

**CITY OF BUFFALO,
NEW YORK**

*Basic Financial Statements, Required Supplementary
Information, Supplementary Information and Federal
Awards Information for the Year Ended
June 30, 2015 and Independent Auditors' Reports*

CITY OF BUFFALO, NEW YORK

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Buffalo, New York (the "City"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Buffalo Fiscal Stability Authority, which represents 2.2% and 0.3% of the assets and revenues, respectively, of the governmental activities. We also did not audit the financial statements of the Buffalo Board of Education, a discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Buffalo Fiscal Stability Authority and the Buffalo Board of Education, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2015 the City implemented Governmental Accounting Standards Board (“GASB”) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to Measurement Date—an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The Supplementary Information, as listed in the table of contents, and the Schedule of Expenditures of Federal Awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Handwritten signature in black ink that reads "Duescher & Malachuk LLP".

November 16, 2015

CITY OF BUFFALO, NEW YORK
Management's Discussion and Analysis
Year Ended June 30, 2015

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, 2015. 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 from the prior year have been reclassified to conform with the current year presentation. All amounts are expressed in thousands of dollars, unless otherwise indicated.

Financial Highlights

- The assets and deferred outflows of resources of the City's primary government exceeded its liabilities and deferred inflows of resources at the close of the fiscal year ended June 30, 2015 by \$57,128 (net position). This consists of \$379,748 net investment in capital assets, \$50,545 restricted for specific purposes, and deficit unrestricted net position of \$373,165.
- The City's total primary government net position increased by \$9,301 during the year ended June 30, 2015. Net position increased \$9,309 for governmental activities and decreased \$8 for business-type activities.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$229,920.
- At the end of the current fiscal year, the combined committed, assigned and unassigned fund balance for the General Fund was \$115,626, or 24.1 percent, of total General Fund expenditures and transfers out. Committed fund balance for the Emergency Stabilization fund is \$37,216 or 7.8 percent of total General Fund expenditures and transfers out, assigned fund balance is \$34,969, or 7.3 percent of total General Fund expenditures and transfers out, and unassigned fund balance is \$43,441, or 9.0 percent of total General Fund expenditures and transfers out.
- The City's total general obligation bonded debt outstanding, including notes that have been refinanced but have not yet matured, and bonds issued by the Buffalo Fiscal Stability Authority ("BFSA"), is \$276,980 (\$218,584 net governmental activities general obligation bonds issued by the City, \$48,895 governmental activities general obligation bonds issued by BFSA, and \$9,501 business-type activities general obligation bonds). The City issued serial bonds of \$29,089 for governmental activities, and refunding Water System revenue bonds in the amount of \$46,655 for business-type activities during the year ended June 30, 2015.
- The total Buffalo Municipal Water Finance Authority revenue bonds outstanding within the Water System at the end of the current fiscal year were \$136,915.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government support, public safety, streets and sanitation, economic assistance and opportunity, culture and recreation, health and community services, and education. The business-type activities of the City include parking ramps, refuse collection services, and a water system.

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

The government-wide financial statements can be found on pages 15-16 of this report.

Fund financial statements—A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental 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 seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund and Capital Projects Fund, which are considered major funds. Additionally, the General Fund of the BFSA is reported as a major fund of the City. Data from the City's Special Revenue and Permanent Funds, as well as the Debt Service Fund of the BFSA are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is presented in the form of combining statements in the Supplementary Information section of this report.

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

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

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

The proprietary fund financial statements can be found on pages 21-25 of this report.

Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The City maintains two fiduciary funds, the Private Purpose Trust Fund and the Agency Fund.

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

Notes to the financial statements—The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-89 of this report.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's progress in funding its obligation to provide post-employment benefits to its employees, the City's net pension (asset)/liability, and the City's budgetary comparison for the General Fund. Required Supplementary Information and a related note to the required supplementary information can be found on pages 90-98 of this report.

The combining statements referred to earlier in connection with the nonmajor governmental funds are presented along with other supplementary information immediately following the Required Supplementary Information in the Supplementary Information section of this report on pages 99-107.

Finally, the Federal Awards Information can be found on pages 108-118.

Government-wide Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$57,128 at the close of the most recent fiscal year, as compared to \$47,827 (as restated) at the close of the fiscal year ended June 30, 2015.

