

**CITY OF BUFFALO,
NEW YORK**

*Basic Financial Statements, Required Supplementary
Information, Supplemental Schedules and Federal
Financial Assistance Schedules for the Year Ended
June 30, 2011 and Independent Auditors' Reports*

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these respective financial statements based on our audit. We did not audit the financial statements of the Buffalo Fiscal Stability Authority, which represents 6% and 1%, respectively, of the assets and revenues of the governmental activities, and 11% and 1%, respectively, of the assets and revenues of the governmental funds within the fund financial statements. We also did not audit the financial statements of the City of Buffalo Urban Renewal Agency and the Buffalo Board of Education, which are shown as a 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, City of Buffalo Urban Renewal Agency, and the Buffalo Board of Education, is based solely on the reports of such 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, discretely presented component units, each major fund, and aggregate remaining fund information of the City as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2011, on our consideration of the City's internal control over financial reporting and 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* and should be considered in assessing the results of our audit.

As discussed in Note 15 to the basic financial statements, the Solid Waste and Recycling Fund reported a net deficit.

The Management's Discussion and Analysis as listed in the foregoing table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. This information is the responsibility of the City's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplemental schedules listed in the foregoing table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards as listed in the table of contents is presented for the purpose of additional information as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. This additional information is also the responsibility of the City's management. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

The City's basic financial statements include the operations of the City of Buffalo Urban Renewal Agency and the Buffalo Board of Education, which expended \$130,666,580 and \$112,950,243 of federal awards, respectively, which are not included in the City's Schedule of Expenditures of Federal Awards for the year ended June 30, 2011. Our audit, as described in our report on compliance and internal control over compliance applicable to each major federal award program, did not include the operations of the City of Buffalo Urban Renewal Agency and the Buffalo Board of Education, as other auditors were engaged to perform such audits in accordance with OMB Circular A-133, as applicable.

 Drexler & Malachuk LLP

December 13, 2011

CITY OF BUFFALO, NEW YORK
Management's Discussion and Analysis
Year Ended June 30, 2011

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, 2011. This document should be read in conjunction with additional information that we have furnished in the City's financial statements which follow this narrative. For comparative purposes, certain items relating to the year ended June 30, 2010 presentation has been reclassified. All amounts are expressed in thousands of dollars, unless otherwise indicated.

Financial Highlights

- ◆ During the year ended June 30, 2011, the City adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the City to change its fund balance classifications. The new classifications are explained in the Overview of the Fund Statements, below.
- ◆ The assets of the City exceeded its liabilities at the close of the fiscal year ended June 30, 2011 by \$165,057 (net assets). This consists of \$298,779 invested in capital assets, net of related debt, \$59,740 restricted for specific purposes, and deficit unrestricted net assets of \$193,461.
- ◆ The City's total net assets decreased by \$78,837 for the year ended June 30, 2011. Net assets decreased \$77,946 for governmental activities and decreased \$891 for business-type activities.
- ◆ As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$228,307.
- ◆ At the end of the current fiscal year, the committed, assigned and unassigned fund balance for the general fund was \$92,707, or 20.1%, of total general fund expenditures and transfers out. Committed fund balance for the City's Rainy Day Fund is \$35,497 or 7.7% of total general fund expenditures and transfers out, assigned fund balance is \$51,557 or 11.2% of total general fund expenditures and transfers out, and unassigned fund balance is \$5,653 or 1.2% of total general fund expenditures and transfers out.
- ◆ The City's total general obligation bonded debt outstanding, excluding notes that have been refinanced but have not yet matured and bonds issued by the Buffalo Fiscal Stability Authority's ("BFSA"), is \$234,927 (\$215,238 net governmental activities general obligation bonds issued by the City and \$19,689 business-type activities general obligation bonds). The City issued \$26,885 of general obligation bonds and \$34,650 of refunding bonds during the year ended June 30, 2011.
- ◆ The total Buffalo Municipal Water Finance Authority revenue bonds outstanding within the Water System at the end of the current fiscal year were \$155,565.
- ◆ BFSA total bonded debt outstanding is \$106,760.

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

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets 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. During the year ended June 30, 2011, the City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the City to change its fund balance classifications for governmental funds. The new classifications are nonspendable, restricted, committed, assigned and unassigned. Additional information on the City's fund balance classifications can be found in Notes 1 and 14 of this report.

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 four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund and capital projects fund which are considered major funds. Additionally, the general fund of the 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 Assets and Statement of Revenues, Expenditures, and Changes in Net Assets. 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 water system, parking, and refuse collection 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 assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceed liabilities by \$165,057 at the close of the most recent fiscal year.

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

	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 700,354	\$ 675,496	\$ 77,686	\$ 82,288	\$ 778,040	\$ 757,784
Capital assets	<u>406,231</u>	<u>404,245</u>	<u>176,649</u>	<u>177,202</u>	<u>582,880</u>	<u>581,447</u>
Total assets	<u>\$ 1,106,585</u>	<u>\$ 1,079,741</u>	<u>\$ 254,335</u>	<u>\$ 259,490</u>	<u>\$ 1,360,920</u>	<u>\$ 1,339,231</u>
Current and other liabilities	\$ 344,843	\$ 307,060	\$ 10,306	\$ 9,354	\$ 355,149	\$ 316,414
Long-term liabilities	<u>649,183</u>	<u>582,176</u>	<u>191,530</u>	<u>196,746</u>	<u>840,713</u>	<u>778,922</u>
Total liabilities	<u>994,026</u>	<u>889,236</u>	<u>201,836</u>	<u>206,100</u>	<u>1,195,862</u>	<u>1,095,336</u>
Net assets (deficit):						
Invested in capital assets, net of related debt	\$ 249,347	\$ 236,923	\$ 49,432	\$ 46,962	\$ 298,779	\$ 283,885
Restricted	59,740	48,409	-	-	59,740	48,409
Unrestricted	<u>(196,529)</u>	<u>(94,827)</u>	<u>3,067</u>	<u>6,428</u>	<u>(193,462)</u>	<u>(88,399)</u>
Total net assets	<u>\$ 112,558</u>	<u>\$ 190,505</u>	<u>\$ 52,499</u>	<u>\$ 53,390</u>	<u>\$ 165,057</u>	<u>\$ 243,895</u>

The largest portion of the City’s net assets 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 assets, 36.2% of total net assets, represents resources that are subject to external restrictions on how they may be used.

The remaining component of the City’s net assets, a deficit of \$193,462, represents unrestricted net assets 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 postemployment benefits (“OPEB”) as a result of adopting GASB Statement No. 45, totals \$256,500 and 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 assets decreased \$78,837 as a result of current year activities. Significant changes from 2010 to 2011 in the Statement of Net Assets and reasons for such changes are:

- ◆ Current and other assets increased by \$20,256. The primary reason for the increase is the overall increase in cash and cash equivalents of \$28,021 offset by decreases in accounts receivable and due from component units. The cash increase is largely attributed to the increase in cash held for the Board of Education as a result of their positive operations for the

fiscal year. The decrease in due from component units correlates to the net change in outstanding debt for the Board of Education.

- ◆ Capital assets increased by \$1,433. A significant portion of the increase was due to additions to infrastructure and building improvements.
- ◆ Current and other liabilities increased \$38,735 from June 30, 2010 to June 30, 2011. There are two major fluctuations that account for this difference. Firstly, accounts payable and accrued liabilities increased \$13,834 primarily due to the accrual for unpaid union salary increases. Secondly, the amount due to component units, primarily cash held for the Board of Education, increased by \$25,377 due to favorable results in operations for the fiscal year.
- ◆ Long-term liabilities increased by \$61,791. There were two debt issuances during fiscal year 2011, \$26,885 of general obligation bonds and \$34,650 of refunding bonds. Additionally, there was a \$65,573 increase in postemployment benefit liabilities. This was offset by payment of principal on debt outstanding.

Governmental activities. Governmental activities decreased the City's net assets by \$77,946 thereby accounting for the majority of the decrease in the net assets of the City. Key elements of this decrease are as shown in Table 2 on the following page.

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

	Governmental Activities		Business-Type Activities		Total	
	Year Ended June 30,		Year Ended June 30,		Year Ended June 30,	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 24,169	\$ 25,061	\$ 62,674	\$ 63,188	\$ 86,843	\$ 88,249
Operating grants and contributions	12,910	13,059	-	-	12,910	13,059
Capital grants and contributions	17,753	34,053	-	-	17,753	34,053
General revenues:						
Property taxes	127,779	125,431	-	-	127,779	125,431
Other taxes	25,312	23,359	-	-	25,312	23,359
State aid	164,788	174,479	-	-	164,788	174,479
Intergovernmental	95,344	92,742	241	-	95,585	92,742
Grants and contributions	243	382	-	-	243	382
Unrestricted investment earnings	3,671	4,190	1,302	411	4,973	4,601
Miscellaneous	4,350	3,257	-	-	4,350	3,257
Total revenues	<u>476,319</u>	<u>496,013</u>	<u>64,217</u>	<u>63,599</u>	<u>540,536</u>	<u>559,612</u>
Expenses:						
General government support	112,279	87,044	-	-	112,279	87,044
Public safety	298,733	281,944	-	-	298,733	281,944
Streets and sanitation	33,951	31,328	-	-	33,951	31,328
Economic assist. and opportunity	8,505	14,921	-	-	8,505	14,921
Culture and recreation	14,511	8,450	-	-	14,511	8,450
Health and community services	5,685	2,645	-	-	5,685	2,645
Education	70,323	70,323	-	-	70,323	70,323
Interest and fiscal charges	16,458	18,179	-	-	16,458	18,179
Solid Waste and Recycling	-	-	23,759	22,283	23,759	22,283
Parking	-	-	2,656	2,932	2,656	2,932
Water System	-	-	32,514	36,839	32,514	36,839
Total expenses	<u>560,445</u>	<u>514,834</u>	<u>58,929</u>	<u>62,054</u>	<u>619,374</u>	<u>576,888</u>
Excess (deficiency) of revenues over (under) expenses	(84,126)	(18,821)	5,288	1,545	(78,838)	(17,276)
Transfers	<u>6,179</u>	<u>3,754</u>	<u>(6,179)</u>	<u>(3,754)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	(77,947)	(15,067)	(891)	(2,209)	(78,838)	(17,276)
Net assets — beginning	<u>190,505</u>	<u>205,572</u>	<u>53,390</u>	<u>55,599</u>	<u>243,895</u>	<u>261,171</u>
Net assets — ending	<u>\$ 112,558</u>	<u>\$ 190,505</u>	<u>\$ 52,499</u>	<u>\$ 53,390</u>	<u>\$ 165,057</u>	<u>\$ 243,895</u>

The largest funding sources for the City's governmental activities, as a percent of total revenues, are state aid (34.6%), property taxes (26.8%), and intergovernmental (20.0%).

The largest expense categories for the City's governmental activities are public safety (53.3%), general government (20.0%) and education (12.5%). The education category represents the City allocation to the Board.

Significant changes from 2010 to 2011 in revenues and expenses for the City include the following:

- ◆ Capital grants and contributions decreased \$16,300 due primarily to less federal and state aid related to funding of road construction and demolitions received in 2011 as opposed to 2010.
- ◆ The net decline in state aid revenue was \$9,691 primarily due to decreased state funding for operations. However, intergovernmental revenue increased \$2,843 as a result of increases in sales tax revenues and miscellaneous grants.
- ◆ General government expenses increased \$25,235 primarily due to the increase in the accrual for OPEB liabilities. Public safety expenses increased \$16,789 due to increases in fringe benefit costs. Economic assistance expenses decreased \$6,416 due to less federal and state aid for demolitions. Cultural expenses increased \$6,061 due to a full year of operations of the parks that reverted back to the City in January 2010.

Business-type activities. Business-type activities decreased the City's net assets by \$891. Overall, revenues and expenses remained relatively consistent from 2010 to 2011. The overall decrease in net assets is due to the following:

- ◆ The water system's net assets decreased by \$1,260. This is largely attributable to recognition of an unrealized gain in the fair value of the derivative liability in accordance with GASB 53, *Accounting and Financial Reporting for Derivative Instruments*. Additionally, as a result of no new debt issuance during the year, long-term debt decreased. Also, the new operator agreement for the system resulted in savings on expenses.
- ◆ The net assets of the parking fund increased \$629. Operating revenues were greater than budget; however, the transfer of excess revenues to the general fund increased \$2,000 over prior year.
- ◆ The solid waste and recycling fund recorded a decrease in net assets of \$2,780 which was the result of a decline in service charges as well as an increase in OPEB expenses.

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 \$228,307 a decrease of \$8,603 in comparison with the prior year. Unassigned fund balance is \$5,653 or 1.2% of total general fund expenditures and transfers out. It should be noted that committed fund balance for the City's Rainy Day Fund is \$35,497 or 7.7% of total general fund expenditures and transfers out. Additionally, the City's assigned fund balances total \$53,284. Together, unassigned, committed, and assigned fund balance represents \$94,434 or 20.5% of general fund expenditures and transfers out.

committed, and assigned fund balance represents \$94,434 or 20.5% 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 \$22,371 consists of \$7,519 of land held for resale, \$30 for permanent fund principal, \$30 for prepaid items, and \$14,792 to cover the deficit in the solid waste fund.

Restricted fund balance in the amount of \$111,503 are amounts constrained to specific purposes and consists of \$55,680 to finance specific capital projects, \$3,656 for future capital outlay, \$2,169 for federal and state programs, \$30,717 to pay debt service, \$109 for compliance with the permanent fund, \$17,993 for state mandated initiatives, and \$1,179 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. \$35,497 of fund balance is committed for the City's "Rainy Day" fund. Assigned fund balance consists of \$4,935 to liquidate contracts and purchase orders, \$33,896 for judgments and claims, \$12,329 for the subsequent year's budget, \$397 for motor vehicle self-insurance, and \$1,726 in funds held by the BFSA. These assignments indicate management's intention to utilize these funds for the stated purposes. Unassigned fund balance totals \$5,653.

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 \$5,653 while total fund balance reached \$129,951. 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 1.3% of total fund expenditures (excluding other financing uses), while total fund balance represents 30.5% of that same amount. It should be noted that committed fund balance for the City's Rainy Day Fund is \$35,497 or 7.7% of general fund expenditures and transfers out. Additionally, assigned fund balances total \$51,557. Together, unassigned, committed and assigned fund balance represents \$92,707 or 20.0% of general fund expenditures and transfers out. The fund balance of the City's general fund decreased by \$12,789 during the current fiscal year. The decrease is attributed to \$14,776 of fund balance used as a resource in the current year offset by favorable budget variances related to personnel costs.

Debt service fund. The debt service fund has a total fund balance of \$4,129, which is reserved solely for the purpose of payment of debt service. The net decrease in fund balance during the current year in the debt service fund of \$1,856 is due to the use of \$1,744 of fund balance as a resource in the current year as well as budgetary shortfalls in revenues.

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 \$55,695, of which \$27,840 was considered encumbered for contracts underway, \$27,839 was restricted for future projects and \$15 reserved for prepaid items. The increase in fund balance of \$5,304 is the result of unexpended bond proceeds from bonds issued in 2011.

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 \$19,735. Of this amount, \$17,993 is reserved by enabling legislation for state aid received on behalf of the City, \$15 is reserved for prepaid items and \$1,726 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 \$2,169. This balance is restricted for use in accordance with federal and state grant regulations. The fund balance of the special revenue fund decreased by \$314 over the prior year, and is attributed to the expenditures incurred in the current year for revenues that were received and recorded in prior years. The BFSA debt service fund has a total fund balance of \$16,490, which is reserved to pay debt service. The positive change of \$1,149 is the result of increased set asides for future 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 \$139. The increase of \$1 was the result of investment income.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The net assets of the proprietary funds at the end of the current fiscal year totaled \$52,499. The balance includes \$46,172 for parking, \$26,590 for the water system, and a deficit balance of \$20,263 for solid waste and recycling. 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 assets at the end of the fiscal year were \$204. This represents an increase of \$21, 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 and enterprise funds. 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 \$6,549 the City's 2010-11 general fund operating budget was increased during the year by approximately \$2,582 for renovation of the City Court cell block facility. Actual revenues were \$227 greater than the final budget mostly related to a positive variance in the gross utility tax offset by decreases in state aid of \$2,299 and decreases in property taxes of \$1,301. Actual expenditures were \$3,779 less than the final budget. Major positive variances include a total of \$13,789 in salaries over multiple functions, as well as \$1,578 in judgments and claims. The negative variance in fringe benefits of \$11,588 is the result of estimating retroactive wage payments attributable to 2010-11 for unsettled union contracts.

Capital Assets and Debt Administration

Capital Assets. In accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the City has recorded depreciation expense associated with all of its capital assets, including infrastructure. The City's capital assets for its governmental and business-type activities as of June 30, 2011, amounted to \$582,880 (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)

	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2011	2010	2011	2010	2011	2010
Land	\$ 12,577	\$ 12,579	\$ 3,362	\$ 3,362	\$ 15,939	\$ 15,941
Buildings and improvements	169,356	163,418	115,499	115,862	284,855	279,280
Improvements other than buildings	14,129	15,466	135	139	14,264	15,605
Machinery and equipment	17,570	17,860	1,642	1,777	19,212	19,637
Infrastructure	191,578	183,950	55,070	55,349	246,648	239,299
Construction in progress	1,021	10,972	941	713	1,962	11,685
Total	<u>\$ 406,231</u>	<u>\$ 404,245</u>	<u>\$ 176,649</u>	<u>\$ 177,202</u>	<u>\$ 582,880</u>	<u>\$ 581,447</u>

Significant changes from 2010 to 2011 in capital assets include:

- ◆ Infrastructure increased \$7,349 due to completion of various road projects.
- ◆ Construction in progress decreased \$9,723 due to completion of two firehouses.

