	-	175,702	-	175,702
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>175,702</u>	<u>-</u>	<u>175,702</u>
<b>NET POSITION</b>					
Net investment in capital assets	12,504,369	-	-	-	12,504,369
Unrestricted	26,713,692	-	-	-	26,713,692
Total net position	<u>\$ 39,218,061</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,218,061</u>

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**CITY OF BUFFALO, NEW YORK**  
**Combining Statement of Revenues, Expenses, and Changes in Net Position—**  
**Water System**  
**Year Ended June 30, 2013**

	<u>Water Board</u>	<u>Water Authority</u>	<u>Water Enterprise</u>	<u>Eliminations</u>	<u>Total Water System</u>
Operating revenues:					
Charges for services	\$ 44,045,399	\$ -	\$ -	\$ -	\$ 44,045,399
Other	89,725	-	-	-	89,725
Total operating revenues	<u>44,135,124</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,135,124</u>
Operating expenses:					
Services and supplies	8,508,815	589,759	5,364,197	-	14,462,771
Depreciation	4,851,160	-	-	-	4,851,160
Fringe benefits	-	-	5,608,563	-	5,608,563
Other	879,256	-	50,088	-	929,344
Total operating expenses	<u>14,239,231</u>	<u>589,759</u>	<u>11,022,848</u>	<u>-</u>	<u>25,851,838</u>
Operating income (loss)	<u>29,895,893</u>	<u>(589,759)</u>	<u>(11,022,848)</u>	<u>-</u>	<u>18,283,286</u>
Nonoperating revenues (expenses):					
Interest earnings	247,403	-	24,921	-	272,324
Interest expense	(7,093,430)	-	-	-	(7,093,430)
Other	695,593	-	-	-	695,593
Total nonoperating revenues (expenses)	<u>(6,150,434)</u>	<u>-</u>	<u>24,921</u>	<u>-</u>	<u>(6,125,513)</u>
Income (loss) before transfers	23,745,459	(589,759)	(10,997,927)	-	12,157,773
Transfers in	-	589,759	10,997,927	(11,587,686)	-
Transfers out	<u>(16,738,759)</u>	<u>-</u>	<u>-</u>	<u>11,587,686</u>	<u>(5,151,073)</u>
Change in net position	7,006,700	-	-	-	7,006,700
Total net position—beginning, as restated	<u>32,211,361</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,211,361</u>
Total net position—ending	<u>\$ 39,218,061</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,218,061</u>

**CITY OF BUFFALO, NEW YORK**  
**Combining Statement of Cash Flows—**  
**Water System**  
**Year Ended June 30, 2013**

	<u>Water Board</u>	<u>Water Authority</u>	<u>Water Enterprise</u>	<u>Eliminations</u>	<u>Total Water System</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 42,518,491	\$ -	\$ -	\$ -	\$ 42,518,491
Payments to suppliers for goods and services	(7,716,201)	(613,043)	(68,008)	-	(8,397,252)
Payments to employees for services	-	-	(9,294,676)	-	(9,294,676)
Net cash provided (used) by operating activities	<u>34,802,290</u>	<u>(613,043)</u>	<u>(9,362,684)</u>	<u>-</u>	<u>24,826,563</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers from other funds	-	-	10,083,686	-	10,083,686
Transfers to other funds	(5,151,073)	441,921	-	-	(4,709,152)
Advances from (to) other funds	<u>(10,349,010)</u>	<u>-</u>	<u>(372,080)</u>	<u>-</u>	<u>(10,721,090)</u>
Net cash provided (used) by noncapital financing activities	<u>(15,500,083)</u>	<u>441,921</u>	<u>9,711,606</u>	<u>-</u>	<u>(5,346,556)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Acquisition/construction of capital assets	(6,490,937)	-	-	-	(6,490,937)
Principal payments on bonds	-	(6,479,821)	(271,753)	-	(6,751,574)
Interest payments	<u>(6,138,275)</u>	<u>-</u>	<u>(77,007)</u>	<u>-</u>	<u>(6,215,282)</u>
Net cash used by capital and related financing activities	<u>(12,629,212)</u>	<u>(6,479,821)</u>	<u>(348,760)</u>	<u>-</u>	<u>(19,457,793)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest received on short-term investments	<u>246,977</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>246,977</u>
Net cash provided by investing activities	<u>246,977</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>246,977</u>
Net increase (decrease) in cash and cash equivalents	6,919,972	(6,650,943)	162	-	269,191
Cash and cash equivalents—beginning	<u>32,045,755</u>	<u>45,550,885</u>	<u>142,941</u>	<u>-</u>	<u>77,739,581</u>
Cash and cash equivalents—ending	<u>\$ 38,965,727</u>	<u>\$ 38,899,942</u>	<u>\$ 143,103</u>	<u>\$ -</u>	<u>\$ 78,008,772</u>