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

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

	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2015	2014 (as restated)	2015	2014 (as restated)	2015	2014 (as restated)
Current and other assets	\$ 607,154	\$ 652,931	\$ 66,879	\$ 75,812	\$ 674,033	\$ 728,743
Noncurrent assets	483,920	449,299	178,216	181,477	662,136	630,776
Total assets	<u>1,091,074</u>	<u>1,102,230</u>	<u>245,095</u>	<u>257,289</u>	<u>1,336,169</u>	<u>1,359,519</u>
Deferred outflows of resources	<u>22,821</u>	<u>15,061</u>	<u>5,775</u>	<u>6,785</u>	<u>28,596</u>	<u>21,846</u>
Current and other liabilities	294,258	338,251	9,781	9,774	304,039	348,025
Noncurrent liabilities	<u>819,138</u>	<u>787,872</u>	<u>184,350</u>	<u>197,434</u>	<u>1,003,488</u>	<u>985,306</u>
Total liabilities	<u>1,113,396</u>	<u>1,126,123</u>	<u>194,131</u>	<u>207,208</u>	<u>1,307,527</u>	<u>1,333,331</u>
Deferred inflows of resources	<u>22</u>	<u>-</u>	<u>88</u>	<u>207</u>	<u>110</u>	<u>207</u>
Net position:						
Net investment in capital assets	322,566	277,507	57,182	54,167	379,748	331,674
Restricted	50,545	49,832	-	-	50,545	49,832
Unrestricted	<u>(372,634)</u>	<u>(336,171)</u>	<u>(531)</u>	<u>2,492</u>	<u>(373,165)</u>	<u>(333,679)</u>
Total net position	<u>\$ 477</u>	<u>\$ (8,832)</u>	<u>\$ 56,651</u>	<u>\$ 56,659</u>	<u>\$ 57,128</u>	<u>\$ 47,827</u>

The largest portion of the City's net position, \$379,748, reflects its investment in capital assets (e.g. land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets. The City uses these capital assets to provide services to citizens. Accordingly, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, \$50,545, represents resources that are subject to external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

The remaining component of the City's net position, a deficit of \$373,165, represents unrestricted net position which reflects liabilities not related to the City's capital assets and are not expected to be repaid from current resources. Long-term liabilities are funded annually within the funds. The long-term liability

associated with other post-employment benefits (“OPEB”) obligations totals \$495,974, which is greater than this deficit. As the revenue recognition criteria for the future funding of this liability has not been met, no asset has been recorded to offset this liability.

Total net position increased \$9,301 as a result of current year activities and the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. Significant changes from 2014 to 2015 in the Statement of Net Position and reasons for such changes are:

- Current and other assets decreased by \$54,710. The primary reason for the decrease is a decrease in cash and cash equivalents of \$64,329 related primarily to the timing of payments made by the City.
- Noncurrent assets increased by \$31,360. A significant portion of the increase was due to additions to infrastructure and buildings and building improvements in governmental activities.
- Deferred outflows of resources increased by \$6,750, due primarily to an increase in deferred outflows relating to pensions.
- Current and other liabilities decreased \$43,986, due to a \$20,302 decrease in accounts payable and accrued liabilities and intergovernmental payables, a \$16,322 decrease in amounts owed to component units and a \$7,367 reduction in bond anticipation notes outstanding. These changes are primarily related to the timing of payments made by the City.
- Noncurrent liabilities increased by \$18,182, primarily due to a \$49,694 increase in other post-employment benefits (“OPEB”) liabilities, offset by a net \$22,131 decrease in bonds payable.
- Deferred inflows of resources decreased \$97, due to the current year amortization of refunding gains.

Table 2, as presented below, shows the changes in net position for the years ended June 30, 2015 and June 30, 2014.