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 \$215,238, excluding bonds issued by BFSA. This entire amount is backed by the full faith and credit of the City. The City issued \$26,885 of general obligation bonds for capital projects during the year. The City also issued \$34,650 of refunding bonds during the year.

The BFSA's total bonded debt outstanding at the end of the current fiscal year is \$106,760.

The bonds outstanding for business-type activities at June 30, 2011 consisted of \$19,689 in general obligation bonds issued by the City and \$155,565 of revenue bonds issued by the Water Authority reported within the water system. No new debt was issued in the current year.

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

	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$ 321,998	\$ 333,589	\$ 19,689	\$ 22,603	\$ 341,687	\$ 356,192
Revenue bonds	-	-	155,565	161,400	155,565	161,400
Total	<u>\$ 321,998</u>	<u>\$ 333,589</u>	<u>\$ 175,254</u>	<u>\$ 184,003</u>	<u>\$ 497,252</u>	<u>\$ 517,592</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 \$584,642. The City had a debt-contracting margin of \$329,639 on July 1, 2011.

Additional information on the City's long-term debt can be found in Note 8 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 2012 budget. The total budgeted appropriations for the City's general fund operations are \$356,584. This budget reflects an increase of 0.4% to cover anticipated increased costs. This budget was approved by the BFSA.

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 Assets (Deficits)
June 30, 2011

	<u>Primary Government</u>			<u>Component Units</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>BOE</u>	<u>BURA</u>
ASSETS					
Cash and cash equivalents	\$ 471,457,618	\$39,954,840	\$ 511,412,458	\$ 274,904	\$ 3,113,950
Investments	18,499,539	-	18,499,539	-	673,874
Receivables (net of allowance for uncollectibles)	2,770,756	9,389,272	12,160,028	1,637,816	12,311,466
Due from other governments/agencies	51,714,569	379,335	52,093,904	76,603,204	575,119
Due from component units/primary government	116,615,559	-	116,615,559	250,076,297	203,818
Internal balances	15,192,844	(15,192,844)	-	-	-
Prepaid expenses and other assets	30,301	-	30,301	1,580,716	-
Deferred financing costs	6,027,009	2,912,954	8,939,963	26,612,014	-
Real estate acquired for resale	7,518,512	-	7,518,512	-	804,857
Restricted assets:					
Cash and cash equivalents	10,526,964	40,242,009	50,768,973	371,007,482	-
Capital assets:					
Land and construction in progress	13,598,030	4,303,584	17,901,614	166,127,438	627,931
Other capital assets (net of accumulated depreciation)	<u>392,632,949</u>	<u>172,345,903</u>	<u>564,978,852</u>	<u>922,115,868</u>	<u>10,247,893</u>
Total assets	<u>1,106,584,650</u>	<u>254,335,053</u>	<u>1,360,919,703</u>	<u>1,816,035,739</u>	<u>28,558,908</u>
LIABILITIES					
Accounts payable and accrued expenses	86,421,173	9,747,830	96,169,003	59,392,104	3,954,735
Due to component units/primary government	250,280,115	-	250,280,115	116,615,559	-
Due to other governments	115,519	-	115,519	25,244,196	329,238
Unearned revenue	8,026,370	558,584	8,584,954	-	4,016,973
Noncurrent liabilities:					
Due within one year	60,943,562	10,008,155	70,951,717	44,603,332	1,110,000
Due in more than one year	<u>588,239,669</u>	<u>181,521,354</u>	<u>769,761,023</u>	<u>1,695,154,459</u>	<u>15,681,937</u>
Total liabilities	<u>994,026,408</u>	<u>201,835,923</u>	<u>1,195,862,331</u>	<u>1,941,009,650</u>	<u>25,092,883</u>
NET ASSETS (DEFICITS)					
Invested in capital assets, net of related debt	249,347,204	49,431,754	298,778,958	152,526,964	10,628,263
Restricted for:					
Capital projects	3,656,412	-	3,656,412	1,655,950	-
Debt service	26,687,639	-	26,687,639	143,595,544	-
Grants	2,169,421	-	2,169,421	-	-
State mandated initiatives	17,993,004	-	17,993,004	-	-
Real estate	7,518,512	-	7,518,512	-	-
Judgments and claims	397,207	-	397,207	18,000,000	-
Unemployment insurance	-	-	-	3,156,044	-
Joint Schools Construction Board projects	-	-	-	224,350,164	-
Other purposes	1,178,568	-	1,178,568	533,964	-
Perpetual care:					
Expendable	108,762	-	108,762	-	-
Unexpendable	30,000	-	30,000	-	-
Stabilization	-	-	-	8,969,264	-
Unrestricted	<u>(196,528,487)</u>	<u>3,067,376</u>	<u>(193,461,111)</u>	<u>(677,761,805)</u>	<u>(7,162,238)</u>
Total net assets (deficits)	<u>\$ 112,558,242</u>	<u>\$52,499,130</u>	<u>\$ 165,057,372</u>	<u>\$(124,973,911)</u>	<u>\$ 3,466,025</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, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets (Deficit)				
		Charges for Services	Operating	Capital	Primary Government		Component Unit		
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total	BOE	BURA
Primary government:									
Governmental activities:									
General government support	\$ 112,278,479	\$ 8,426,082	\$ 5,516,088	\$ 4,372,037	\$ (93,964,272)	\$ -	\$ (93,964,272)	\$ -	\$ -
Public safety	298,733,158	9,701,627	6,477,719	262,596	(282,291,216)	-	(282,291,216)	-	-
Streets and sanitation	33,950,745	1,057,585	-	10,866,063	(22,027,097)	-	(22,027,097)	-	-
Economic assistance and opportunity	8,505,286	4,437,000	326,799	762,711	(2,978,776)	-	(2,978,776)	-	-
Culture and recreation	14,510,435	112,074	-	1,489,720	(12,908,641)	-	(12,908,641)	-	-
Home and community services	5,685,469	434,080	589,158	-	(4,662,231)	-	(4,662,231)	-	-
Education	70,322,758	-	-	-	(70,322,758)	-	(70,322,758)	-	-
Interest and fiscal charges	16,458,395	-	-	-	(16,458,395)	-	(16,458,395)	-	-
Total governmental activities	<u>560,444,725</u>	<u>24,168,448</u>	<u>12,909,764</u>	<u>17,753,127</u>	<u>(505,613,386)</u>	<u>-</u>	<u>(505,613,386)</u>	<u>-</u>	<u>-</u>
Business-type activities:									
Solid Waste and Recycling	23,759,060	18,118,832	-	-	-	(5,640,228)	(5,640,228)	-	-
Parking	2,656,179	7,612,172	-	-	-	4,955,993	4,955,993	-	-
Water System	32,513,867	36,943,085	-	-	-	4,429,218	4,429,218	-	-
Total business-type activities	<u>58,929,106</u>	<u>62,674,089</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,744,983</u>	<u>3,744,983</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 619,373,831</u>	<u>\$ 86,842,537</u>	<u>\$ 12,909,764</u>	<u>\$ 17,753,127</u>	<u>(505,613,386)</u>	<u>3,744,983</u>	<u>(501,868,403)</u>	<u>-</u>	<u>-</u>
Component Units:									
BOE	\$ 942,554,644	\$ 3,409,844	\$ 148,882,032	\$ -				(790,262,768)	-
BURA	65,642,499	-	64,424,356	-				-	(1,218,143)
Total component units	<u>\$ 1,008,197,143</u>	<u>\$ 3,409,844</u>	<u>\$ 213,306,388</u>	<u>\$ -</u>				<u>(790,262,768)</u>	<u>(1,218,143)</u>
General revenues:									
Taxes:									
Property taxes					127,779,276	-	127,779,276	-	-
Other tax items					13,961,925	-	13,961,925	-	-
Gross utility tax					11,350,134	-	11,350,134	-	-
State aid (unrestricted)					164,787,593	-	164,787,593	594,028,848	-
Intergovernmental (unrestricted)					95,344,245	241,442	95,585,687	34,296,667	-
Grants and contributions not restricted to specific programs					243,308	-	243,308	-	-
Investment earnings					3,671,145	1,301,840	4,972,985	7,197,411	-
Contribution from City of Buffalo					-	-	-	70,322,758	-
Miscellaneous					4,350,146	-	4,350,146	13,481,544	-
Total general revenues					<u>421,487,772</u>	<u>1,543,282</u>	<u>423,031,054</u>	<u>719,327,228</u>	<u>-</u>
Transfers					6,179,178	(6,179,178)	-	-	-
Change in net assets (deficit)					(77,946,436)	(890,913)	(78,837,349)	(70,935,540)	(1,218,143)
Net assets (deficit)—beginning, as previously stated					190,504,678	53,390,043	243,894,721	(35,061,619)	4,684,168
Prior period adjustment					-	-	-	(18,976,752)	-
Net assets (deficit)—beginning, as restated					<u>190,504,678</u>	<u>53,390,043</u>	<u>243,894,721</u>	<u>(54,038,371)</u>	<u>4,684,168</u>
Net assets (deficit)—ending					<u>\$ 112,558,242</u>	<u>\$ 52,499,130</u>	<u>\$ 165,057,372</u>	<u>\$ (124,973,911)</u>	<u>\$ 3,466,025</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, 2011

	<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>
ASSETS						
Cash and cash equivalents	\$ 373,423,908	\$ 3,798,159	\$ 73,208,351	\$ 18,143,306	\$ 2,695,985	\$ 471,269,709
Investments	-	-	-	-	18,499,539	18,499,539
Receivables:						
Delinquent taxes and assessments	18,289,139	-	-	-	-	18,289,139
Accounts receivable	9,417,061	-	-	-	-	9,417,061
Other receivables	50	1,005	-	-	18,161	19,216
Due from other agencies	2,955,417	-	-	-	-	2,955,417
Due from other funds	48,595,625	209,489	94,831	-	13,959	48,913,904
Due from other governments	12,495,931	-	3,073,454	30,792,606	2,397,161	48,759,152
Allowance for uncollectibles	(24,972,851)	-	-	-	-	(24,972,851)
Net receivables	66,780,372	210,494	3,168,285	30,792,606	2,429,281	103,381,038
Real estate acquired for resale	7,518,512	-	-	-	-	7,518,512
Prepaid items	-	-	15,155	15,146	-	30,301
Restricted cash and cash equivalents	9,769,264	211,700	546,000	-	-	10,526,964
Total assets	<u>\$ 457,492,056</u>	<u>\$ 4,220,353</u>	<u>\$ 76,937,791</u>	<u>\$ 48,951,058</u>	<u>\$ 23,624,805</u>	<u>\$ 611,226,063</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 9,466,482	\$ -	\$ 4,159,712	\$ 25,827	\$ 627,088	\$ 14,279,109
Due to other governments and agencies	90,415	-	25,104	-	-	115,519
Due to other funds	77,942	91,080	5,855,780	25,266,630	2,429,506	33,720,938
Due to component units	236,568,327	-	9,786,960	3,906,078	18,750	250,280,115
Accrued liabilities	58,417,247	-	-	17,993	1,742,876	60,178,116
Deferred revenues	16,412,942	-	-	-	-	16,412,942
Retentions payable	9,434	-	869,616	-	8,474	887,524
Accrued pension	6,498,446	-	-	-	-	6,498,446
Deposits	-	-	546,000	-	-	546,000
Total liabilities	<u>327,541,235</u>	<u>91,080</u>	<u>21,243,172</u>	<u>29,216,528</u>	<u>4,826,694</u>	<u>382,918,709</u>
Fund balances:						
Nonspendable	22,310,965	-	15,155	15,146	30,000	22,371,266
Restricted	14,932,960	4,129,273	55,679,464	17,993,004	18,768,111	111,502,812
Committed	35,496,809	-	-	-	-	35,496,809
Assigned	51,557,210	-	-	1,726,380	-	53,283,590
Unassigned	5,652,877	-	-	-	-	5,652,877
Total fund balances	<u>129,950,821</u>	<u>4,129,273</u>	<u>55,694,619</u>	<u>19,734,530</u>	<u>18,798,111</u>	<u>228,307,354</u>
Total liabilities and fund balances	<u>\$ 457,492,056</u>	<u>\$ 4,220,353</u>	<u>\$ 76,937,791</u>	<u>\$ 48,951,058</u>	<u>\$ 23,624,805</u>	<u>\$ 611,226,063</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 Assets (Deficits)—Governmental Activities
June 30, 2011

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

Fund balances—total governmental funds		\$228,307,354
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 \$725,377,798 and the accumulated depreciation is \$319,150,117.		406,227,681
Buffalo Fiscal Stability Authority capital assets used in governmental activities are not financial resources and, therefore, not reporting in the funds. The cost of these assets is \$81,839 and the accumulated depreciation is \$78,541.		3,298
To recognize interest accrual on long-term debt. Accrued interest for general obligation bonds is \$4,029,542 at year end.		(4,029,542)
Property taxes are not available to pay for current period expenditures and therefore are deferred in the funds.		8,386,572
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 assets.		203,542
Long-term liabilities applicable to the City's governmental fund are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consisted of:		
Bonds payable (net of of BFSA mirror debt and amount due from Board)	(98,622,441)	
Notes payable	(1,558,970)	
Capital leases	(2,236,680)	
Deferred financing costs	4,402,793	
Unamortized premiums	(3,609,968)	
Compensated absences	(25,935,572)	
Workers' compensation	(8,376,975)	
Landfill post-closure monitoring	(1,250,000)	
Other postemployment benefits payable	(244,190,000)	
Judgments and claims	<u>(33,895,500)</u>	(415,273,313)
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. These liabilities consisted of:		
Bonds payable	(106,760,000)	
Deferred financing costs	1,624,216	
Unamortized premiums	(5,817,344)	
Other postemployment benefits payable	<u>(314,222)</u>	<u>(111,267,350)</u>
Net assets of governmental activities		<u>\$112,558,242</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, 2011

	<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>
REVENUES						
Property taxes, assessments, and other tax items	\$ 138,368,936	\$ -	\$ -	\$ -	\$ -	\$ 138,368,936
Utility and other nonproperty tax items	14,464,927	-	-	-	-	14,464,927
Intergovernmental charges	256,222,405	16,721,723	15,962,315	4,010,446	8,257,495	301,174,384
Investment interest	1,917,655	425,260	-	-	854,872	3,197,787
License, permit, rentals, fines, and other service charges	21,931,471	263,011	-	-	-	22,194,482
Miscellaneous	6,146,032	1,157	1,141,221	-	5,005	7,293,415
Total revenues	<u>439,051,426</u>	<u>17,411,151</u>	<u>17,103,536</u>	<u>4,010,446</u>	<u>9,117,372</u>	<u>486,693,931</u>
EXPENDITURES						
Current:						
General government support	57,286,468	-	8,176,755	641,311	1,138,655	67,243,189
Public safety	138,904,449	-	3,306,665	-	4,612,631	146,823,745
Streets and sanitation	13,495,606	-	17,692,655	-	113,049	31,301,310
Economic assistance and opportunity	1,260,616	-	3,468,972	-	2,679,061	7,408,649
Culture and recreation	7,181,689	-	2,452,635	-	-	9,634,324
Health and community services	2,815,580	-	-	-	49,185	2,864,765
Education	70,322,758	-	5,038,423	-	-	75,361,181
Fringe benefits	127,913,375	-	-	90,034	-	128,003,409
Other	5,890,065	-	-	-	-	5,890,065
Debt service:						
Principal	-	23,966,000	-	-	14,360,000	38,326,000
Interest and fiscal charges	891,103	11,294,785	-	-	5,283,500	17,469,388
Total expenditures	<u>425,961,709</u>	<u>35,260,785</u>	<u>40,136,105</u>	<u>731,345</u>	<u>28,236,081</u>	<u>530,326,025</u>
Excess (deficiency) of revenues over (under) expenditures	<u>13,089,717</u>	<u>(17,849,634)</u>	<u>(23,032,569)</u>	<u>3,279,101</u>	<u>(19,118,709)</u>	<u>(43,632,094)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	9,545,222	32,208,909	400,000	-	19,954,010	62,108,141
Transfers out	(35,424,063)	(16,567,973)	(561,390)	(3,375,537)	-	(55,928,963)
Proceeds of debt issuance	-	34,650,000	26,885,000	-	-	61,535,000
Premium on bonds	-	1,788,678	1,613,027	-	-	3,401,705
Payment to escrow agent	-	(36,086,343)	-	-	-	(36,086,343)
Total other financing sources (uses)	<u>(25,878,841)</u>	<u>15,993,271</u>	<u>28,336,637</u>	<u>(3,375,537)</u>	<u>19,954,010</u>	<u>35,029,540</u>
Net change in fund balances	<u>(12,789,124)</u>	<u>(1,856,363)</u>	<u>5,304,068</u>	<u>(96,436)</u>	<u>835,301</u>	<u>(8,602,554)</u>
Fund balances—beginning	142,739,945	5,985,636	50,390,551	19,830,966	17,962,810	236,909,908
Fund balances—ending	<u>\$ 129,950,821</u>	<u>\$ 4,129,273</u>	<u>\$ 55,694,619</u>	<u>\$ 19,734,530</u>	<u>\$ 18,798,111</u>	<u>\$ 228,307,354</u>

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

CITY OF BUFFALO, NEW YORK
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balances of Governmental Funds to the Statement of Activities—Governmental Activities
Year Ended June 30, 2011