(continued)

**CITY OF BUFFALO, NEW YORK**  
**Combining Statement of Cash Flows—**  
**Water System**  
**Year Ended June 30, 2013**

	<u>Water Board</u>	<u>Water Authority</u>	<u>Water Enterprise</u>	<u>Eliminations</u>	<u>Total Water System</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>					
Operating income (loss)	\$ 29,895,893	\$ (589,759)	\$(11,022,848)	\$ -	\$ 18,283,286
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	4,851,160	-	-	-	4,851,160
Change in assets and liabilities:					
Receivables	4,199,240	-	(5,131)	-	4,194,109
Payables	(4,144,003)	(23,284)	8,322	-	(4,158,965)
Other accrued liabilities	-	-	234,669	-	234,669
Due to retirement systems	-	-	(268)	-	(268)
Accrued compensated absences	-	-	(56,302)	-	(56,302)
Accrued workers' compensation	-	-	50,874	-	50,874
Accrued other postemployment benefits	-	-	1,428,000	-	1,428,000
Total adjustments	<u>4,906,397</u>	<u>(23,284)</u>	<u>1,660,164</u>	<u>-</u>	<u>6,543,277</u>
Net cash provided (used) by operating activities	<u>\$ 34,802,290</u>	<u>\$ (613,043)</u>	<u>\$ (9,362,684)</u>	<u>\$ -</u>	<u>\$ 24,826,563</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**  
**Statement of Changes in Assets and Liabilities**  
**Agency Fund**  
**Year Ended June 30, 2013**

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	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2013</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,674,494	\$ 11,247,106	\$(11,475,440)	\$ 1,446,160
Total assets	<u>\$ 1,674,494</u>	<u>\$ 11,247,106</u>	<u>\$(11,475,440)</u>	<u>\$ 1,446,160</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 207,598	\$ 20,521,127	\$(20,728,725)	\$ -
Due to other governments	23,583	12,838	(12,155)	24,266
Amount held in custody for others:				
Surety bonds and deposits	22,751	-	-	22,751
Prisoner property	1,184,956	289,208	(342,707)	1,131,457
Fire insurance proceeds	201,145	50,000	(47,576)	203,569
Medical reimbursements	15,343	64,885	(36,575)	43,653
Miscellaneous - other	19,118	7,750	(6,404)	20,464
Total amount held in custody for others	<u>1,443,313</u>	<u>411,843</u>	<u>(433,262)</u>	<u>1,421,894</u>
Total liabilities	<u>\$ 1,674,494</u>	<u>\$ 20,945,808</u>	<u>\$(21,174,142)</u>	<u>\$ 1,446,160</u>