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

	Governmental		Business-Type		Total	
	Activities		Activities			
	Year Ended June 30,		Year Ended June 30,		Year Ended June 30,	
	2014		2014		2014	
	2015	(as restated)	2015	(as restated)	2015	(as restated)
Revenues:						
Program revenues:						
Charges for services	\$ 27,927	\$ 26,338	\$ 70,491	\$ 70,869	\$ 98,418	\$ 97,207
Operating grants and contributions	40,789	38,272	-	-	40,789	38,272
Capital grants and contributions	32,998	18,582	-	-	32,998	18,582
General revenues:						
Property taxes	124,101	123,989	-	-	124,101	123,989
Other taxes	24,437	21,748	-	-	24,437	21,748
Intergovernmental	98,149	95,447	443	955	98,592	96,402
Grants and contributions	283	252	-	-	283	252
Investment earnings	1,610	2,099	157	213	1,767	2,312
State aid	167,725	179,423	-	-	167,725	179,423
Miscellaneous	27,928	3,210	-	-	27,928	3,210
Total revenues	<u>545,947</u>	<u>509,360</u>	<u>71,091</u>	<u>72,037</u>	<u>617,038</u>	<u>581,397</u>
Expenses:						
General government support	87,297	103,880	-	-	87,297	103,880
Public safety	302,214	327,213	-	-	302,214	327,213
Streets and sanitation	39,220	26,763	-	-	39,220	26,763
Economic assist. and opportunity	21,132	9,368	-	-	21,132	9,368
Culture and recreation	10,925	13,310	-	-	10,925	13,310
Health and community services	5,222	17,094	-	-	5,222	17,094
Education	70,323	70,323	-	-	70,323	70,323
Interest and fiscal charges	9,551	11,385	-	-	9,551	11,385
Solid Waste and Recycling	-	-	25,234	27,073	25,234	27,073
Parking	-	-	1,986	2,096	1,986	2,096
Water System	-	-	34,633	32,934	34,633	32,934
Total expenses	<u>545,884</u>	<u>579,336</u>	<u>61,853</u>	<u>62,103</u>	<u>607,737</u>	<u>641,439</u>
Excess (deficiency) of revenues over expenses	63	(69,976)	9,238	9,934	9,301	(60,042)
Transfers	<u>9,246</u>	<u>11,901</u>	<u>(9,246)</u>	<u>(11,901)</u>	<u>-</u>	<u>-</u>
Change in net position	9,309	(58,075)	(8)	(1,967)	9,301	(60,042)
Net position—beginning	(8,832)	60,934	56,659	59,829	47,827	120,763
Restatement	-	(11,691)	-	(1,203)	-	(12,894)
Net position—ending	<u>\$ 477</u>	<u>\$ (8,832)</u>	<u>\$ 56,651</u>	<u>\$ 56,659</u>	<u>\$ 57,128</u>	<u>\$ 47,827</u>

Governmental activities—The largest funding sources for the City’s governmental activities, as a percent of total revenues, are state aid (30.7%), property taxes (22.7%) and intergovernmental (18.0%).

The largest expense categories for the City’s governmental activities are public safety (55.4%), general government support (16.0%) and education (12.9%). The education category represents the City allocation to the Board.

Significant changes from 2014 to 2015 in revenues and expenses for the City include the following:

- Total revenues increased by \$35,641 in the current year as compared to last year, primarily due to an increase in miscellaneous revenues for a one-time transaction to record a refund of prior year expenses related to retroactive wages.
- Total expenses decreased by \$33,702. General government support, public safety, and health and community services expenses were lower than 2014 expenses by \$16,583, \$24,999, and \$11,872, respectively. These reductions are a result of overall decreases in expenses that are allocable to the functions, including decreases in pension expense and other-post employment benefits of approximately \$7,000 and \$9,795, respectively. In addition, during 2015 the City recognized its’ proportionate share of the New York State Employee Retirement System net pension asset, which reduced the fringe benefit expenses recognized on the government-wide statements by approximately \$15,000.

Business-type activities—Business-type activities decreased the City’s net position by \$8. Overall, revenues and expenses remained relatively consistent from 2014 to 2015. The overall increase in net position is due to the following:

- The Solid Waste and Recycling Fund recorded a decrease in net position of \$2,505 as a result of operating expenses continuing to exceed operating revenues and transfers in.
- The net position of the Parking Fund decreased \$932, which was a result of an increase in transfers out of excess reserves to the General Fund.
- The Water System’s net position increased by \$3,429 as revenues and transfers in continue to grow in excess of expenses.

Financial Analysis of Governmental Funds

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

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

At June 30, 2015, the City’s governmental funds reported combined ending fund balances of \$229,920, an increase of \$10,181 from the prior year. Approximately 18.9 percent of this amount, \$43,441, constitutes *unassigned fund balance*, which is available for spending at the City’s discretion. The remainder of fund balance is either *nonspendable*, *restricted*, *committed*, or *assigned* to indicate that it is: (1) not in spendable form, \$27,877, (2) restricted for particular purposes, \$85,658, (3) committed to particular purposes, \$37,216, or (4) assigned for particular purposes, \$35,728.