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

Net change in fund balances—total governmental funds		\$ (8,602,554)
<p>The City's governmental funds report capital outlays as expenditures of \$27,201,968. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense of \$24,980,356. This is the amount by which capital outlays exceeded depreciation, net of related losses on disposal of capital assets of \$236,549.</p>		
		1,985,063
<p>Buffalo Fiscal Stability Authority governmental funds report capital outlays as expenditures of \$2,590. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense of \$1,362. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
		1,228
<p>Revenues in the statement of activities that do not provide current financial resources and are not reported as revenues in the funds.</p>		
		257,472
<p>Change in accrual of interest payable on notes and bonds payable.</p>		
		509,616
<p>Change in net assets of the internal service fund reported in governmental activities.</p>		
		21,252
<p>Bond proceeds are reported as a financing source in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.</p>		
Bond principal payments	23,966,000	
Note principal payments	242,291	
Lease payments	587,709	
Contribution from Board	(6,282,307)	
Debt issued	(61,535,000)	
Refunded debt	34,800,000	
Premium	(3,263,282)	
Financing costs on issued debt	<u>2,320,000</u>	(9,164,589)
<p>Revenues of the Buffalo Fiscal Stability Authority in the statement of activities that do not provide current financial resources and are not reported as revenues in the funds.</p>		
		(239,805)
<p>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 premium deferred. The net effect of the reduction of long-term liabilities on the statement of net assets consists of following adjustments.</p>		
Bond principal payments	14,360,000	
Amortization of bond premiums	713,163	
Amortization of deferred financing costs	<u>(235,008)</u>	14,838,155
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These expenses include changes in:</p>		
Compensated absences	490,919	
Workers' compensation	3,036,695	
Judgments and claims	(19,908,000)	
Landfill post-closure monitoring	550,000	
Other postemployment benefits	(61,182,325)	
Amortization of debt premium	134,177	
Amortization of deferred financing costs	<u>(673,740)</u>	<u>(77,552,274)</u>
Change in net assets of governmental activities		<u>\$ (77,946,436)</u>

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, Expenditures, and Changes in Fund
Balances—Budget and Actual (Non-GAAP Budgetary Basis)—General Fund
Year Ended June 30, 2011

	Budgeted Amounts		Budgetary Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Property taxes, assessments, and other tax items	\$139,669,653	\$139,669,653	\$138,368,936	\$ (1,300,717)
Utility and other nonproperty tax items	12,350,000	12,350,000	14,464,927	2,114,927
Charges for services	11,205,932	11,205,932	11,327,929	121,997
Investment interest	1,300,000	1,300,000	1,917,655	617,655
Federal aid	771,749	771,749	1,237,109	465,360
State aid	185,916,573	185,916,573	183,617,882	(2,298,691)
Local sources and other	70,464,463	70,464,463	71,367,414	902,951
Licenses and permits	3,322,885	3,322,885	3,591,196	268,311
Fines	6,833,200	6,833,200	7,012,346	179,146
Miscellaneous	6,990,185	6,990,185	6,146,032	(844,153)
Total revenues	438,824,640	438,824,640	439,051,426	226,786
EXPENDITURES				
Current:				
General government support:				
Legislative	4,672,668	4,709,818	4,381,091	328,727
Executive	1,590,926	1,590,490	1,255,948	334,542
Audit and control	2,891,011	2,932,406	2,724,072	208,334
Law	3,194,454	3,737,963	3,730,048	7,915
Assessment	1,938,473	1,962,775	1,763,167	199,608
Public works, parks and streets	5,992,709	8,236,137	7,989,693	246,444
Management information systems	3,199,089	3,384,931	3,159,864	225,067
Administration and finance	10,515,045	10,469,785	9,247,918	1,221,867
Human resources	5,111,308	5,831,051	5,048,486	782,565
Other	20,356,905	20,225,666	19,654,046	571,620
Public safety:				
Administration and finance	1,406,916	1,459,632	1,295,021	164,611
Police	79,543,125	80,421,627	77,364,342	3,057,285
Fire	56,211,530	56,270,642	53,993,748	2,276,894
Public works, parks and streets	1,851,057	1,898,469	1,408,371	490,098
Permit and inspection services	5,597,453	6,015,996	5,880,113	135,883
Streets and sanitation:				
Public works, parks and streets	14,210,631	15,871,232	14,480,073	1,391,159
Health and community services:				
Public works, parks and streets	1,080,120	1,081,079	1,031,063	50,016
Community services	2,044,820	2,059,496	1,853,164	206,332
Other	20,000	20,000	-	20,000
Culture and recreation:				
Public works, parks and streets	5,804,213	7,229,115	5,721,004	1,508,111
Community services	1,739,531	1,853,777	1,615,066	238,711
Other	-	300,000	300,000	-
Economic assistance and opportunity:				
Executive	1,144,183	1,707,596	1,609,931	97,665
Community services	126,584	126,584	113,941	12,643
Education	70,322,758	70,322,758	70,322,758	-
Fringe benefits	119,146,149	116,386,403	127,974,227	(11,587,824)
Other	4,935,000	7,667,148	6,088,780	1,578,368
Debt service	903,900	903,900	891,103	12,797
Total expenditures	425,550,558	434,676,476	430,897,038	3,779,438
Excess of revenues over expenditures	13,274,082	4,148,164	8,154,388	4,006,224
OTHER FINANCING SOURCES (USES)				
Transfers in	9,545,222	9,545,222	9,545,222	-
Transfers out	(35,013,561)	(35,018,686)	(35,424,063)	(405,377)
Total other financing sources (uses)	(25,468,339)	(25,473,464)	(25,878,841)	(405,377)
Net change in fund balances	(12,194,257)	(21,325,300)	(17,724,453)	3,600,847
Fund balances—beginning	142,739,945	142,739,945	142,739,945	-
Fund balances—ending	\$130,545,688	\$121,414,645	\$125,015,492	\$ 3,600,847

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

CITY OF BUFFALO, NEW YORK
Statement of Fund Net Assets (Deficit)
Proprietary Funds
June 30, 2011

	Business-type Activities—Enterprise Funds				Internal Service Funds
	Solid Waste and Recycling	Parking	Water System	Combined Total	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 633,467	\$ 9,228,994	\$ 30,092,379	\$ 39,954,840	\$ 187,909
Receivables:					
Accounts receivable	13,414,918	3,871,056	16,510,165	33,796,139	18,191
Other receivables	342,568	31	866,646	1,209,245	-
Due from other agencies	-	-	134,526	134,526	-
Due from other funds	-	-	222,595	222,595	-
Due from other governments	-	-	244,809	244,809	-
Allowance for uncollectibles	<u>(12,409,457)</u>	<u>-</u>	<u>(13,206,655)</u>	<u>(25,616,112)</u>	<u>-</u>
Net receivables	<u>1,348,029</u>	<u>3,871,087</u>	<u>4,772,086</u>	<u>9,991,202</u>	<u>18,191</u>
Total current assets	<u>1,981,496</u>	<u>13,100,081</u>	<u>34,864,465</u>	<u>49,946,042</u>	<u>206,100</u>
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	-	40,749	40,201,260	40,242,009	-
Capital assets not being depreciated:					
Land	1	3,217,093	145,116	3,362,210	-
Construction in progress	-	-	941,374	941,374	-
Capital assets being depreciated:					
Buildings and system	4,037,092	73,654,425	175,621,358	253,312,875	-
Improvements other than buildings	175,071	3,320	252,393	430,784	-
Machinery and equipment	7,461,921	109,762	1,275,718	8,847,401	-
Accumulated depreciation	<u>(8,127,796)</u>	<u>(25,819,143)</u>	<u>(56,298,218)</u>	<u>(90,245,157)</u>	<u>-</u>
Total capital assets being depreciated	3,546,288	47,948,364	120,851,251	172,345,903	-
Deferred financing costs, net	<u>-</u>	<u>373,291</u>	<u>2,539,663</u>	<u>2,912,954</u>	<u>-</u>
Total noncurrent assets	<u>3,546,289</u>	<u>51,579,497</u>	<u>164,678,664</u>	<u>219,804,450</u>	<u>-</u>
Total assets	<u>\$ 5,527,785</u>	<u>\$ 64,679,578</u>	<u>\$ 199,543,129</u>	<u>\$ 269,750,492</u>	<u>\$ 206,100</u>
LIABILITIES AND NET ASSETS (DEFICIT)					
Current liabilities:					
Accounts payable	\$ 1,065,508	\$ 203,947	\$ 2,479,692	\$ 3,749,147	2,436
Due to other funds	14,792,453	176,612	446,374	15,415,439	122
Other accrued liabilities	333,970	331,718	4,469,047	5,134,735	-
Retainages payable	-	8,028	345,601	353,629	-
Deferred revenues	179,307	4,437	374,840	558,584	-
Accrued compensated absences	32,682	-	38,295	70,977	-
Accrued workers' compensation	371,124	-	242,118	613,242	-
Due to retirement systems	251,139	-	259,180	510,319	-
Notes, serial bonds, and revenue bonds payable within one year	<u>-</u>	<u>2,425,042</u>	<u>6,898,894</u>	<u>9,323,936</u>	<u>-</u>
Total current liabilities	<u>17,026,183</u>	<u>3,149,784</u>	<u>15,554,041</u>	<u>35,730,008</u>	<u>2,558</u>

(continued)

CITY OF BUFFALO, NEW YORK
Statement of Fund Net Assets (Deficit)
Proprietary Funds
June 30, 2011

	Business-type Activities—Enterprise Funds				Internal Service Funds
	Solid Waste and Recycling	Parking	Water System	Combined Total	
Noncurrent liabilities:					
Accrued compensated absences	1,023,643	-	791,122	1,814,765	-
Accrued workers' compensation	1,168,802	-	156,252	1,325,054	-
Accrued post employment benefits	6,572,000	26,000	5,712,000	12,310,000	-
Accrued derivative liability	-	-	3,897,514	3,897,514	-
General obligation bonds payable	-	15,331,459	1,571,614	16,903,073	-
Revenue bonds payable	-	-	145,270,948	145,270,948	-
Total noncurrent liabilities	<u>8,764,445</u>	<u>15,357,459</u>	<u>157,399,450</u>	<u>181,521,354</u>	<u>-</u>
Total liabilities	<u>25,790,628</u>	<u>18,507,243</u>	<u>172,953,491</u>	<u>217,251,362</u>	<u>2,558</u>
Net assets (deficit):					
Invested in capital assets, net of related debt	3,546,289	33,822,996	12,062,469	49,431,754	-
Unrestricted	<u>(23,809,132)</u>	<u>12,349,339</u>	<u>14,527,169</u>	<u>3,067,376</u>	<u>203,542</u>
Total net assets (deficit)	<u>(20,262,843)</u>	<u>46,172,335</u>	<u>26,589,638</u>	<u>52,499,130</u>	<u>203,542</u>
Total liabilities and net assets (deficit)	<u>\$ 5,527,785</u>	<u>\$ 64,679,578</u>	<u>\$199,543,129</u>	<u>\$ 269,750,492</u>	<u>\$ 206,100</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 Fund Net Assets (Deficit)
Proprietary Funds
Year Ended June 30, 2011

	Business-type Activities—Enterprise Funds				Internal Service Funds
	Solid Waste and Recycling	Parking	Water System	Combined Total	
Operating revenues:					
Charges for services	\$ 17,934,874	\$ -	\$ 36,685,528	\$ 54,620,402	\$ 76,657
Other	183,958	-	257,557	441,515	-
Rent	-	7,612,172	-	7,612,172	-
Total operating revenues	<u>18,118,832</u>	<u>7,612,172</u>	<u>36,943,085</u>	<u>62,674,089</u>	<u>76,657</u>
Operating expenses:					
Services and supplies	17,597,982	114,375	14,995,601	32,707,958	55,405
Depreciation	366,127	1,595,094	4,164,884	6,126,105	-
Fringe benefits	5,770,152	5,078	5,427,230	11,202,460	-
Other	-	-	851,741	851,741	-
Total operating expenses	<u>23,734,261</u>	<u>1,714,547</u>	<u>25,439,456</u>	<u>50,888,264</u>	<u>55,405</u>
Operating income (loss)	<u>(5,615,429)</u>	<u>5,897,625</u>	<u>11,503,629</u>	<u>11,785,825</u>	<u>21,252</u>
Nonoperating revenues (expenses):					
Interest earnings	1,165	39,147	399,371	439,683	-
Interest expense	-	(941,632)	(7,074,411)	(8,016,043)	-
Unrealized gain on derivative	-	-	862,157	862,157	-
Other	(24,799)	-	241,442	216,643	-
Total nonoperating revenues (expenses)	<u>(23,634)</u>	<u>(902,485)</u>	<u>(5,571,441)</u>	<u>(6,497,560)</u>	<u>-</u>
Income (loss) before transfers	(5,639,063)	4,995,140	5,932,188	5,288,265	21,252
Transfers in	3,531,698	-	-	3,531,698	-
Transfers out	(673,048)	(4,365,654)	(4,672,174)	(9,710,876)	-
Change in net assets (deficit)	(2,780,413)	629,486	1,260,014	(890,913)	21,252
Total net assets (deficit)—beginning	<u>(17,482,430)</u>	<u>45,542,849</u>	<u>25,329,624</u>	<u>53,390,043</u>	<u>182,290</u>
Total net assets (deficit)—ending	<u>\$(20,262,843)</u>	<u>\$ 46,172,335</u>	<u>\$ 26,589,638</u>	<u>\$ 52,499,130</u>	<u>\$ 203,542</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, 2011

	Business-type Activities—Enterprise Funds				Internal Service Funds
	Solid Waste and Recycling	Parking	Water System	Combined Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 17,430,132	\$ 8,440,886	\$ 42,210,126	\$ 68,081,144	\$ 66,559
Payments to suppliers for goods and services	(10,318,597)	87,758	(14,774,182)	(25,005,021)	(54,732)
Payments to employees for services	(10,520,497)	(4,262)	(9,206,174)	(19,730,933)	-
Net cash provided (used) by operating activities	<u>(3,408,962)</u>	<u>8,524,382</u>	<u>18,229,770</u>	<u>23,345,190</u>	<u>11,827</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from other funds	3,531,698	-	625,203	4,156,901	-
Transfers to other funds	(673,048)	(4,365,654)	(4,672,175)	(9,710,877)	-
Advances from other funds	723,527	98,729	255,056	1,077,312	(4,042)
Net cash provided (used) by noncapital financing activities	<u>3,582,177</u>	<u>(4,266,925)</u>	<u>(3,791,916)</u>	<u>(4,476,664)</u>	<u>(4,042)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition/construction of capital assets	(299,698)	(175,783)	(5,122,995)	(5,598,476)	-
Principal payments on bonds	-	(2,482,108)	(6,061,902)	(8,544,010)	-
Interest payments	-	(918,932)	(6,790,864)	(7,709,796)	-
Net cash (used) by capital and related financing activities	<u>(299,698)</u>	<u>(3,576,823)</u>	<u>(17,975,761)</u>	<u>(21,852,282)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received on short-term investments	1,167	39,198	363,878	404,243	-
Net cash provided by investing activities	<u>1,167</u>	<u>39,198</u>	<u>363,878</u>	<u>404,243</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(125,316)	719,832	(3,174,029)	(2,579,513)	7,785
Cash and cash equivalents—beginning	758,783	8,549,911	73,467,668	82,776,362	180,124
Cash and cash equivalents—ending	<u>\$ 633,467</u>	<u>\$ 9,269,743</u>	<u>\$ 70,293,639</u>	<u>\$ 80,196,849</u>	<u>\$ 187,909</u>

(continued)

CITY OF BUFFALO, NEW YORK
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2011

	<u>Business-type Activities—Enterprise Funds</u>				Internal Service Funds
	<u>Solid Waste and Recycling</u>	<u>Parking</u>	<u>Water System</u>	<u>Combined Total</u>	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (5,615,429)	\$ 5,897,625	\$ 11,503,629	\$ 11,785,825	\$ 21,252
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	366,127	1,595,094	4,164,884	6,126,105	-
Change in assets and liabilities:					
Receivables	(646,280)	828,714	523,815	706,249	(10,098)
Payables	81,236	202,133	(159,534)	123,835	673
Other accrued liabilities	13,861	-	298,945	312,806	-
Due to retirement systems	59,640	-	69,818	129,458	-
Deferred revenue	(42,421)	-	-	(42,421)	-
Accrued compensated absences	8,384	-	(158,669)	(150,285)	-
Accrued workers' compensation	(120,193)	-	49,339	(70,854)	-
Accrued other postemployment benefits	2,486,113	816	1,937,543	4,424,472	-
Total adjustments	<u>2,206,467</u>	<u>2,626,757</u>	<u>6,726,141</u>	<u>11,559,365</u>	<u>(9,425)</u>
Net cash provided (used) by operating activities	<u>\$ (3,408,962)</u>	<u>\$ 8,524,382</u>	<u>\$ 18,229,770</u>	<u>\$ 23,345,190</u>	<u>\$ 11,827</u>

(concluded)

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

CITY OF BUFFALO, NEW YORK
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	Private Purpose Trust	Agency
ASSETS		
Cash and cash equivalents	\$ 26,152	\$ 1,409,355
Investments	32,912	-
Receivables	4,395	-
Total assets	\$ 63,459	\$ 1,409,355
LIABILITIES		
Accounts payable	\$ -	\$ 258
Due to other governments	-	25,117
Amount held in custody for others	-	1,383,980
Total liabilities	-	1,409,355
NET ASSETS		
Unrestricted	63,459	-
Total net assets	63,459	-
Total liabilities and net assets	\$ 63,459	\$ 1,409,355

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

CITY OF BUFFALO, NEW YORK
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2011

	Private Purpose Trust
ADDITIONS	
Investment earnings:	
Interest	\$ 500
Total additions	500
DEDUCTIONS	
Awards	255
Total deductions	255
Change in net assets	245
Net assets - beginning	63,214
Net assets - ending	\$ 63,459

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, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

Definition of the City for Financial Reporting Purposes — 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 (“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 BFSA 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 8). The Board's Joint Schools Construction Board ("JSCB") bonds payable represents 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 declared a state of fiscal crisis with respect to the City and enacted the BFSA Act, pursuant to Chapter 122 of the State Laws of 2003. Pursuant to the BFSA Act, the State currently is controlling the financial affairs of the City and certain "covered organizations" (as defined in the BFSA Act) affiliated with the City through the BFSA. The BFSA Act reserves to the City the ability to determine program and expenditure priorities within available financial resources.