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# FEDERAL AWARDS



**CITY OF BUFFALO, NEW YORK**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2013**

<b>Federal Grantor/Pass-through Grantor Program Title (a)</b>	<b>Federal CFDA Number (b)</b>	<b>Federal Grantor/ Pass-through Number</b>	<b>Federal Expenditures (c)</b>
<b>U.S. Department of Housing and Urban Development:</b>			
Passed through New York State Housing Finance Agency:			
Community Development Block Grants/Entitlement Grants	14.218	2010-NSP-1030	\$ 882,470
Direct programs:			
Community Development Block Grants/Entitlement Grants	14.218	N/A	2,935,560
Home Investments Partnerships Program	14.239	N/A	1,855,099
Emergency Solution Grant Program	14.231	N/A	650,778
Housing Opportunities for Persons with AIDS	14.241	N/A	<u>349,705</u>
Total U.S. Department of Housing and Urban Development			<u>6,673,612</u>
<b>U.S. Department of Justice:</b>			
Passed through New York State Division of Criminal Justice Services:			
Juvenile Accountability Block Grants	16.523	T612108/T612171	19,458
Direct programs:			
Public Safety Partnership and Community Policing Grants	16.710	N/A	345,080
Edward Byrne Memorial Justice Assistance Grant Programs	16.738	N/A	407,269
Recovery - Edward Byrne Memorial Justice Assistance Grant Programs	16.804	N/A	<u>341,778</u>
Total U.S. Department of Justice			<u>1,113,585</u>
<b>U.S. Department of Transportation:</b>			
Passed through State Department of Transportation:			
Highway Planning and Construction	20.205	various	6,425,070
Metropolitan Transportation Planning	20.505	D034003	1,337,777
Passed through New York State Governor's Traffic Safety:			
Highway Planning and Construction	20.600	STEP2012-00257-015	<u>11,544</u>
Total U.S. Department of Transportation			<u>7,774,391</u>
<b>U.S. Department of Energy:</b>			
Direct program:			
Recovery - Energy Efficiency and Conservation Block Grant Program	81.128	N/A	<u>904,387</u>
Total U.S. Department of Energy			<u>904,387</u>
<b>U.S. Department of Homeland Security:</b>			
Passed through Customs/Border Patrol to Erie County to Buffalo:			
Homeland Security Grant Program	97.067	C191299	24,045
Passed through New York State Division of Homeland Security/Emergency Services:			
Homeland Security Grant Program	97.067	C845073	4,342,013
Buffer Zone Protection Program	97.078	various	<u>88,323</u>
Total U.S. Department of Homeland Security			<u>4,454,381</u>
Total Expenditures of Federal Awards (d)			<u>\$ 20,920,356</u>

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

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**CITY OF BUFFALO, NEW YORK**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2013**

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**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Buffalo, New York (the "City") and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The following notes were identified on the Schedule of Expenditures of Federal Awards:

- (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) Prepared under accounting principles generally accepted in the United States of America and includes all federal award programs.
- (d) A reconciliation to the financial statements is available.

**2. DETAIL OF FEDERAL HIGHWAY ADMINISTRATION (CFDA 20.205) EXPENDITURES**

Detail of 2012-2013 highway administration expenditures with their corresponding pass-through grantor numbers are as follows:

	<b>2012-13 Expenditures</b>	<b>CFDA No.</b>	<b>Pass-through Grantor Number</b>
Elmwood Avenue - Delavan to Route 198	\$ 1,566,915	20.205	D013775
West Ferry Street Bridge over Black Rock Canal	7,318	20.205	D017626
Reconstruction of Main Street - Phase 2	98,195	20.205	D017948
Bailey Avenue Bridge over Cazenovia Creek	56,624	20.205	D017846
Signal System Improvements - Elmwood/Chippewa	695,791	20.205	D022255
Kenmore Avenue Reconstruction - Starin to Main Street	144,515	20.205	D030039
Michigan Avenue Streetscape - Broadway to Goodell	29,498	20.205	D030066
Buffalo-Niagara Medical Campus - Phase 2	652,470	20.205	D030124
Porter Avenue Reconstruction - Niagara Street to Symphony Circle	16,030	20.205	D030233
Niagara Street Gateway	112,877	20.205	D030444
Safe Routes to School	370,114	20.205	D032468
Safe Routes to School - Education	102,052	20.205	D032468
Restoration of Vehicle Traffic on Main Street - 600 Block	1,637,237	20.205	D032531
Fruit Belt Redevelopment	69,244	20.205	D032782
Filmore Avenue Rehab and Streetscape Enhancement	37,013	20.205	D032782
Seneca Street Resurfacing and Streetscape Project	145,011	20.205	D033339
Buffalo Outer Harbor Trail Project	92,256	20.205	D033355
Bridge Joint Replacement Project	20,000	20.205	D033511
Hopkins Street Bridge Over Buffalo Pittsburgh Railroad	470,877	20.205	D033705
Bridge Joint Repl. and Deck Resurfacing Project	101,033	20.205	D033911
Total	<u>\$ 6,425,070</u>		

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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***

Honorable Mayor and Common Council  
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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 26, 2013 (which report includes a reference to other auditors). Our report includes a reference to other auditors who audited the financial statements of the Buffalo Fiscal Stability Authority, the Buffalo Board of Education and the City of Buffalo Urban Renewal Agency, as described in our report on the City's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during

our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2013-1, that we consider to be a significant deficiency.