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 \$27,877 consists of \$9,451 of real estate acquired for sale, \$17,350 to cover the deficit in the Solid Waste and Recycling Fund, \$1,046 for prepaid items and \$30 for Permanent Fund principal.

Restricted fund balance in the amount of \$85,658 are amounts constrained to specific purposes and consist of \$41,668 to finance specific capital projects, \$6,701 for future capital outlay, \$28,913 to pay debt service, \$6,359 for federal and state programs, \$757 for state mandated initiatives, \$1,149 for emergency medical services and \$111 for compliance with the Permanent Fund.

Commitments are amounts that are subject to a purpose constraint imposed by a formal action of the City's highest level of decision-making authority. \$37,216 of fund balance is committed for the City's Emergency Stabilization fund. Assigned fund balance in the amount of \$35,728 consists of \$7,463 to liquidate contracts and purchase orders, \$606 for motor vehicle self-insurance, \$15,000 for the subsequent year's budget, \$11,900 for judgments and claims, and \$759 in funds held by the BFSAs. These assignments indicate management's intention to utilize these funds for the state purposes. Unassigned fund balance totals \$43,441.

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 \$43,441, while total fund balance increased to \$151,225. As a measure of the General Fund's liquidity, it may be useful to compare both the unassigned fund balance and total fund balance to total General Fund expenditures. Unassigned fund balance represents approximately 9.0 percent of total General fund expenditures and transfers out, while total fund balance represents approximately 31.5 percent of that same amount. The total fund balance of the City's General Fund increased by \$4,851 during the current fiscal year. This increase can be attributed primarily to a one-time refund of prior year expenditures relating to retroactive wages that were paid in an amount lower than anticipated.

The Debt Service Fund has a total fund balance of \$19,693, which is restricted solely for the purpose of payment of debt service. The increase in fund balance during the current year in the Debt Service Fund of \$4,295 is due primarily from the recognition of bond premiums in the current year.

The Capital Projects Fund accounts for the construction and reconstruction of general public improvements, excluding projects related to business-type activities, which are accounted for in the appropriate proprietary fund. At the end of the current fiscal year, Capital Projects Fund fund balance was \$41,753, of which \$41,669 is restricted for encumbrances and future projects. The remaining \$84 is considered to not be in spendable form for prepaid items. The increase in fund balance of \$4,637 is related to revenues and other financing sources from the issuance of serial bonds exceeding capital projects spending.

The BFSAs Special Revenue Fund is used to account for the general fund of the BFSAs and, therefore, is their chief operating fund. Total fund balance at the end of the current fiscal year was \$1,530. Of this amount, \$757 is restricted by enabling legislation for state aid received on behalf of the City, \$14 is nonspendable for prepaid items and \$759 represents BFSAs's assigned fund balance for operations. The \$332 increase in fund balance is attributable to an increase of intergovernmental revenues from sales tax.

Other governmental funds consist of the Special Revenue Fund, the BFSAs 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 \$6,359. This balance is restricted for use in accordance with federal and state grant regulations. The fund balance of the Special Revenue Fund increased by \$1,735 from the prior year, and is attributable to revenues related to federal grant funding in excess of related

expenditures. The BFA Debt Service Fund has a total fund balance of \$9,220, which is restricted to pay debt service. The fund balance of the BFA Debt Service Fund decreased by \$5,669 as a result of scheduled debt service principal payments. The Permanent Fund is used to report resources that are legally restricted to the extent that only earnings and not principal may be used for the purposes for which they were established. The balance at the end of the current fiscal year was \$141.

Proprietary funds—Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The net position of the enterprise funds at the end of the current fiscal year totaled \$56,651. The balance includes a deficit balance of \$33,606 for the Solid Waste and Recycling Fund, \$40,909 for the Parking Fund, and \$49,348 for the Water System. The underlying reasons for any changes were described under the aforementioned heading Business-type activities.

The Internal Service Fund is used to account for the central print shop. The total net position at the end of the fiscal year was \$86. This represents an increase of \$13, which is due to revenues exceeding expenditures.