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; thereafter, an advisory period commences, and the BFSA Act permits a control period to be reestablished as determined should conditions warrant. The control period declared pursuant to the BFSA Act began on July 3, 2003, and continues until the date the BFSA determines that (1) for each of the three immediately preceding City fiscal years, the City has adopted and adhered to budgets covering all expenditures, other than capital items, the results of which did not show a deficit, without the use of any BFSA assistance, as provided for under the BFSA Act, when reported in accordance with GAAP and

(2) the City Comptroller and State Comptroller jointly certify that securities were sold by the City during the immediately preceding fiscal year in the general public market and there is a substantial likelihood that such securities can be sold by the City in the general public market from such date through the end of the next succeeding City fiscal year in amounts that will satisfy substantially all of the capital and cash flow requirements of the City during that period in accordance with the financial plan then in existence. An advisory period shall continue after such BFSA determinations until June 30, 2037, unless another control period is imposed.

B. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including statement of net assets, statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements — The statement of net assets and the statement of activities display information on all nonfiduciary activities of the primary government and its component units. 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. Therefore as a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The statements distinguish between those activities of the City that are governmental, which are normally supported by taxes and intergovernmental revenues, and those that are considered business-type activities, which rely to a significant extent on fees and charges for support. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of net assets presents the financial condition of the governmental and business-type activities for the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient for the goods and services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements — During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of governmental and enterprise fund financial statements are on major funds. Each major fund is presented in a separate column. Nonmajor funds, where applicable, are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation — The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues 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. BFSA special revenue fund nonexchange transactions, in which the BFSA receives value directly without giving equal value in exchange, include State aid and sales taxes and are recognized in the fiscal year for which stated aid and taxes are earned or designated.

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 in the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the fiscal year. 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.

Significant revenues considered to be susceptible to accrual in addition to general property taxes include the State Revenue Sharing and Assistance, sales taxes, and various categorical grants. Long-term historical payment patterns of the State Revenue Sharing and Assistance are considered in determining whether such payments are susceptible to accrual.

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 has elected to report the BFSA special revenue fund as a major fund to enhance consistency even though it did not meet the criteria for mandatory reporting in the current year.

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 Fund — The other governmental fund includes the special revenue fund, the BFSAs 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 BFSAs intercepts from the City to pay principal and interest on general obligations bonds issued by the BFSAs 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 private-purpose trust and agency funds. 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.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board ("GASB"). Governments also have the option of following subsequent private sector guidance for their business-type and enterprise funds, subject to the same limitation. The government has elected not to follow subsequent private sector guidance.

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 proprietary 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.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first and then unrestricted resources as they are needed.

Accounting for Property Taxes and Special Assessments — 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, 2011, the City had a legal tax margin of approximately \$35.7 million.

Deposits and Investments — Deposits include demand deposits and certificates of deposit. Cash equivalents include U.S. government securities and U.S. government securities purchased through repurchase agreements. Repurchase agreement securities are valued monthly to confirm that the fair value of the securities is equal to or greater than the value of the investment. The City did not have any repurchase agreements included within cash equivalents at June 30, 2011. 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 Assets — Certain assets are classified in the balance sheet as restricted because their use is limited. The proceeds of bond and note sales can only be used for the stated purpose of the borrowing. Property taxes collected for debt service payments are legally restricted for that purpose.

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. Additions are recorded at cost and donated fixed assets are recorded at their estimated fair value as of the date donated.

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:

Assets	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 Financing Costs – Costs associated with the issuance of refunding bonds have been capitalized and are being amortized on the straight line basis over the life of the bonds.

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 assets as long-term liabilities. For business-type activities, the full liability is recognized in both the government-wide statement of net assets and the proprietary fund financial statements.

Long-Term Liabilities — In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums, if any, are deposited in the debt service fund and used to retire debt. Bond issuance costs related to governmental activities or business-type activities are reported as deferred charges within the government-wide financial statements and proprietary fund financial statements, respectively, and are amortized into interest expense over the term of related debt.

In the fund financial statements, governmental fund types report bond premiums and discounts, as well as bond issuance costs, as revenues/other financing sources and expenditures/other financing uses during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as interest and fiscal charges.

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

Invested in Capital Assets — Net of Related Debt — This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted Net Assets — This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports \$59,739,525 of restricted net assets, of which \$26,687,639 is restricted for debt service and \$17,993,004 is restricted for state mandated initiatives.

Unrestricted Net Assets (Deficit) — This category represents net assets of the City not restricted for any project or other purpose.

In the fund financial statements, the City reports fund balance as nonspendable, restricted, committed, assigned and unassigned. Management has evaluated, classified and reported amounts in the appropriate fund balance classifications by applying accounting policies that determine whether funds are nonspendable, restricted, committed, assigned or unassigned. These policies have been disclosed in Note 14.

Encumbrances — Encumbrance accounting, under which purchase orders, contracts, and other commitments for the 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, for budgetary control purposes, accounts for encumbrances as a charge against appropriations and does not distinguish the portion of encumbrances that represent liabilities for goods or services received but not paid for at the balance sheet date. For financial statement purposes, these encumbrances are segregated into the portion that represents an outstanding liability for goods or services received versus a commitment for goods and services not received. The amounts representing goods or services received are shown in the financial statements as accounts payable and included in expenditures, while the amounts representing commitments are shown as a reservation of fund balance. Encumbrances outstanding at the end of the fiscal year do not lapse.

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.

Estimates — The preparation of the financial statements in conformity with GAAP 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 BFSAs' financial statements to conform to the City's reporting presentation. In the BFSAs' statement of net assets, \$3,906,078 was reclassified from due to City of Buffalo to due to component units for sales tax that was a receivable from Erie County on behalf of the Board. And, in the BFSAs' statement of revenue, expenditures, and change in net assets, \$270,700,378 in investment income and intergovernmental revenue offset other distributions relating to proceeds and interest payments on bonds issued by the BFSAs on behalf of the City.

Adoption of New Accounting Pronouncement — During the year ended June 30, 2011, the City adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the City to change its fund balance classifications for governmental funds. The new classifications are explained below.

Nonspendable fund balance—Amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund).

Restricted fund balance—Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation.

Committed fund balance—Amounts constrained to specific purposes by a government itself using its highest level of decision-making authority; to be reported as committed, amounts cannot be

used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.

Assigned fund balance—Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned fund balance—Amounts that are available for any purpose; these amounts are reported only in the general fund.

Additionally, during the year ended June 30, 2011, the City completed the process of evaluating the impact that will result from adopting GASB Statement No. 59, *Financial Instruments Omnibus* effective for the year ending June 30, 2011. GASB Statement No. 59 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. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*, effective for the year ending June 30, 2012; 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*, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* effective for the year ending June 30, 2013. The City is, therefore, unable to disclose the impact that adopting GASB Statements Nos. 57, 60, 61, 62, 63 and 64 will have on its financial position and results of operations.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information — 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 project 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. Following is 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 financial uses — GAAP basis	\$ (12,789,124)
Less encumbrances	<u>(4,935,329)</u>
Excess of revenues and other financing sources over expenditures and other financial uses — basis of budgeting	<u>\$ (17,724,453)</u>

Budget columns presented in the accompanying financial statements reflect deficiencies of revenues and other financing sources over expenditures and other financing uses. These deficiencies are caused by the anticipated use of prior-year's fund balance, which had been designated for fiscal year 2011 expenditures during the budget process.

Excess of Expenditures Over Appropriations — For the year ended June 30, 2011, expenditures exceeded appropriations in fringe benefits. The unfavorable variance of \$11,587,824 for fringe benefits is the result of an estimate for the cost of retroactive wages from July 1, 2009 for unsettled union contracts which were not included in the budget. Additionally, an unfavorable variance of \$405,377 for transfers out was noted due to budgeted amounts for capital outlay included within other expenses and the actual expense included within transfers out.

3. DEPOSITS 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, 2011, of which the bank carrying balance at June 30, 2011, was \$529,435,866.

At June 30, 2011, cash and cash equivalents and investments consisted of the following:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Cash on hand (uncollateralized)	\$ 12,700	\$ -	\$ -	\$ 12,700
Deposits	481,971,882	80,196,849	1,435,507	563,604,238
Investments	<u>18,499,539</u>	<u>-</u>	<u>32,912</u>	<u>18,532,451</u>
Total	<u>\$ 500,484,121</u>	<u>\$ 80,196,849</u>	<u>\$ 1,468,419</u>	<u>\$ 582,149,389</u>

Investments — At June 30, 2011, total investments of \$18,532,451 consisted of investments held by the BFSA of \$18,438,067, held by the City of \$61,472 and maintained in fiduciary funds of \$32,912. Investments at June 30, 2011, consist of the following:

	<u>Carrying Value</u>	<u>Fair Value</u>
Governmental activities:		
Certificates of deposit	\$ 94,384	\$ 94,384
U.S. Treasury slugs	3,005,697	3,028,559
U.S. Treasury bills	138,950	138,950
Federal Home Loan Mortgage corporate discount paper	5,450,003	5,455,737
Federal National Mortgage Association discount notes	9,633,152	9,646,554
Accrued interest	<u>210,265</u>	<u>210,265</u>
Total	<u>\$ 18,532,451</u>	<u>\$ 18,574,449</u>

Investments in fiduciary funds consist solely of certificates of deposit at June 30, 2011.

The risk and type of investments presented above generally indicate activity and positions held throughout the year. Maturities related to the BFSA's 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 and Federal National Mortgage Association discount notes as reported in November 2008 by Standard & Poor's for short-term debt is A-1+.

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.

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.

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 Federal Deposit Insurance Corporation (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.

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.

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.

Governmental Activities Restricted Cash and Cash Equivalents — General fund restricted assets 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, 2011, the restricted cash amounted to \$9,769,264 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 \$211,700 are held by a trustee for future debt service payments and capital projects fund restricted assets of \$546,000 represent a good faith deposit for future bonds.

Business-Type Activities Restricted Cash and Cash Equivalents — Business-type restricted assets represent 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, 2011, \$720,958 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 \$39,480,302 at June 30, 2011. Restricted cash in the parking fund of \$40,749 consisted of cash and cash equivalents and is held in a bank account.

Board of Education — At June 30, 2011, cash in banks was \$274,904. This amount was fully collateralized.

Restricted Cash — The Board has restricted cash of \$371,007,482 at June 30, 2011, for various purposes as follows:

- ◆ Pursuant to the issuance of State of New York Municipal Bond Bank Agency Revenue Bonds, the Board is to maintain a Debt Service Reserve held with a fiscal agent of \$1,800,000. Such cash is held with a fiscal agent.
- ◆ \$549,813 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.

- ◆ \$132,561,351 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 \$224,220,002 at June 30, 2011, are held in trust and can only be utilized for approved project costs.
- ◆ \$11,034,193 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.
- ◆ \$345,310 represents endowment funds and can be used in accordance with the respective endowment document.
- ◆ \$496,813 is restricted to support obligations related to workers' compensation claims.

Buffalo Urban Renewal Agency

Buffalo Urban Renewal Agency — Bank balances totaled \$3,787,824 of which \$673,874 was fully collateralized at June 30, 2011.

4. RECEIVABLES

Receivables at June 30, 2011, for the City's individual funds and related allowance for uncollectible accounts are as follows:

Receivables:	<u>Receivable</u>	<u>Allowance</u>	<u>Net</u>
Governmental Funds:			
General Fund:			
Taxes	\$ 18,289,139	\$ (8,635,384)	\$ 9,653,755
Accounts receivable	9,417,061	(5,127,878)	4,289,183
Other receivables	50	-	50
Due from other agencies	2,955,417	(1,507,740)	1,447,677
Due from other funds	48,595,625	-	48,595,625
Due from other governments	12,495,931	(9,701,849)	2,794,082
	<u>\$ 91,753,223</u>	<u>\$ (24,972,851)</u>	<u>\$ 66,780,372</u>
Debt Service Fund:			
Other receivables	\$ 1,005	\$ -	\$ 1,005
Due from other funds	209,489	-	209,489
	<u>\$ 210,494</u>	<u>\$ -</u>	<u>\$ 210,494</u>
Capital Projects Fund:			
Due from other funds	\$ 94,831	\$ -	\$ 94,831
Due from other governments	3,073,454	-	3,073,454
	<u>\$ 3,168,285</u>	<u>\$ -</u>	<u>\$ 3,168,285</u>
BFSA Special Revenue Fund:			
Due from other governments	\$ 30,792,606	\$ -	\$ 30,792,606
Other governmental funds:			
Other receivables	\$ 18,161	\$ -	\$ 18,161
Due from other funds	13,959	-	13,959
Due from other governments	2,397,161	-	2,397,161
	<u>\$ 2,429,281</u>	<u>\$ -</u>	<u>\$ 2,429,281</u>

(continued)

Receivables:	<u>Receivable</u>	<u>Allowance</u>	<u>Net</u>
Proprietary Funds:			
Solid Waste and Recycling Fund:			
Accounts receivable	\$ 13,414,918	\$ (12,367,071)	\$ 1,047,847
Other receivables	<u>342,568</u>	<u>(42,386)</u>	<u>300,182</u>
	<u>\$ 13,757,486</u>	<u>\$ (12,409,457)</u>	<u>\$ 1,348,029</u>
Parking Fund:			
Accounts receivable	\$ 3,871,056	\$ -	\$ 3,871,056
Other receivables	<u>31</u>	<u>-</u>	<u>31</u>
	<u>\$ 3,871,087</u>	<u>\$ -</u>	<u>\$ 3,871,087</u>
Water System Fund:			
Accounts receivable	\$ 16,510,165	\$ (13,206,655)	\$ 3,303,510
Other receivables	866,646	-	866,646
Due from other agencies	134,526	-	134,526
Due from other governments	244,809	-	244,809
Due from other funds	<u>222,595</u>	<u>-</u>	<u>222,595</u>
	<u>\$ 17,978,741</u>	<u>\$ (13,206,655)</u>	<u>\$ 4,772,086</u>
Internal Service Fund:			
Accounts receivable	<u>\$ 18,191</u>	<u>\$ -</u>	<u>\$ 18,191</u>

Due from other governments at June 30, 2011, consists of the following:

Due from other governments:

Governmental Funds:

General Fund:

Due from Erie County	\$ 10,009,011
Due from New York State	1,974,421
Due from federal government	<u>512,499</u>
	<u>\$ 12,495,931</u>

Capital Projects Fund:

Due from New York State	<u>\$ 3,073,454</u>
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BFSA Special Revenue Fund:

Due from New York State	<u>\$ 30,792,606</u>
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Other Governmental Funds:

Special Revenue Fund:

Due from New York State	\$ 2,259,041
Due from federal government	<u>138,120</u>
	<u>\$ 2,397,161</u>

Proprietary Funds:

Water System:

Due from New York State	<u>\$ 244,809</u>
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Board of Education

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

Major revenues consist of the following at June 30, 2011:

General Fund:

Health Services	\$ 570,630
Tuition billing	312,460
Miscellaneous revenues	584,750
School Food Service Fund	163,510
Special Aid Fund	<u>6,466</u>
Total	<u>\$ 1,637,816</u>

Due from other governments and agencies consists of the following at June 30, 2011:

General Fund:	
State aid - basic	\$ 11,482,761
State aid - excess	14,652,122
State aid - ARRA	944,697
State aid - Medicaid	1,329,334
Federal and state grants	45,715,016
Federal and state aid - Food Service Fund	1,544,972
Miscellaneous	<u>934,302</u>
Total	<u>\$ 76,603,204</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) to qualifying developers. As of June 30, 2011, program loans receivable consist of Community Development Block Grant (“CDBG”) funds advanced by BURA to BERC for Section 108 program loans due within the year in the amount of \$300,000.

Notes Receivable — Various notes from individuals, businesses, and other organizations were outstanding at June 30, 2011, representing funds advanced by BURA for projects designed to stimulate 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 which are reported as advances receivable.

Due From Federal Government — \$282,500 of the amount presented as due from the federal government represents a 10% guarantee on loans issued under the Department of Housing and Urban Development’s Section 108 program prior to October 30, 1986. This amount will become available for use in the CDBG grant program as Section 108 loan principal balances are reduced through repayments from the individual borrowers. The remaining amount represents amounts not yet received by BURA from the federal government for expenses incurred under federal grant programs.