### **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 Findings**

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.

Handwritten signature of Duesch & Malach LLP in black ink.

November 26, 2013

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Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT  
ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and Common Council  
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") Circular A-133 *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, 2013. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The City's financial statements include the operations of the Buffalo Board of Education and the Buffalo Urban Renewal Agency, which received \$94,102,422 and \$112,938,631, respectively, in federal awards which are not included in the schedule during the year ended June 30, 2013. Our compliance audit, described below, did not include the operations of the Buffalo Board of Education and the Buffalo Urban Renewal Agency because other auditors were engaged to perform such audits in accordance with OMB Circular A-133.

***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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2013.

### **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 OMB Circular A-133, 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. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



November 26, 2013

**CITY OF BUFFALO, NEW YORK**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2013**

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**Part I. SUMMARY OF AUDITORS' RESULTS**

**Financial Statements:**

Type of auditor's report issued: Unmodified\*

\* (which report includes a reference to other auditors)

Internal control over financial reporting:

- |   |   |  |  |
|---|---|--|--|
| 1. Material weakness(es) identified?  | _____ Yes                               | _____ No                               |  |
|   |   | <input checked="" type="checkbox"/>    |  |
| 2. Significant deficiency(ies) identified not considered to be material weakness(es)? | <input checked="" type="checkbox"/> Yes | _____ None reported                    |  |
| 3. Noncompliance material to financial statements noted?                              | _____ Yes                               | <input checked="" type="checkbox"/> No |  |

**Federal Awards:**

Internal control over major programs:

- |   |           |   |  |
|---|-----------|---|--|
| 4. Material weakness(es) identified?  | _____ Yes | _____ No  |  |
|   |           | <input checked="" type="checkbox"/>               |  |
| 5. Significant deficiency(ies) identified not considered to be material weakness(es)? | _____ Yes | <input checked="" type="checkbox"/> None reported |  |

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

- |   |           |  |  |
|---|-----------|--|--|
| 6. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510(a))? | _____ Yes | <input checked="" type="checkbox"/> No |  |
| 7. The City's major programs were:  |           |  |  |

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Emergency Solutions Grant Program	14.231
Home Investments Partnerships Grants	14.239
Edward Byrne Memorial Justice Assistance Grant	16.738
Recovery - Edward Byrne Memorial Justice Assistance Grant	16.804
Metropolitan Transportation Planning	20.505
Recovery - Energy Efficiency & Conservation Block Grant Program	81.128
Homeland Security Grant Program	97.067

- |   |   |                   |  |
|---|---|-------------------|--|
| 8. Dollar threshold used to distinguish between Type A and Type B programs? |   | \$ <u>627,611</u> |  |
| 9. Auditee qualified as low-risk auditee?                                   | <input checked="" type="checkbox"/> Yes | _____ No          |  |

## **Part II. FINANCIAL STATEMENT FINDINGS SECTION**

*We consider the deficiency presented below to be a significant deficiency in internal control.*

### **Finding 2013-1—Solid Waste and Recycling Fund Deficit**

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

*Condition* – Annual operating deficits of the Solid Waste and Recycling Fund over the last five years have caused a fiscal strain to the City’s General Fund. The City’s General Fund has provided significant interfund advances to provide for sufficient cash for current Solid Waste and Recycling Fund operations. At June 30, 2013, the General Fund has advanced \$16,060,342 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.

Over the past five years, the Solid Waste and Recycling Fund has reported operating losses. The operating expenses, on average, have increased about 2.69% per year while operating revenues have lagged behind. Operating revenues over the same period, on average, have increased by less than 0.27% per year.

*Effect* – The Solid Waste and Recycling Fund is not adequately supporting its program expenses with charges for services.

*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 that are bridging the gap between revenues and expenses. For the year ended June 30, 2013, the Solid Waste and Recycling Fund’s operating loss was \$6,209,117.

*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.

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 repay 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 their responsibility of having the General Fund taxpayers, in effect, subsidizing the Solid Waste and Recycling Fund.

*Management’s Response* – Management is continuing the process of developing a formal deficit reduction plan for the Solid Waste and Recycling Fund, which will include the evaluation of the need for rate increases.

## **Part III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION**

No matters were reported.

**CITY OF BUFFALO, NEW YORK**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2013**

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No matters related to Federal Awards were reported in the prior year.

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