General Fund Budgetary Highlights

The City adopts an annual appropriated budget for the General Fund. The budget is allowed to be amended upward (increased) for prior year’s encumbrances since the funds were allocated under the previous year’s budget, and the City has appropriately assigned an equal amount of fund balance at year-end for this purpose. The budgetary comparison schedule for the General Fund, a major fund, is provided in the Required Supplementary Information section of this report to demonstrate compliance with the budget.

A summary of the General Fund results of operations for the year ended June 30, 2015 is presented below in Table 3.

Table 3—General Fund Budget

	Budgeted Amounts		Budgetary	Variance with
	Adopted	Final	Actual Amounts	Final Budget
Revenues and other financing sources	\$ 477,023	\$ 477,038	\$ 485,150	\$ 8,112
Expenditures and other financing uses	<u>504,500</u>	<u>509,235</u>	<u>487,761</u>	<u>21,474</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ (27,477)</u>	<u>\$ (32,197)</u>	<u>\$ (2,611)</u>	<u>\$ 29,586</u>

Original budget compared to final budget—During the year, the City amended appropriations for various purposes. The primary increases were \$2.7 million in transfers out to other funds, and \$1.5 million related to streets and sanitation for public works, parks and streets. These were partially offset by a decrease in the budget related to fringe benefit expenditures for the New York State and Local Retirement Systems.

Final budget compared to actual results—A review of actual revenues and expenditures compared to the estimated revenues and appropriations indicate that certain expenditures exceeded budget. However, overall savings were noted, particularly in fringe benefits. Additionally, the City recognized a one-time miscellaneous revenue to record a refund of prior year expenses related to retroactive wages.

Capital Assets and Debt Administration

Capital assets—The City’s capital assets for its governmental activities and business-type activities as of June 30, 2015 amounted to \$662,137 (net of accumulated depreciation). This investment in capital assets includes land, buildings and building improvements, improvements other than buildings, machinery and equipment, infrastructure and construction in progress.

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

Capital assets, net of depreciation for governmental activities and business-type activities as of June 30, 2015 and June 30, 2014 are presented in Table 4 below.

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

	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2015	2014	2015	2014	2015	2014
Land	\$ 10,048	\$ 10,168	\$ 3,362	\$ 3,362	\$ 13,410	\$ 13,530
Buildings and improvements	180,305	173,292	117,299	119,992	297,604	293,284
Improvements other than buildings	23,620	19,734	117	141	23,737	19,875
Machinery and equipment	17,359	19,127	2,390	2,666	19,749	21,793
Infrastructure	247,308	225,019	53,395	54,299	300,703	279,318
Construction in progress	5,280	1,959	1,654	1,017	6,934	2,976
Total	<u>\$ 483,920</u>	<u>\$ 449,299</u>	<u>\$ 178,217</u>	<u>\$ 181,477</u>	<u>\$ 662,137</u>	<u>\$ 630,776</u>

Significant changes from 2014 to 2015 in capital assets include:

- Infrastructure increased \$21,385 largely due to the completion of various projects relating to streets, including reopening portions of Main Street to vehicular traffic and reconstructing Ohio Street and the inner harbor.
- Buildings and improvements increased \$4,320 largely due to the completion of various projects and improvements related to the zoo, parks, and community centers throughout the City.

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

Long-term debt—At June 30, 2015, the City had total bonded debt outstanding for governmental activities of \$267,479, including bonds issued by BFSAs, as compared to \$279,535 in the prior year. During the year ended June 30, 2015, the City issued serial bonds of \$29,089 for governmental activities.

The BFSAs’ total bonded debt outstanding at the end of the current fiscal year is \$48,895.

The bonds outstanding for business-type activities at June 30, 2015 consisted of \$9,501 in general obligation bonds issued by the City and \$136,915 of revenue bonds issued by the Water Authority reported within the Water System. During the year ended June 30, 2015, the City issued refunding water revenue bonds of \$46,655 for business-type activities.

A summary of the City's long-term liabilities at June 30, 2015 and June 30, 2014 is presented in Table 5 below.