5. CAPITAL ASSETS

Governmental-Type Activities

Class	Balance July 1, 2010	Additions and Reclassifications	Deductions and Reclassifications	Balance June 30, 2011
Capital assets — not being depreciated:				
Land	\$ 12,579,280	\$ -	\$ 1,900	\$ 12,577,380
Construction in progress	<u>10,972,265</u>	<u>1,020,649</u>	<u>10,972,264</u>	<u>1,020,650</u>
Total capital assets — not being depreciated	<u>23,551,545</u>	<u>1,020,649</u>	<u>10,974,164</u>	<u>13,598,030</u>
Capital assets — being depreciated:				
Buildings and building improvements	255,483,751	11,267,988	426,717	266,325,022
Improvements other than buildings	40,688,995	342,503	49,095	40,982,403
Machinery and equipment	52,212,130	4,605,947	2,241,810	54,576,267
Infrastructure	<u>329,037,642</u>	<u>20,940,273</u>	<u>-</u>	<u>349,977,915</u>
Total capital assets — being depreciated	<u>677,422,518</u>	<u>37,156,711</u>	<u>2,717,622</u>	<u>711,861,607</u>
Less accumulated depreciation for:				
Buildings and building improvements	92,065,037	5,168,288	264,758	96,968,567
Improvements other than buildings	25,223,260	1,662,900	32,836	26,853,324
Machinery and equipment	34,352,737	4,836,262	2,183,479	37,005,520
Infrastructure	<u>145,088,341</u>	<u>13,312,906</u>	<u>-</u>	<u>158,401,247</u>
Total accumulated depreciation	<u>296,729,375</u>	<u>24,980,356</u>	<u>2,481,073</u>	<u>319,228,658</u>
Total capital assets being depreciated — net	<u>380,693,143</u>	<u>12,176,355</u>	<u>236,549</u>	<u>392,632,949</u>
Governmental activities' capital assets — net	<u>\$ 404,244,688</u>	<u>\$ 13,197,004</u>	<u>\$ 11,210,713</u>	<u>\$ 406,230,979</u>

Business-Type Activities

Class	Balance July 1, 2010	Additions and Reclassifications	Deductions and Reclassifications	Balance June 30, 2011
Capital assets — not being depreciated:				
Land	\$ 3,362,210	\$ -	\$ -	\$ 3,362,210
Construction in progress	713,135	5,553,105	5,324,866	941,374
Total capital assets — not being depreciated	<u>4,075,345</u>	<u>5,553,105</u>	<u>5,324,866</u>	<u>4,303,584</u>
Capital assets — being depreciated:				
Buildings and building improvements	156,685,567	2,890,912	-	159,576,479
Improvements other than buildings	415,137	15,647	-	430,784
Machinery and equipment	9,077,953	361,448	592,000	8,847,401
Infrastructure	91,634,166	2,102,230	-	93,736,396
Total capital assets — being depreciated	<u>257,812,823</u>	<u>5,370,237</u>	<u>592,000</u>	<u>262,591,060</u>
Less accumulated depreciation for:				
Buildings and building improvements	40,823,954	3,254,321	-	44,078,275
Improvements other than buildings	276,331	19,395	-	295,726
Machinery and equipment	7,300,736	471,773	567,200	7,205,309
Infrastructure	36,285,231	2,380,616	-	38,665,847
Total accumulated depreciation	<u>84,686,252</u>	<u>6,126,105</u>	<u>567,200</u>	<u>90,245,157</u>
Total capital assets being depreciated — net	<u>173,126,571</u>	<u>(755,868)</u>	<u>24,800</u>	<u>172,345,903</u>
Business-type activities' capital assets — net	<u>\$ 177,201,916</u>	<u>\$ 4,797,237</u>	<u>\$ 5,349,666</u>	<u>\$ 176,649,487</u>

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

Governmental activities:	
General government	\$ 2,713,492
Public safety	5,796,615
Streets and sanitation	12,937,369
Economic assistance and opportunity	10,467
Culture and recreation	3,038,146
Health and community services	484,267
Total depreciation expense — governmental activities	<u>\$ 24,980,356</u>
Business-type activities:	
Water	\$ 4,164,884
Parking	1,595,094
Solid waste and recycling	366,127
Total depreciation expense — business-type activities	<u>\$ 6,126,105</u>

The carrying value of idle impaired assets at June 30, 2011, totaling \$546,531, in accordance with GASB 42 *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*, 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, 2011, was as follows:

Class	Balance July 1, 2010	Additions and Reclassifications	Deductions and Reclassifications	Balance June 30, 2011
Capital assets — not being depreciated:				
Land	\$ 3,725,598	\$ -	\$ 104,056	\$ 3,621,542
Construction in progress	103,760,429	105,025,737	46,280,270	162,505,896
Total capital assets — not being depreciated	<u>107,486,027</u>	<u>105,025,737</u>	<u>46,384,326</u>	<u>166,127,438</u>
Capital assets — being depreciated:				
Land improvements	4,730,785	10,000	139,395	4,601,390
Buildings and building improvement	1,209,075,535	98,098,715	3,769,076	1,303,405,174
Equipment	<u>22,638,282</u>	<u>3,397,725</u>	<u>8,430,989</u>	<u>17,605,018</u>
Total capital assets — being depreciated	<u>1,236,444,602</u>	<u>101,506,440</u>	<u>12,339,460</u>	<u>1,325,611,582</u>
Less accumulated depreciation for:				
Land improvements	4,337,620	35,592	137,699	4,235,513
Buildings and building improvement	338,694,183	52,516,218	3,227,484	387,982,917
Equipment	<u>18,276,181</u>	<u>1,885,793</u>	<u>8,884,690</u>	<u>11,277,284</u>
Total accumulated depreciation	<u>361,307,984</u>	<u>54,437,603</u>	<u>12,249,873</u>	<u>403,495,714</u>
Total capital assets being depreciated — net	<u>875,136,618</u>	<u>47,068,837</u>	<u>89,587</u>	<u>922,115,868</u>
Government activities' capital assets — net	<u>\$ 982,622,645</u>	<u>\$ 152,094,574</u>	<u>\$ 46,473,913</u>	<u>\$ 1,088,243,306</u>

Buffalo Urban Renewal Agency — BURA's governmental capital assets, recorded at cost, as of June 30, 2011, are summarized as follows:

Function and Activity	Construction					Total
	Land	In Progress	Building	Equipment	Vehicles	
Economic development administration	\$ 380,370	\$ 247,561	\$ 14,706,007	\$ 787,938	\$ 105,558	\$ 16,227,434
General administration	-	-	-	24,866	-	24,866
Subtotal	380,370	247,561	14,706,007	812,804	105,558	16,252,300
Accumulated depreciation	-	-	4,590,796	680,122	105,558	5,376,476
Capital assets — net	<u>\$ 380,370</u>	<u>\$ 247,561</u>	<u>\$ 10,115,211</u>	<u>\$ 132,682</u>	<u>\$ -</u>	<u>\$ 10,875,824</u>

For the year ended June 30, 2011, depreciation in the amount of \$337,068 has been recorded using the straight-line method over the useful lives of the assets, which range from 5 to 39 years.

6. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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, 2011, a schedule summarizing individual fund interfund receivables and payables is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Governmental Activities:		
General Fund	\$ 48,595,625	\$ 77,942
Debt Service Fund	209,489	91,080
Capital Projects Fund	94,831	5,855,780
BFSA Special Revenue Fund	-	25,266,630
Other governmental funds	<u>13,959</u>	<u>2,429,506</u>
	<u>48,913,904</u>	<u>33,720,938</u>
Business-type Activities:		
Solid Waste and Recycling Fund	-	14,792,453
Parking Fund	-	176,612
Water System	222,595	446,374
Internal Service Fund	<u>-</u>	<u>122</u>
	<u>222,595</u>	<u>15,415,561</u>
Total government-wide	<u>\$ 49,136,499</u>	<u>\$ 49,136,499</u>

The long-term portion in the amount of \$14,792,453 included within the general fund's due from other funds totaling \$48,595,625 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 summarizing interfund transfers during the year ended June 30, 2011 is as follows:

Transfer out	Transfer In					Total
	General	Debt Service	Capital Projects	Other Governmental	Solid Waste & Recycling	
General	\$ -	\$ 31,781,563	\$ 400,000	\$ 10,500	\$ 3,232,000	\$ 35,424,063
Debt Service	-	-	-	16,567,973	-	16,567,973
Capital Projects	-	261,692	-	-	299,698	561,390
BFSA	-	-	-	3,375,537	-	3,375,537
Solid Waste & Recycling	673,048	-	-	-	-	673,048
Parking	4,200,000	165,654	-	-	-	4,365,654
Water System	4,672,174	-	-	-	-	4,672,174
Total	\$ 9,545,222	\$ 32,208,909	\$ 400,000	\$ 19,954,010	\$ 3,531,698	\$ 65,639,839

7. CAPITAL LEASES

The City has entered into lease agreements as a lessee for financing the acquisition of various capital assets (computer equipment and traffic signals). Lease principal payments for governmental activities are recorded as expenditures in the appropriate fund. 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, 2011, are as follows:

Fiscal Year Ending June 30,	Governmental Activities
2012	\$ 690,324
2013	690,324
2014	537,519
2015	486,584
Total minimum lease payments	2,404,751
Less: amount representing interest	(168,071)
Present value of minimum lease payments	<u>\$ 2,236,680</u>

The assets acquired through capital leases are as follows:

	Governmental Activities
Assets:	
Building improvements	\$ 4,094,136
Infrastructure	3,926,320
	8,020,456
Less: accumulated depreciation	(1,255,699)
	<u>\$ 6,764,757</u>

8. LONG-TERM DEBT

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

In July 2010, the City issued \$26,885,000 of general obligation bonds, consisting of \$21,985,000 City general improvement serial bonds and \$4,900,000 of Board of Education serial bonds. Principal payments begin on April 1, 2011 and mature in 2025. These bonds bear an interest rate ranging between 2.0% and 5.0%.

In February 2011, the City issued \$34,650,000 of refunding bonds, consisting of \$12,825,000 of City general improvement refunding bonds and \$21,825,000 of Board of Education refunding bonds. Collectively, these bonds refund the previously issued Series 1999A, Series 2001A, Series 2001B, Series 2001D and Series 2002B serial bonds, originally issued for various capital improvements. The 2011 bonds bear an interest rate ranging between 3.0% and 5.0%. The payment to an escrow agent (\$36,068,343) was used to purchase direct obligations of the United States of America and fund transaction costs, with the remaining cash proceeds from the sale of the bonds, and placed in an irrevocable trust fund 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 2011 refinancing totaled \$34,800,000, has been removed from the financial statements. The 2011 refinancing resulted in an economic gain of \$1,874,648.

Principal and interest are paid semiannually, generally in equal installments. Noncurrent liabilities at June 30, 2011, are as follows:

Calendar Year Issued	Original Amount	Interest Rate	Fiscal Year of Last Installment	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Due Within One Year
Governmental activities general obligations bonds issued by City Buffalo:								
1974	\$ 4,200,000	5.6	2014	\$ 500,000	\$ -	\$ 125,000	\$ 375,000	\$ 125,000
1998	14,000,000	3.6-5.25	2025	2,507,500	-	730,000	1,777,500	530,000
1999	45,758,000	2.84-3.9	2019	12,860,000	-	9,990,000	2,870,000	2,870,000
1999	36,996,000	5.0	2014	5,870,000	-	1,905,000	3,965,000	1,960,000
2001	28,686,000	4.0-5.38	2021	8,490,000	-	7,370,000	1,120,000	1,120,000
2001	5,605,000	4-5.25	2020	3,815,000	-	-	3,815,000	-
2002	23,825,000	2.5-5	2022	9,935,000	-	1,610,000	8,325,000	1,680,000
2004	10,285,000	1.5-5.6	2025	8,230,000	-	385,000	7,845,000	400,000
2004	15,245,000	2-4.2	2016	9,010,000	-	1,365,000	7,645,000	1,415,000
2005	26,167,250	5.0	2025	17,264,027	-	1,944,542	15,319,485	1,983,770
2005	34,346,833	5.0	2019	23,525,764	-	6,230,916	17,294,848	4,825,826
2006	25,275,917	5.0	2022	19,748,211	-	1,572,640	18,175,571	1,650,571
2007	22,226,126	5.0	2023	19,176,784	-	1,001,261	18,175,523	1,142,824
2008	22,000,000	3.0-5.25	2023	19,490,000	-	1,110,000	18,380,000	1,165,000
2009	21,500,000	1.35-6.0	2024	20,195,000	-	1,105,000	19,090,000	1,150,000
2010	21,985,000	2.0-5.0	2025	-	21,985,000	1,330,000	20,655,000	1,065,000
2011	12,825,000	3.0-5.0	2021	-	12,825,000	-	12,825,000	100,000
Total				<u>180,617,286</u>	<u>34,810,000</u>	<u>37,774,359</u>	<u>177,652,927</u>	<u>23,182,991</u>

(continued)

Calendar Year Issued	Original Amount	Interest Rate	Fiscal Year of Last Installment	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Due Within One Year
Governmental activities – issued on behalf of Discretely Presented Component Unit – Board – General Obligations Bonds:								
1998	\$ 10,950,000	3.60-5.25	2025	\$ 7,877,500	\$ -	\$ 415,000	\$ 7,462,500	\$ 785,000
1999	7,034,135	3.25-4.50	2011	565,000	-	565,000	-	-
2001	11,100,000	4.0-5.1	2021	5,670,000	-	5,235,000	435,000	435,000
2001	14,105,000	4.0-5.0	2012	3,000,000	-	1,000,000	2,000,000	1,000,000
2001	34,000,000	4.0-5.5	2016	19,875,000	-	17,335,000	2,540,000	2,540,000
2002	34,250,000	2.5-5.375	2020	23,840,000	-	3,940,000	19,900,000	1,765,000
2003	3,725,000	2.75-5.5	2014	1,411,000	-	331,000	1,080,000	344,000
2003	5,344,000	2.75-5.5	2018	3,805,000	-	214,000	3,591,000	223,000
2003	26,691,000	2.75-5.5	2019	19,541,000	-	995,000	18,546,000	1,034,000
2003	17,239,000	2.75-5.5	2019	12,707,000	-	636,000	12,071,000	662,000
2004	2,700,000	2.0-4.875	2022	2,070,000	-	135,000	1,935,000	140,000
2005	7,258,477	5.0	2016	4,681,366	-	710,307	3,971,059	740,239
2006	2,483,000	5.0	2020	1,941,000	-	154,000	1,787,000	162,000
2007	5,889,000	5.0	2019	4,709,000	-	402,000	4,307,000	451,000
2008	8,920,000	3.0-5.25	2023	7,890,000	-	450,000	7,440,000	465,000
2009	3,530,000	2.5-5.0	2024	3,315,000	-	185,000	3,130,000	190,000
2010	4,900,000	2.5-4.0	2025	-	4,900,000	305,000	4,595,000	265,000
2011	21,825,000	3.0-4.0	2021	-	21,825,000	-	21,825,000	105,000
Total				<u>122,897,866</u>	<u>26,725,000</u>	<u>33,007,307</u>	<u>116,615,559</u>	<u>11,306,239</u>
Less bonds issued by City to BFSA:								
2005A	\$ 26,167,250	4.0-5.0	2025	(17,264,027)	-	(1,944,542)	(15,319,485)	(1,983,770)
2005BC	41,605,310	5.0	2019	(28,207,130)	-	(6,941,223)	(21,265,907)	(5,566,065)
2006A	27,758,917	4.0-5.0	2020	(21,689,211)	-	(1,726,639)	(19,962,572)	(1,812,572)
2007A	28,115,126	4.0-5.0	2023	(23,885,783)	-	(1,403,261)	(22,482,522)	(1,593,824)
Total mirror bonds				<u>(91,046,151)</u>	<u>-</u>	<u>(12,015,665)</u>	<u>(79,030,486)</u>	<u>(10,956,231)</u>
Net governmental activities general obligation bonds issued by the City of Buffalo				<u>212,469,001</u>	<u>61,535,000</u>	<u>58,766,001</u>	<u>215,238,000</u>	<u>23,533,000</u>
Governmental activities general obligations bonds issued by Buffalo Fiscal Stability Authority:								
2004	\$ 25,745,000	4.0-5.25	2015	\$ 14,525,000	\$ -	\$ 2,610,000	\$ 11,915,000	\$ 2,750,000
2005A	28,030,000	4.0-5.0	2025	20,465,000	-	3,030,000	17,435,000	1,960,000
2005BC	47,065,000	5.0	2019	36,655,000	-	5,710,000	30,945,000	7,565,000
2006A	27,270,000	4.0-5.0	2020	23,315,000	-	1,575,000	21,740,000	1,760,000
2007A	28,470,000	4.0-5.0	2023	26,160,000	-	1,435,000	24,725,000	1,490,000
Total				<u>121,120,000</u>	<u>-</u>	<u>14,360,000</u>	<u>106,760,000</u>	<u>15,525,000</u>
Total governmental activities bonds				<u>333,589,001</u>	<u>61,535,000</u>	<u>73,126,001</u>	<u>321,998,000</u>	<u>39,058,000</u>
Unamortized premium - City				480,863	3,263,282	134,177	3,609,968	-
Unamortized premium - BFSA				<u>6,530,507</u>	<u>-</u>	<u>713,163</u>	<u>5,817,344</u>	<u>-</u>
Total governmental activities bonds - net				<u>340,600,371</u>	<u>64,798,282</u>	<u>73,973,341</u>	<u>331,425,312</u>	<u>39,058,000</u>

(continued)

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Due Within One Year
Other noncurrent liabilities:					
Nittec loan	\$ 1,801,261	\$ -	\$ 242,291	\$ 1,558,970	\$ 247,137
Capital leases	2,824,389	-	587,709	2,236,680	612,691
Compensated absences	26,426,491	24,664,688	25,155,607	25,935,572	962,129
Workers' compensation	11,413,670	2,281,141	5,317,836	8,376,975	3,390,605
Landfill post-closure monitoring	1,800,000	-	550,000	1,250,000	100,000
Other postemployment benefits	183,042,270	61,147,730	-	244,190,000	-
Other postemployment benefits-BFSA	279,627	34,595	-	314,222	-
Judgments and claims	13,987,500	22,702,500	2,794,500	33,895,500	16,573,000
Total	241,575,208	110,830,654	34,647,943	317,757,919	21,885,562
Total noncurrent liabilities—governmental activities	\$ 582,175,578	\$ 175,628,936	\$ 108,621,284	\$ 649,183,231	\$ 60,943,562

Calendar Year Issued	Original Amount	Interest Rate	Fiscal Year of Last Installment	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Due Within One Year
Business-type activities — General Obligation Bonds:								
1998	2,385,000	3.6-5.0	2012	\$ 470,000	\$ -	\$ 270,000	\$ 200,000	\$ 200,000
2001	11,660,000	4.0-5.3	2017	5,280,000	-	840,000	4,440,000	820,000
2002	21,310,000	2.5-5.375	2022	14,115,000	-	1,180,000	12,935,000	1,225,000
2005	6,552,147	5.0	2018	2,737,870	-	623,777	2,114,093	573,936
Total				22,602,870	-	2,913,777	19,689,093	2,818,936

Business-type activities — Water System Revenue Bonds:

1998	\$ 16,325,000	4.0-4.75	2013	\$ 830,000	\$ -	\$ 265,000	\$ 565,000	\$ 275,000
1998	49,715,000	4.0-5.0	2013	8,900,000	-	2,720,000	6,180,000	2,850,000
2002	11,785,000	2.5-4.75	2018	2,375,000	-	255,000	2,120,000	265,000
2002	4,379,279	1.53-5.12	2022	2,925,000	-	205,000	2,720,000	210,000
2003	3,901,741	5.6-6.31	2031	3,240,000	-	100,000	3,140,000	105,000
2006	19,917,236	3.6-4.84	2028	17,000,000	-	735,000	16,265,000	750,000
2007	13,010,000	3.6-4.375	2038	12,545,000	-	245,000	12,300,000	255,000
2007	29,220,000	5	2027	28,900,000	-	-	28,900,000	-
2008	62,020,000	3.7-5.07	2036	60,710,000	-	1,310,000	59,400,000	1,335,000
2010	23,975,000	2.0-6.89	2040	23,975,000	-	-	23,975,000	460,000
Total				161,400,000	-	5,835,000	155,565,000	6,505,000
Total business-type activities bonds				184,002,870	-	8,748,777	175,254,093	9,323,936

(continued)

	Balance July 1, 2010	Additions and Reclassifications	Deductions and Reclassifications	Balance June 30, 2011	Due Within One Year
Unamortized bond premium	\$ 1,635,727	\$ -	\$ 242,258	\$ 1,393,469	\$ -
Unamortized bond discount	(169,172)	-	(6,266)	(162,906)	-
Unamortized refunding costs	(5,413,759)	-	(427,060)	(4,986,699)	-
Total business-type activities bonds—net	<u>180,055,666</u>	<u>-</u>	<u>8,557,709</u>	<u>171,497,957</u>	<u>9,323,936</u>
Other noncurrent liabilities:					
Compensated absences	2,036,027	1,676,651	1,826,936	1,885,742	70,977
Workers' compensation	2,009,150	306,982	377,836	1,938,296	613,242
Other postemployment benefits	7,885,528	4,424,472	-	12,310,000	-
Accrued derivative liability	<u>4,759,671</u>	<u>-</u>	<u>862,157</u>	<u>3,897,514</u>	<u>-</u>
Total	<u>16,690,376</u>	<u>6,408,105</u>	<u>3,066,929</u>	<u>20,031,552</u>	<u>684,219</u>
Total noncurrent liabilities—business-type activities	<u>\$ 196,746,042</u>	<u>\$ 6,408,105</u>	<u>\$ 11,624,638</u>	<u>\$ 191,529,509</u>	<u>\$ 10,008,155</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
2012	\$ 23,182,991	\$ 8,223,672	\$ 31,406,663
2013	21,961,916	7,057,520	29,019,436
2014	20,710,149	6,109,248	26,819,397
2015	17,395,504	5,176,529	22,572,033
2016	15,060,554	4,406,577	19,467,131
2017-2021	54,785,641	13,210,602	67,996,243
2022-2025	<u>24,556,172</u>	<u>2,391,324</u>	<u>26,947,496</u>
Total	<u>\$ 177,652,927</u>	<u>\$ 46,575,472</u>	<u>\$ 224,228,399</u>

Governmental Activities — Buffalo Fiscal Stability Authority

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$ 15,525,000	\$ 5,007,552	\$ 20,532,552
2013	14,535,000	4,244,397	18,779,397
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
2017-2021	33,020,000	5,297,544	38,317,544
2022-2026	<u>7,095,000</u>	<u>492,084</u>	<u>7,587,084</u>
Total	<u>\$ 106,760,000</u>	<u>\$ 23,544,841</u>	<u>\$ 130,304,841</u>

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$ 11,306,239	\$ 5,549,006	\$ 16,855,245
2013	11,578,006	5,045,877	16,623,883
2014	11,134,371	4,532,994	15,667,365
2015	11,168,083	3,971,431	15,139,514
2016	11,280,360	3,400,234	14,680,594
2017-2021	44,133,500	9,674,147	53,807,647
2022-2025	<u>16,015,000</u>	<u>1,470,898</u>	<u>17,485,898</u>
Total	<u>\$ 116,615,559</u>	<u>\$ 33,644,587</u>	<u>\$ 150,260,146</u>

Business-Type Activities

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$ 9,323,936	\$ 7,823,133	\$ 17,147,069
2013	9,086,753	7,414,247	16,501,000
2014	9,341,137	7,019,182	16,360,319
2015	9,985,852	6,588,734	16,574,586
2016	10,226,797	6,149,243	16,376,040
2017-2021	45,564,618	24,054,530	69,619,148
2022-2026	32,560,000	15,586,921	48,146,921
2027-2031	30,030,000	8,380,997	38,410,997
2032-2036	11,330,000	4,000,235	15,330,235
2037-2041	<u>7,805,000</u>	<u>1,194,952</u>	<u>8,999,952</u>
Total	<u>\$ 175,254,093</u>	<u>\$ 88,212,174</u>	<u>\$ 263,466,267</u>

Water Authority — On May 9, 2008, the water system issued \$62,020,000 par revenue bonds to currently refund \$62,300,000 of 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, 2011, the notional amount of the bonds is \$58,900,000. The amount that the water system received from the Swap Provider (a variable rate payment equal to 70% of one-month LIBOR), \$106,906, was exceeded by the variable rate paid by the water system (variable rate demand obligation) to the Swap Provider, \$127,816, by \$20,910. The fair value of the SWAP at June 30, 2011 based on quoted market prices is negative \$3,897,514 and is recorded as a derivative liability within the noncurrent liabilities on the Statement of Assets.

Nittec Loan — 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, 2011, was \$1,558,970. The loan repayment schedule at June 30, 2011, is as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$ 247,137	\$ 31,179	\$ 278,316
2013	252,080	26,237	278,317
2014	257,121	21,195	278,316
2015	262,264	16,053	278,317
2016	267,509	10,807	278,316
2017	<u>272,859</u>	<u>5,457</u>	<u>278,316</u>
Total	<u>\$ 1,558,970</u>	<u>\$ 110,928</u>	<u>\$ 1,669,898</u>

Capital Leases — Refer to Note 7 for information related to the City’s capital leases.

Compensated Absences — As described in Note 1, the liability for compensated absences, which totals \$25,935,572 for governmental activities and \$1,885,742 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. The City has estimated that \$962,129 and \$70,977 for governmental activities and business-type activities, respectively, will be paid in the next fiscal year.

Workers' Compensation — Accrued workers' compensation, which totals \$8,376,975 and \$1,938,296 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 \$3,390,605 and \$613,242 for governmental activities and business-type activities, respectively, will be paid in the next fiscal year. Refer to Note 10 for information related to workers' compensation.

Landfill Postclosure Monitoring Costs – In accordance with the Environmental Conservation Law of the State of New York, the City is complying with postclosure 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 17 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, 2011 was \$1,250,000.

Other Postemployment Benefits — Liabilities related to other postemployment benefits include the accrued liability for both medical and firefighters' disability, as discussed in Note 12.

Judgments and Claims — The City's judgments and claims liability, which totals \$33,895,500 at June 30, 2011, represent 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 \$16,573,000 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, 2011, was approximately \$584.6 million. The effective borrowing capacity is \$323.5 million.

The list of the City's authorized and unissued bonds at June 30, 2011, is as follows:

Project	Total Authorized and Unissued
General Improvement Bonds —City of Buffalo	\$ 5,350,000
General Improvement Bonds —Board of Education	<u>820,000</u>
Total	<u>\$ 6,170,000</u>

Board of Education — A summary of changes in Board’s long-term liabilities for the year ended June 30, 2011, is as follows:

	Balance July 1, 2010	New issues/ Additions	Maturities/ Reductions	Balance June 30, 2011	Due Within One Year
Governmental activities:					
Due to other governments	\$ 14,546,667	\$ -	\$ 713,335	\$ 13,833,332	\$ 713,332
Revenue bonds payable	27,060,000	-	4,475,000	22,585,000	615,000
JSCB bonds payable	1,050,660,000	165,315,000	32,805,000	1,183,170,000	37,180,000
Deferred bond premium	89,694,940	15,247,401	5,528,344	99,413,997	-
Compensated absences	21,674,579	10,198,931	10,609,135	21,264,375	5,260,000
Workers' compensation	18,976,752	6,763,973	5,886,562	19,854,163	-
Other long-term debt EPC	3,299,929	-	800,834	2,499,095	835,000
Other postemployment benefits	281,185,000	153,898,000	58,256,000	376,827,000	-
Judgments, claims and contingencies	1,677,056	-	1,366,227	310,829	-
Total	<u>\$ 1,508,774,923</u>	<u>\$ 351,423,305</u>	<u>\$ 120,440,437</u>	<u>\$ 1,739,757,791</u>	<u>\$ 44,603,332</u>

In the current year, a prior period adjustment was recorded to the governmental activities beginning net assets. In prior years, the Board had not reported its liabilities for its self-funded workers’ compensation plan. This resulted in a decrease in the beginning net assets of \$18,976,752.

Source of Funding — Amounts due to other governments, 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. Payments to the retirement systems for early retirement incentives and other related items and payments for compensated absences are charged to the fund where employees’ normal payroll is charged, except for grant funded employees, whose payments would be charged to the Board’s general fund.

Due to Other Governments — In June 2000, the State Legislature passed special legislation to advance the Board \$20,000,000 in lottery aid to help pay for 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	Principal
June 30,	
2012	\$ 713,332
2013	713,334
2014	713,334
2015	713,332
2016	713,334
2017-2021	3,566,666
2022-2026	3,566,668
2027-2031	2,899,999
2032-2036	233,333
	<u>\$ 13,833,332</u>

Revenue Bonds Payable—Represents amounts due for Municipal Bond Agency Revenue Bonds issued pursuant to the State of New York Municipal Bond Agency (the “Agency”) Act and a

General Resolution and a Series Resolution to provide funds to (i) finance a portion of the cost of settling litigation involving the Board and the Buffalo Teachers Federation (ii) fund the Debt Service Reserve Fund to at least the Debt Service Reserve Fund Requirement and (iii) pay legal, accounting, financing, and other fees and expenses relating to the issuance of the Bonds.

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

In May 2011, the remaining \$2,830,000 in the 2003, series D bonds were paid in full pursuant to a mandatory redemption provision in the original bond agreement.

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$ 615,000	\$ 1,178,569	\$ 1,793,569
2013	650,000	1,146,281	1,796,281
2014	680,000	1,112,156	1,792,156
2015	715,000	1,076,456	1,791,456
2016	755,000	1,038,919	1,793,919
2017 - 2021	4,380,000	4,583,394	8,963,394
2022 - 2026	5,645,000	3,320,363	8,965,363
2027 - 2031	9,145,000	1,673,963	10,818,963
Total	<u>\$ 22,585,000</u>	<u>\$ 15,130,101</u>	<u>\$ 37,715,101</u>

Joint Schools Construction Board Bonds Payable — The Board's Joint Schools Construction Board ("JSCB") bonds payable represents 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.

Remaining annual maturities are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$ 37,180,000	\$ 63,329,214	\$ 100,509,214
2013	50,320,000	62,504,975	112,824,975
2014	46,280,000	59,988,975	106,268,975
2015	48,765,000	57,618,538	106,383,538
2016	51,420,000	55,027,625	106,447,625
2017-2021	303,245,000	230,468,638	533,713,638
2022-2026	403,770,000	136,131,275	539,901,275
2027-2031	235,885,000	33,939,975	269,824,975
2032	6,305,000	331,013	6,636,013
Total	<u>\$1,183,170,000</u>	<u>\$ 699,340,228</u>	<u>\$ 1,882,510,228</u>

Compensated Absences — Compensated absences, which totaled \$21,264,375 at June 30, 2011, 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 \$5,260,000 will be paid in the next fiscal year.

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 \$800,834 during the year leaving a balance of \$2,499,095 at year-end. The remaining annual maturities are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$ 835,000	\$ 42,516	\$ 877,516
2013	839,380	26,567	865,947
2014	<u>824,715</u>	<u>10,423</u>	<u>835,138</u>
Total	<u>\$ 2,499,095</u>	<u>\$ 79,506</u>	<u>\$ 2,578,601</u>

Judgments, Claims, and Contingencies — Judgments, claims, and contingencies, which totaled \$310,829 at June 30, 2011, represent estimated amounts due for various outstanding claims. Payment of these estimated amounts are dependent upon many factors (including outstanding litigation).

Other Postemployment Benefits — Refer to Note 12.

Buffalo Urban Renewal Agency — The summary of changes in long-term liabilities for the year ended June 30, 2011, is as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Due Within One Year
Governmental activities:					
Section 108 loans	\$ 11,215,000	\$ -	\$ 1,550,000	\$ 9,665,000	\$ 1,110,000
Other postemployment benefits	4,710,599	2,416,338	-	7,126,937	-
Fannie Mae	<u>1,200,000</u>	<u>-</u>	<u>1,200,000</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 17,125,599</u>	<u>\$ 2,416,338</u>	<u>\$ 2,750,000</u>	<u>\$ 16,791,937</u>	<u>\$ 1,110,000</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, 2011, future maturities of the Section 108 loans are as follows:

Fiscal Year Ending June 30,	
2012	\$ 1,110,000
2013	1,265,000
2014	1,265,000
2015	2,155,000
2016	1,085,000
Thereafter	<u>2,785,000</u>
	9,665,000
Less current portion	<u>(1,110,000)</u>
Total long-term obligations	<u>\$ 8,555,000</u>

Fannie Mae — During the year ended June 30, 2006, BURA established a nonrevolving line of credit in the amount of \$6 million with Fannie Mae. Interest is at LIBOR rate, plus 150 basis points. The agreement, along with other stipulations, requires a cash collateral account of \$600,000 and includes a covenant requiring an annual line item with the CDBG program budget in the amount of \$1.2 million for the past four and this year. The annual budget allocations totaling \$6,000,000 are intended to be used to repay the line of credit. The funds have been designated for various revitalization projects in downtown Buffalo and other specified areas of the City. BURA borrowed a total of \$6 million from Fannie Mae, with draws of \$2,000,000 on March 31, 2006 and \$2,000,000 on March 23, 2007. This \$4 million was loaned to private developers. BURA borrowed another \$2 million from Fannie Mae during the fiscal year ended June 30, 2008. These funds are being used for construction financing for a new 24-unit housing development known as Sycamore Village. The first and second annual principal amount of \$1,200,000, plus interest was paid on June 26, 2007 and June 30, 2008, respectively. BURA made a third, fourth and fifth annual principal repayment of \$1,200,000 on March 30, 2009, 2010 and 2011. These funds have been repaid from a combination of proceeds from the sales of the homes and BURA general funds. As of June 30, 2011, eleven market rate homes were completed; and all of the homes were sold. Construction costs in the amount of \$247,561 for the remaining units are reported as Construction in Progress in the general fund.

The Fannie Mae loan has been closed as follows:

<u>June 30,</u>	<u>Amount</u>
2011	\$ 1,200,000
Paid during the year	<u>(1,200,000)</u>
Loan balance	<u>\$ -</u>

Other Postemployment Benefits — Refer to Note 12.

9. OPERATING LEASES

Operating lease obligations are primarily for rental of space and equipment. Lease expenditures/expenses for the year were approximately \$328,832. The future minimum rental payments required by the primary government for noncancelable operating leases are as follows:

Fiscal Year Ending June 30,	
2012	\$ 316,072
2013	279,847
2014	208,490
2015	87,802
Total	<u>\$ 892,211</u>

Buffalo Fiscal Stability Authority — The BFSA leases its office space from a City-related entity under the terms of an operating lease which expired as of May 31, 2011, and continues under a month to month arrangement. Rental expense amounted to \$41,035 for the year ended June 30, 2011.

Board of Education — Operating lease obligations are primarily for rental of space and equipment. Lease expenses for the year were approximately \$5,181,161. The future minimum rental payments required for noncancelable leases are as follows:

Fiscal Year Ending June 30,	
2012	\$ 4,229,678
2013	3,643,073
2014	2,754,877
2015	2,047,200
2016	1,928,575
2017-2021	8,131,166
2022-2025	379,511
Total	<u>\$ 23,114,080</u>

10. 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, 2009, 2010, and 2011, the City incurred expenditures of, \$7,536,421, \$6,163,280 and \$4,505,275 respectively, for property damage and personal injury

claims. For the fiscal years ended June 30, 2009, 2010, and 2011, the City expensed \$6,343,330, \$6,194,389 and \$6,211,642, 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, 2011, the City estimated the following general liabilities:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Workers' compensation — fire and police medical	\$ 4,113,007	\$ -
Workers' compensation — other employees	<u>4,263,968</u>	<u>1,938,296</u>
	<u>\$ 8,376,975</u>	<u>\$ 1,938,296</u>

The proprietary-type funds 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 fund since June 30, 2009, are shown in the following chart:

	<u>Workers' Compensation</u>	<u>General Liability</u>	<u>Total</u>
Estimated claims — June 30, 2009	\$ 1,915,219	\$ -	\$ 1,915,219
Claims incurred	401,394	-	401,394
Payments 2009-2010	<u>(307,463)</u>	<u>-</u>	<u>(307,462)</u>
Estimated claims — June 30, 2010	2,009,150	-	2,009,150
Claims incurred	306,982	-	306,982
Payments 2010-2011	<u>(377,836)</u>	<u>-</u>	<u>(377,836)</u>
Estimated claims — June 30, 2011	<u>\$ 1,938,296</u>	<u>\$ -</u>	<u>\$ 1,938,296</u>

The City has estimated claims arising during the ordinary course of its operation which are probable of a future loss to total \$33,895,500 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 total \$48,873,000.

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.

State Aid — The State periodically reviews its distribution of aid to school boards throughout the State. Thus, revenues recorded as of June 30, 2011, 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, 2011, the Board has approximately \$7,812,863 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. Although the discussions were fruitful, there is not a formal agreement with the NYSDEC to accept BURA’s investigation of the sight as full settlement of any obligations it has for this site.

BURA is a defendant to litigation commenced by a contractor. This matter is in the dispositive motion stage. It involves a claim for contract breach by BURA related to a contract for services for lead testing by the plaintiff. BURA has taken the position that the quantity of work referred to ETC was in BURA’s sole discretion and so no damages under the contract have resulted.

BURA is a defendant to 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 but 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 has been named as 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.

11. LABOR RELATIONS

Approximately 2,499 of the City's employees are covered by a total of eight collective bargaining agreements. The building inspectors negotiated a contract through June 30, 2012. The white-collar, blue collar and crossing guards unions have negotiated contracts through June 30, 2011. The agreements for the firefighters and pipe caulkers expired on June 30, 2004. The operating engineers' agreement expired on June 30, 2002. The police agreement expired on June 30, 2007. All unsettled union contracts are currently being negotiated.

12. OTHER POSTEMPLOYMENT BENEFITS

In adopting the provisions of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, the City has opted to implement this statement prospectively. GASB Statement No. 45 states that postemployment benefits are part of an exchange of salaries and benefits for employee services rendered, and from an accrual perspective, the cost of OPEB should be recognized when the related services are received by the employer. In conjunction with the implementation of GASB Statement No. 45, the City recognizes the cost of postemployment health care in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the City's future cash flows. Recognition of the health insurance liability accumulated prior to July 1, 2007 will be amortized over 30 years, commencing 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 172 firefighters that receive such compensation.

The number of participants as of July 1, 2010, 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	2,780
Retired employees	2,778
Spouses of retirees	<u>1,819</u>
Total	<u>7,377</u>

Funding Policy — Postemployment benefits are financed on a pay-as-you-go basis.

Annual OPEB Benefit Cost — For the year ended June 30, 2011, the City’s annual OPEB cost (expense) is \$108,211,730 while the Annual Required Contribution (ARC) is \$108,011,500. Considering the annual expense, as well as payment for current health insurance premiums which totaled approximately \$42,640,000 for retirees and their beneficiaries, the result was an increase in the net OPEB obligation of approximately \$65,572,000 for the year ended June 30, 2011.

	Governmental Activities <u>Medical</u>	Governmental Activities <u>Disability</u>	Business-Type Activities <u> </u>	Primary <u>Government</u>
	(000s omitted)			
Annual OPEB Cost and Net OPEB Obligation				
Actuarial accrued liability (AAL)	\$ 1,461,668	\$ 87,105	\$ 88,386	\$ 1,637,159
Unfunded actuarial accrued liability (UAAL)	\$ 1,461,668	\$ 87,105	\$ 88,386	\$ 1,637,159
Normal cost — beginning of the year	\$ 40,139	\$ 383	\$ 2,812	\$ 43,334
Amortization factor based on 30 years	26.2	26.2	26.2	26.2
Annual covered payroll	\$ 169,335	\$ 2,611	\$ 13,174	\$ 185,120
UAAL as a percentage of covered payroll	863.2%	3336.1%	670.9%	884.4%
Level Dollar Amortization				
Calculation of ARC Under Projected Unit Credit Method				
ARC normal cost with interest — end of year	\$ 40,139	\$ 383	\$ 2,812	\$ 43,334
UAAL over 30 years with interest — end of year	55,854	3,329	3,377	62,560
Interest	<u>1,920</u>	<u>74</u>	<u>124</u>	<u>2,118</u>
Annual required contribution (ARC)	97,913	3,786	6,313	108,012
Interest on net OPEB obligation	3,700	3,600	300	7,600
Adjustment to ARC	<u>(3,600)</u>	<u>(3,500)</u>	<u>(300)</u>	<u>(7,400)</u>
Annual OPEB cost (expense)	98,013	3,886	6,313	108,212
Contribution for the year ended June 30, 2011	<u>(34,637)</u>	<u>(6,114)</u>	<u>(1,889)</u>	<u>(42,640)</u>
Increase in net OPEB obligation	63,376	(2,228)	4,424	65,572
Net OPEB obligation — June 30, 2010	<u>92,147</u>	<u>90,895</u>	<u>7,886</u>	<u>190,928</u>
Net OPEB obligation — June 30, 2011	<u>\$ 155,523</u>	<u>\$ 88,667</u>	<u>\$ 12,310</u>	<u>\$ 256,500</u>
Percent of annual OPEB cost contributed	35.3%	157.3%	29.9%	39.4%

Funded Status and Funding Progress — As of July 1, 2010, the most recent actuarial valuation date, the OPEB plan was unfunded, resulting in an unfunded accrued liability of \$1,637,158,900.

The City's schedule of funding progress for the most recent three actuarial valuations is presented below:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	Ratio of UAAL to Budget Covered Payroll
(000s omitted)						
As of July 1, 2006	\$ -	\$ 945,599	\$ 945,599	-	\$ 171,120	5.53
As of July 1, 2008	-	1,227,967	1,227,967	-	179,288	6.85
As of July 1, 2010	-	1,637,159	1,637,159	-	185,120	8.84

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

Year Ended June 30,	Annual Required Contribution	Contributions Made	Percentage Contributed
(000s omitted)			
2009	\$ 167,650	\$ 40,956	24.4%
2010	79,868	43,971	55.1%
2011	108,012	42,640	39.5%

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 a closed 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, 2010, 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 payroll growth for total payroll is assumed to be 3%, for fire base salary, 2.25%. The valuation assumes health care cost trends as follows: both pre-65 and post-65 medical and prescriptions, 8.0%; all reduced by decrements to reach a rate of 4.7% 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:

Postemployment Healthcare Benefits — The BFSA 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 BFSA 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, 2011 there were no retirees of the BFSA receiving benefits.

The BFSA’s annual other postemployment benefit (“OPEB”) expense is calculated based on the annual required contribution of the BFSA (“ARC”). 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 protected 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, 2011.

	(000s omitted)
ARC normal cost with interest — end of year	\$ 28
UAAL over 30 years with interest — end of year	3
Interest	<u>14</u>
Annual required contribution (ARC)	45
ARC adjustment	(11)
Contribution for the year ended June 30, 2010	<u>-</u>
Increase in net OPEB obligation	34
Net OPEB obligation —June 30, 2010	<u>280</u>
Net OPEB obligation —June 30, 2011	<u><u>\$ 314</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 Required Contribution	Contributions Made	Percentage Contributed
	(000s omitted)		
2011	\$ 35	\$ -	0.0%
2010	98	-	0.0%
2009	93	-	0.0%

As of June 30, 2011, the most recent actuarial valuation date, the actuarial accrued liability for future benefits was \$83,458, all of which is unfunded. The annual payroll of employees eligible to be covered by the Plan was \$228,327, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 37%.

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 55 and ten years of service.

Marital status – Assumed 67% 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.

Payroll growth – 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 – 2011 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 5.0% was used. The level percentage of projected payroll of active plan member's method is used to amortize the unfunded actuarial liability. The amortization period is 30 years.

Board of Education:

Plan Description —The Board administers the Board of Education, City of Buffalo, New York's Retiree Medical and Prescriptions Drug (the "Board's Plan") as a single-employer defined benefit other postemployment benefits plan ("OPEB"). 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 Statement No. 45 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, 2011, are as follows:

Annual OPEB Cost	(000's omitted)
Normal cost	\$ 61,678
Amortization of UAL	97,234
Interest	-
Annual required contribution (ARC)	158,912
Interest on net OPEB obligation	11,247
Adjustment to ARC	<u>(16,261)</u>
Annual OPEB cost (expense)	153,898
Contribution for the year ended June 30, 2011	<u>(58,256)</u>
Increase in net OPEB obligation	95,642
Net OPEB obligation — June 30, 2010	<u>281,185</u>
Net OPEB obligation — June 30, 2011	<u>\$ 376,827</u>
Percent of annual OPEB cost contributed	37.9%

Funded Status and Funding Progress — As of June 30, 2011, the accrued liability for benefits was \$1,681,374,000, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was not available, and the ratio of the unfunded actuarial accrued liability to the covered payroll was not available. The total post employment health insurance cost to the Board was \$58,256,000 for the year ended June 30, 2011.

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 funding progress, presented on the following page, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

	Actuarial Valuation Date (000's omitted)		
	<u>June 30, 2011</u>	<u>June 30, 2009</u>	<u>June 30, 2007</u>
Schedule of Funding Progress			
Actuarial accrued liability	\$ 1,681,374	\$ 1,206,245	\$ 1,081,714
Actuarial value of assets	<u>-</u>	<u>-</u>	<u>-</u>
Unfunded actuarial accrued liability	<u>\$ 1,681,374</u>	<u>\$ 1,206,245</u>	<u>\$ 1,081,714</u>
Funded ratio	0%	0%	0%

The Board's contributions for the three most recent fiscal years are shown below:

<u>Year Ended June 30,</u>	<u>Contributions Made</u>
2011	\$ 58,256
2010	51,422
2009	48,257

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 were made:

The June 30, 2011 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 10.0% and decreases to a 5% long-term trend rate after ten years. For all post-65 healthcare benefits this rate initially is at 8.5% and decreases to a 5% long-term trend rate after seven 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, 2011 was 28 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, 2011, was as follows:

Active employees	60
Retired employees	36
Spouses of retired employees	<u>16</u>
	<u>112</u>

Funding Policy — BURA currently pays for postemployment 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 Postemployment Benefit Cost — For the fiscal year ended June 30, 2011, BURA’s annual OPEB cost of \$2,735,088 was equal to the Annual Required Contribution. The payment of current health insurance premiums, which totaled \$376,850 for retirees and their beneficiaries, resulted in a net OPEB cost of \$7,126,937 for the year ended June 30, 2011.

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 Statement No. 45 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, 2011, are as follows:

	(000's omitted)
Annual required contribution —including interest	\$ 2,799
Contributions made	<u>(383)</u>
Increase in net OPEB obligation	2,416
Net OPEB obligation — beginning of year	<u>4,711</u>
Net OPEB obligation — end of year	<u>\$ 7,127</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, 2011 and the two preceding fiscal years.

Year ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$2,028,394	17.48%	\$ 2,997,941
2010	2,028,394	18.89%	4,710,599
2011	2,735,088	14.00%	7,126,937

Funded Status and Funding Progress — As of June 30, 2011, 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 \$2,820,508, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 1018.18%.

The projection of future benefit payments for an ongoing plan involves estimated 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. The schedule of funding progress, presented as

required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities of benefits.

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 following simplifying assumptions were made:

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 Statement No. 45 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, 2011, 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, 2011, was 28 years.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2009	\$ -	\$ 25,032,240	\$ 25,032,240	0.0%	\$ 2,421,778	1033.63%
June 30, 2010	-	25,032,240	25,032,240	0.0%	2,285,350	1095.34%
June 30, 2011	-	28,717,970	28,717,970	0.0%	2,820,508	1018.18%

13. EMPLOYEE RETIREMENT BENEFITS

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. The State Legislature passed legislation in 2000 that suspends the 3% contribution for employees who have 10 years or more of credited service. Additionally, members who meet certain eligibility requirements will receive one month additional service credit for each completed year of service up to a maximum of two additional years of service credit. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employees to the pension accumulation fund.

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

	ERS	PFRS
2011	\$ 6,862,458	\$ 21,030,167
2010	4,473,359	19,155,816
2009	4,252,841	17,635,667

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

The BFSAs made 100% of its required contributions for the year ended June 30, 2011, which amounted to \$37,579, and is not included in the table above.

Board of Education:

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

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

2011	\$ 4,483,867
2010	2,391,143
2009	3,676,006

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

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. With the exception of TRS tier V employees, employees in the system more than ten years are no longer required to contribute. Employers are required to contribute at an actuarially determined rate.

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

2011	\$ 17,683,274
2010	21,196,134
2009	21,303,123

The Board's contribution made to the TRS was 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, 2011, was \$2,820,508. All full-time BURA employees at June 30, 2011, were covered by the pension plan.

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

	<u>ERS</u>
2011	\$ 250,946
2010	250,946
2009	168,263

14. FUND BALANCE

During the year ended June 30, 2011, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, (“GASB 54”). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance to be properly reported within one of the fund balance categories listed below.

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 balance maintained by the City at June 30, 2011 includes:

Real Estate Held for Sale – This amount represents \$7,518,512 of real estate acquired for resale.

Long-term Receivable – Represents a long-term receivable of \$14,792,453 from the Solid Waste and Refuse Fund for operating losses incurred in the fund since its inception.

Prepaid Items – Represents amounts, \$30,301, prepaid to vendors and employees that are applicable to future accounting periods.

Permanent Fund – Corpus – Represents the amount of principal, \$30,000, 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.

Restrictions of the City at June 30, 2011 include:

Restricted for:	
Capital projects	\$ 55,679,464
Federal and State Programs	2,169,421
Debt service	30,717,181
Permanent fund - interest	108,762
Capital outlay	3,656,412
State mandated initiatives	17,993,004
Emergency medical services	<u>1,178,568</u>
Total	<u>\$ 111,502,812</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 (\$27,839,996) 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, 2011, the capital projects fund reported the following significant encumbrances:

Description	Amount
Reconstruction of streets	\$ 4,643,419
Purchase of fire fighting apparatus	3,689,287
Construction recreational basin	2,845,807
Emergency radio system upgrade	<u>2,467,082</u>
Total	<u>\$ 13,645,595</u>

Federal and State Programs – 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 \$2,169,421 which is restricted by commitments for the expenditure of money within the special revenue fund.

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

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.

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

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, 2011, \$17,993,004 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.

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. As of June 30, 2011, 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 its Rainy Day Fund. At June 30, 2011, the City reported \$35,496,809 within its Rainy Day 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, 2011 include:

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 of \$4,935,329 within the general fund as assignments of fund balance.

The City considers encumbrances to be significant for amounts that are encumbered in excess of \$500,000. As of June 30, 2011, the general fund reported no significant encumbrances

Motor Vehicle Self-Insurance – Represents fund balance (\$397,207) set aside for motor vehicle self-insurance.

Subsequent Year's Expenditures – Represents available fund balance (\$12,329,174) being appropriated to meet expenditure requirements in the 2011-2012 fiscal year.

Judgments and Claims – Represents amounts (\$33,895,500) assigned to cover the settlement of various claims and litigation.

BFSA Special Revenue – Represents fund balance (\$1,726,380) 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.

15. NET ASSETS DEFICIT

The solid waste and recycling enterprise fund has a total net deficit of \$20,262,843 at June 30, 2011. Although the City anticipates the deficit to be remedied by future rate increase or through general fund subsidies, no formal plan exists.

The Board has a total net deficit of \$124,973,911 at June 30, 2011 which is caused primarily by its recognition of long-term liabilities including other postemployment benefits.

16. SUBSEQUENT EVENT

In July 2011, the City issued \$27,165,000 of general obligation bonds, consisting of \$22,265,000 City general improvement serial bonds and \$4,900,000 of Board of Education serial bonds. Principal payments begin on April 1, 2012 and mature in 2025. These bonds bear an interest rate ranging between 2.0% and 4.0%.

In August 2011, the City issued \$27,250,000 of refunding bonds, consisting of \$3,480,000 of City general improvement refunding bonds, \$15,355,000 of Board of Education refunding bonds, and \$8,430,000 of Parking refunding bonds. Principal payments begin on December November 15, 2011 and mature in 2021. These bonds bear an interest rate ranging between 2.0% and 5.0%.

In July 2011, the New York State Environmental Facilities Corporation issued \$2,720,000 of refunding bonds for the Buffalo Municipal Water Finance Authority. Principal payments begin on April 15, 2012 and mature in 2022. These bonds bear an interest rate ranging between 0.6% and 3.6%.

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SUPPLEMENTAL SCHEDULES

CITY OF BUFFALO, NEW YORK
Statement of Revenues, Expenditures, and Changes in Fund
Balances—Budget and Actual (Non-GAAP Budgetary Basis)—Debt Service Fund
Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Budgetary Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental charges	\$16,916,597	\$16,916,597	\$ 16,721,723	\$ (194,874)
License, permit, rentals, fines, and other service charges	183,525	183,525	263,011	79,486
Investment interest	554,781	554,781	425,260	(129,521)
Miscellaneous	<u>258,825</u>	<u>258,825</u>	<u>1,157</u>	<u>(257,668)</u>
Total revenues	<u>17,913,728</u>	<u>17,913,728</u>	<u>17,411,151</u>	<u>(502,577)</u>
EXPENDITURES				
Debt service:				
Principal	35,926,666	35,926,666	23,966,000	11,960,666
Interest and fiscal charges	<u>15,678,188</u>	<u>15,678,188</u>	<u>11,294,785</u>	<u>4,383,403</u>
Total expenditures	<u>51,604,854</u>	<u>51,604,854</u>	<u>35,260,785</u>	<u>16,344,069</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(33,691,126)</u>	<u>(33,691,126)</u>	<u>(17,849,634)</u>	<u>15,841,492</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	31,947,217	31,947,217	32,208,909	261,692
Transfers out	-	-	(16,567,973)	(16,567,973)
Proceeds of debt issuance	-	-	34,650,000	34,650,000
Premium on bonds	-	-	1,788,678	1,788,678
Payment to escrow agent	<u>-</u>	<u>-</u>	<u>(36,086,343)</u>	<u>(36,421,968)</u>
Total other financing sources (uses)	<u>31,947,217</u>	<u>31,947,217</u>	<u>15,993,271</u>	<u>(15,953,946)</u>
Net change in fund balances	(1,743,909)	(1,743,909)	(1,856,363)	(112,454)
Fund balances—beginning	<u>5,985,636</u>	<u>5,985,636</u>	<u>5,985,636</u>	<u>-</u>
Fund balances—ending	<u>\$ 4,241,727</u>	<u>\$ 4,241,727</u>	<u>\$ 4,129,273</u>	<u>\$ (112,454)</u>

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

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

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, 2011

	<u>Special Revenue Fund</u>	<u>BFSA Debt Service Fund</u>	<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 2,616,048	\$ 5,001	\$ 74,936	\$ 2,695,985
Investments	-	18,438,067	61,472	18,499,539
Receivables				
Other receivables	15,807	-	2,354	18,161
Due from other funds	13,959	-	-	13,959
Due from other governments	2,397,161	-	-	2,397,161
Total assets	<u>\$ 5,042,975</u>	<u>\$ 18,443,068</u>	<u>\$ 138,762</u>	<u>\$ 23,624,805</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 627,088	\$ -	\$ -	\$ 627,088
Due to other funds	2,219,242	210,264	-	2,429,506
Due to component units	18,750	-	-	18,750
Accrued liabilities	-	1,742,876	-	1,742,876
Retainages payable	8,474	-	-	8,474
Total liabilities	<u>2,873,554</u>	<u>1,953,140</u>	<u>-</u>	<u>4,826,694</u>
Fund balances:				
Nonspendable	-	-	30,000	30,000
Restricted	2,169,421	16,489,928	108,762	18,768,111
Total fund balances	<u>2,169,421</u>	<u>16,489,928</u>	<u>138,762</u>	<u>18,798,111</u>
Total liabilities and fund balances	<u>\$ 5,042,975</u>	<u>\$ 18,443,068</u>	<u>\$ 138,762</u>	<u>\$ 23,624,805</u>

CITY OF BUFFALO, NEW YORK
Combining Statement of Revenues, Expenditures and Changes in Fund Balances—
Other Governmental Funds
Year Ended June 30, 2011

	Special Revenue Fund	BFSA Debt Service Fund	Permanent Fund	Total Nonmajor Governmental Funds
REVENUES				
Intergovernmental	\$ 8,257,495	\$ -	\$ -	\$ 8,257,495
Investment interest	5,111	848,825	936	854,872
Miscellaneous	5,005	-	-	5,005
Total revenues	<u>8,267,611</u>	<u>848,825</u>	<u>936</u>	<u>9,117,372</u>
EXPENDITURES				
Current:				
General government support	1,138,655	-	-	1,138,655
Public safety	4,612,631	-	-	4,612,631
Streets and sanitation	113,049	-	-	113,049
Economic assistance and opportunity	2,679,061	-	-	2,679,061
Health and community services	49,185	-	-	49,185
Debt service:				
Principal	-	14,360,000	-	14,360,000
Interest and fiscal charges	-	5,283,500	-	5,283,500
Total expenditures	<u>8,592,581</u>	<u>19,643,500</u>	<u>-</u>	<u>28,236,081</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(324,970)</u>	<u>(18,794,675)</u>	<u>936</u>	<u>(19,118,709)</u>
OTHER FINANCING SOURCES				
Transfers in	<u>10,500</u>	<u>19,943,510</u>	<u>-</u>	<u>19,954,010</u>
Total other financing sources	<u>10,500</u>	<u>19,943,510</u>	<u>-</u>	<u>19,954,010</u>
Net change in fund balances	(314,470)	1,148,835	936	835,301
Fund balances—beginning	<u>2,483,891</u>	<u>15,341,093</u>	<u>137,826</u>	<u>17,962,810</u>
Fund balances—ending	<u>\$ 2,169,421</u>	<u>\$ 16,489,928</u>	<u>\$ 138,762</u>	<u>\$ 18,798,111</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.

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CITY OF BUFFALO, NEW YORK
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2011

	<u>Agency Fund</u>						
	<u>Surety Bonds and Deposits</u>	<u>Prisoner Property</u>	<u>Payroll Revolving</u>	<u>Fire Insurance Revolving</u>	<u>Medical Revolving</u>	<u>Miscellaneous Revolving</u>	<u>Total</u>
ASSETS							
Cash and cash equivalents	\$ 22,751	\$1,148,096	\$ 25,117	\$ 191,145	\$ 3,764	\$ 18,482	\$1,409,355
Total assets	<u>\$ 22,751</u>	<u>\$1,148,096</u>	<u>\$ 25,117</u>	<u>\$ 191,145</u>	<u>\$ 3,764</u>	<u>\$ 18,482</u>	<u>\$1,409,355</u>
LIABILITIES							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 258	\$ 258
Due to other governments	-	-	25,117	-	-	-	25,117
Amount held in custody for others	<u>22,751</u>	<u>1,148,096</u>	<u>-</u>	<u>191,145</u>	<u>3,764</u>	<u>18,224</u>	<u>1,383,980</u>
Total liabilities	<u>\$ 22,751</u>	<u>\$1,148,096</u>	<u>\$ 25,117</u>	<u>\$ 191,145</u>	<u>\$ 3,764</u>	<u>\$ 18,482</u>	<u>\$1,409,355</u>

CITY OF BUFFALO, NEW YORK
Statement of Changes in Assets and Liabilities
Agency Fund
Year Ended June 30, 2011

	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2011</u>
ASSETS				
Cash and cash equivalents	\$ 1,437,166	\$ 9,305,159	\$ (9,332,970)	\$ 1,409,355
Total assets	<u>\$ 1,437,166</u>	<u>\$ 9,305,159</u>	<u>\$ (9,332,970)</u>	<u>\$ 1,409,355</u>
LIABILITIES				
Accounts payable	\$ -	\$ 14,877,234	\$(14,876,976)	\$ 258
Due to other governments	23,031	34,582	(32,496)	25,117
Amount held in custody for others:				
Surety bonds and deposits	22,751	-	-	22,751
Prisoner property	1,123,164	233,691	(208,759)	1,148,096
Fire insurance proceeds	201,494	175,000	(185,349)	191,145
Medical reimbursements	54,211	477,697	(528,144)	3,764
Miscellaneous - other	<u>12,515</u>	<u>10,502</u>	<u>(4,793)</u>	<u>18,224</u>
Total amount held in custody for others	<u>1,414,135</u>	<u>896,890</u>	<u>(927,045)</u>	<u>1,383,980</u>
Total liabilities	<u>\$ 1,437,166</u>	<u>\$ 15,808,706</u>	<u>\$(15,836,517)</u>	<u>\$ 1,409,355</u>

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FEDERAL AWARDS

CITY OF BUFFALO, NEW YORK
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

<u>Federal Grantor/Pass-Through Grantor/Program Title (1)</u>	<u>Federal CFDA Number (2)</u>	<u>Federal Expenditures (3)</u>
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		
Direct Program:		
Recovery - Neighborhood Stabilization Program	14.218	\$ 579,869
Community Development Block Grants/Technical Assistance Program	14.227	<u>186,029</u>
TOTAL U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		<u>765,898</u>
FEDERAL TRANSIT ADMINISTRATION		
Passed through Niagara Frontier Transportation Authority		
Federal Transit Capital Investment Grant	20.500	<u>434,798</u>
TOTAL FEDERAL TRANSIT ADMINISTRATION		<u>434,798</u>
U.S. DEPARTMENT OF TRANSPORTATION		
Passed through State Department of Transportation:		
Highway Planning and Construction	20.205	6,629,703
Recovery - Highway Planning and Construction	20.205	3,139,347
Passed through New York State Governor's Traffic Safety:		
State and Community Highway Safety	20.600	<u>96,021</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION		<u>9,865,071</u>
U.S. DEPARTMENT OF JUSTICE		
Passed through New York State Division of Criminal Justice Services:		
Juvenile Accountability Block Grants	16.523	11,455
Recovery - Violence Against Women Formula Grants	16.588	61,844
Passed through State Office of Court Administration:		
Enhanced Training and Services to End Violence and Abuse of Women	16.528	6,328
Direct Program:		
Community Capacity Development Office	16.595	151,037
Gang Resistance Education and Training	16.737	14,987
Edward Byrne Memorial Justice Assistance Grant Programs	16.738	246,991
Recovery - Edward Byrne Memorial Justice Assistance Grant Programs	16.804	<u>1,231,566</u>
TOTAL U.S. DEPARTMENT OF JUSTICE		<u>1,724,208</u>
U.S. DEPARTMENT OF ENERGY		
Direct Program:		
Recovery - Energy Efficiency and Conservation Block Grant Program	81.128	<u>1,475,228</u>
TOTAL U.S. DEPARTMENT OF ENERGY		<u>1,475,228</u>
U.S. DEPARTMENT OF HOMELAND SECURITY		
Passed through New York State Division of Homeland Security/Emergency Services:		
Interoperable Emergency Communications Grant Program	97.055	499,125
Buffer Zone Protection Program	97.078	28,223
Homeland Security Grant Program	97.067	409,670
Direct Programs:		
Assistance to Firefighters Grant	97.044	<u>817,115</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY		<u>1,754,133</u>
TOTAL FEDERAL ASSISTANCE (4)		<u>\$ 16,019,336</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, 2011

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:

- (1) 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.
- (2) Source: Catalog of Federal Domestic Assistance.
- (3) Prepared under accounting principles generally accepted in the United States of America and includes all federal award programs.
- (4) A reconciliation to the financial statements is available.

2. Detail of federal highway administration (CFDA 20.205) expenditures

Detail of 2010-2011 highway administration expenditures with their corresponding pass-through grantor numbers are as follows:

	2010-11 Expenditures	CFDA No.	Pass-through Grantor Number
Elmwood Avenue-Delavan Ave to Rt198	\$ 47,361	20.205	D013775
Reconstruction of Main Street - Phase 1	27,181	20.205	D017948
Reconstruction of Main Street - Phase 2	163,448	20.205	D017121
Porter Avenue-Niagara to Amvets Drive-ARRA	845,864	20.205	D017168
Porter Avenue-Niagara to Amvets Drive	145,636	20.205	D017168
West Ferry Street Bridge over Black Rock Canal	105,977	20.205	D017626
Signal System Improvements - Amherst Street	223,482	20.205	D022255
Babcock Street Bridge Replacement	592,736	20.205	D017672
Inner Harbor and Waterfront Development	135,398	20.205	D017907
Grider Street Reconstruction	370,387	20.205	D022105
Bailey Avenue Bridge over Cazenovia Creek	42,753	20.205	D017846
Erie Canal Harbor Sts-Ph II-Prime, Dayton, Lloyd	354,208	20.205	D032112
Erie Canal Harbor Sts-Ph II-Prime, Dayton, Lloyd-ARRA	621,719	20.205	D032112
Michigan Ave Streetscape-Broadway to Goodell	18,265	20.205	D030066
Fargo D'Youville Gateway	170,518	20.205	D030118
Kenmore Ave Reconstruction-Starin to Main St	443,419	20.205	D030039
Buffalo Niagara Medical Campus Streetscape	161,825	20.205	D030124
Porter Avenue Reconstruction-Niagara St. to Symphony Circle	129,734	20.205	D030233
Restoration of Vehicle Traffic on Main St-600 Block	1,114,853	20.205	D032531
North Buffalo Paving Project	298,217	20.205	D032252
North Buffalo Paving Project-ARRA	131,077	20.205	D032252
South Park Avenue Improvements	1,332,546	20.205	D031830
South Park Avenue Improvements-ARRA	916,009	20.205	D031830
Buffalo Pavement Resurfacing Project	609,087	20.205	D032298
Buffalo Curb & Sidewalk Replacement Project	15,591	20.205	D032298
Union Ship Canal Open Space Public Access Project	738,280	20.205	D032502
Buffalo Outer Harbor Trail Project	7,920	20.205	D033355
Safe Routes to School	5,559	20.205	D032468
Total	\$ 9,769,050		

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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 the financial statements of the City of Buffalo, New York (the "City") as of and for the year ended June 30, 2011, and have issued our report thereon December 13, 2011 (which report refers to other auditors and contains an explanatory paragraph regarding a net deficit within the Solid Waste and Recycling Fund). We did not audit the financial statements of the Buffalo Fiscal Stability Authority, which represents 6% and 1%, respectively, of the assets and revenues of the governmental activities, and 11% and 1%, respectively, of the assets and revenues of the governmental funds within the fund financial statements. We also did not audit the financial statements of the City of Buffalo Urban Renewal Agency and Buffalo Board of Education, which are shown as a 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, City of Buffalo Urban Renewal Agency and the Buffalo Board of Education is based solely on the reports of such 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.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or

material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control that we consider to be a significant deficiency. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2011-1 to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2011-2 to be a significant deficiency over compliance.

We noted certain matters that we reported to management of the City in a separate letter dated December 13, 2011.

The City's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

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

Drexler & Malicki LLP

December 13, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and Common Council
City of Buffalo, New York

Compliance

We have audited the compliance of City of Buffalo, New York (the "City") 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, 2011. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the Buffalo Urban Renewal Agency and the Buffalo Board of Education, which received \$130,666,580 and \$112,950,243, respectively, in federal awards which is not included in the schedule during the year ended June 30, 2011. Our audit described below, did not include the operation of the Buffalo Urban Renewal Agency and the Buffalo Board of Education because these entities engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit 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. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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 the internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control that we consider to be a significant deficiency. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2011-2 to be a significant deficiency in internal control over compliance.

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

Drexler & Malicki LLP

December 13, 2011

CITY OF BUFFALO, NEW YORK
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Part I. Summary of auditors' results

Financial Statements

Type of auditor's report issued: Unqualified*
 * (which report refers to other auditors and contains an explanatory paragraph regarding a net deficit within the Solid Waste and Recycling Fund)

Internal control over financial reporting:

- | | | | | |
|--|-------|-----|-------|---------------|
| 1. Material weakness(es) identified? | _____ | Yes | _____ | No |
| 2. Significant deficiency(ies) identified? | _____ | ✓ | Yes | _____ |
| | | | | None reported |
| 3. Noncompliance material to financial statements noted? | _____ | Yes | _____ | No |

Federal Awards

Internal control over major programs:

- | | | | | |
|--|-------|-----|-------|---------------|
| 4. Material weakness(es) identified? | _____ | Yes | _____ | No |
| 5. Significant deficiency(ies) identified? | _____ | ✓ | Yes | _____ |
| | | | | None reported |

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

- | | | | | |
|---|-------|-----|-------|----|
| 6. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510(a))? | _____ | Yes | _____ | No |
|---|-------|-----|-------|----|

7. The City's major programs were:

Name of Federal Program	CFDA Number
Recovery – Neighborhood Stabilization Program	14.218
Edward Byrne Memorial Justice Assistance Grant	16.738
Recovery - Edward Byrne Memorial Justice Assistance Grant	16.804
Highway Planning and Construction	20.205
Energy Efficiency & Conservation Block Grant Program	81.128
Assistance to Firefighters Grant	97.044
Interoperable Emergency Communications Grant Program	97.055

8. Dollar threshold used to distinguish between Type A and Type B programs?	\$ 480,580
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- | | | | | |
|---|-------|-----|-------|----|
| 9. Auditee qualified as low-risk auditee? | _____ | Yes | _____ | No |
|---|-------|-----|-------|----|

Part II. FINANCIAL STATEMENT FINDINGS SECTION

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

Finding 2011-1—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, 2011, the General Fund has advanced \$14,792,453 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 4.98% per year while operating revenues have lagged behind. Operating revenues over the same period, on average, have increased by less than .11% 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, 2011, the Solid Waste and Recycling Fund's operating loss was \$5,615,429. After adjusting for the long-term "noncash" charge for other postemployment benefits which approximated \$6.6 million, the operating income is below \$1 million. The Solid Waste and Recycling Fund's liability to the General Fund has increased in the current year by \$723,526.

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 in 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

Finding 2011-2—Capitalization Policy and Procedures (CFDA 81.128)

Criteria: Per OMB Circular A-133 requirements, all equipment purchases over \$5,000 should be capitalized if the purchase qualifies as a capital asset. Equipment is defined as tangible nonexpendable property, including exempt property, charged directly to the award having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit.

Condition: We identified certain equipment purchased with funds from the Energy Efficiency and Conservation Block Grant Program had not been appropriately capitalized.

Cause: The City is not enforcing its policy that departments notify the Comptroller's office when capital asset equipment purchases are made.

Effect: The City is not in compliance with OMB Circular A-133 requirements or its internal capitalization policy.

Recommendation: The City ensure that all the equipment purchases made are appropriately considered for capitalization.

Management's Response: Management reclassified all capital asset purchased with these grant funds as City assets to correct this finding. Management intends to be more thorough when reviewing expenditures made for capital assets, and communicate this to all departments it affects (Accounting, Audit, Internal Audit). Management is also considering using a system function to flag all purchases over the capitalization threshold to ensure that all capital assets are added to the Master Capital Asset Listing.

CITY OF BUFFALO, NEW YORK
Schedule of Prior Federal Award Audit Findings
For the Year Ended June 30, 2011

No items were identified as reportable for the year ended June 30, 2010.