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

	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2015	2014 (as restated)	2015	2014 (as restated)	2015	2014 (as restated)
Bonds payable, net of premiums and discounts	\$ 282,296	\$ 292,620	\$ 152,937	\$ 164,744	\$ 435,233	\$ 457,364
Notes payable	541	802	-	-	541	802
Capital leases	-	475	241	955	241	1,430
Compensated absences	29,269	29,584	1,347	1,473	30,616	31,057
Workers' compensation	8,147	8,564	2,744	2,610	10,891	11,174
Landfill post-closure monitoring	910	980	-	-	910	980
OPEB	470,166	422,145	25,809	24,135	495,975	446,280
Judgments and claims	11,900	9,700	-	-	11,900	9,700
Accrued derivative liability	-	-	-	1,816	-	1,816
Net pension liability	15,909	23,002	1,272	1,701	17,181	24,703
Total	\$ 819,138	\$ 787,872	\$ 184,350	\$ 197,434	\$ 1,003,488	\$ 985,306

The New York State Constitution restricts the annual real property tax levy for operating expenses to two percent of average full value of taxable City property over the last five years. This limitation does not apply to taxes for debt service. The Constitution also provides that the City may not contract indebtedness in an amount greater than nine percent of the average full value of taxable real property for the most recent five years. Water debt, self-sustaining debt and revenue anticipation notes are excluded from the debt limit. This limit as of fiscal year end was \$605,319. The City had a debt-contracting margin of \$384,284 on July 1, 2015.

Additional information on the City's long-term debt can be found in Note 12 to the financial statements.

Next Year's Budget

The City considered current year operational expenses and estimated increases based on economic factors when establishing the fiscal year 2016 budget. The total budgeted appropriations for the City's General Fund operations are \$394,522. This budget is a decrease from the fiscal year 2015 total budgeted appropriations. 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 Position
June 30, 2015

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	BOE	BURA
ASSETS					
Cash and cash equivalents	\$ 270,191,739	\$ 47,552,551	\$ 317,744,290	\$ 271,919	\$ -
Restricted cash and cash equivalents	117,875,579	27,284,453	145,160,032	39,121,986	127,950
Investments	59,052,156	-	59,052,156	-	-
Receivables (net of allowances)	19,583,886	9,732,584	29,316,470	1,951,464	1,221,169
Intergovernmental receivables	34,277,734	-	34,277,734	86,717,740	2,047,547
Due from component units/ primary government	77,984,987	-	77,984,987	233,627,439	885,477
Internal balances	17,690,606	(17,690,606)	-	-	-
Prepaid items and other assets	1,045,725	-	1,045,725	1,356,360	-
Real estate acquired for resale	9,451,082	-	9,451,082	-	3,862,886
Noncurrent net pension asset	-	-	-	188,878,283	-
Capital assets not being depreciated	15,328,585	5,016,512	20,345,097	17,811,502	-
Capital assets, net of accumulated depreciation	468,591,808	173,199,988	641,791,796	1,077,858,120	784,570
Total assets	<u>1,091,073,887</u>	<u>245,095,482</u>	<u>1,336,169,369</u>	<u>1,647,594,813</u>	<u>8,929,599</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred loss on refunding	1,935,440	4,947,112	6,882,552	15,208,646	-
Deferred outflows—relating to pensions	20,885,217	827,713	21,712,930	47,047,457	186,913
Total deferred outflows of resources	<u>22,820,657</u>	<u>5,774,825</u>	<u>28,595,482</u>	<u>62,256,103</u>	<u>186,913</u>
LIABILITIES					
Accounts payable and accrued liabilities	52,984,476	8,989,789	61,974,265	60,179,244	1,836,618
Intergovernmental payables	6,551,392	601,535	7,152,927	49,458,247	93,902
Due to component units/primary government	234,512,916	-	234,512,916	77,793,361	191,626
Unearned revenue	209,305	189,933	399,238	-	-
Noncurrent liabilities:					
Due within one year	49,893,654	10,140,051	60,033,705	68,462,883	1,117,812
Due in more than one year	769,244,242	174,209,849	943,454,091	1,810,595,034	16,358,313
Total liabilities	<u>1,113,395,985</u>	<u>194,131,157</u>	<u>1,307,527,142</u>	<u>2,066,488,769</u>	<u>19,598,271</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred gain on refunding	-	87,722	87,722	-	-
Deferred inflows—relating to pensions	22,092	-	22,092	129,976,451	5,486
Total deferred inflows of resources	<u>22,092</u>	<u>87,722</u>	<u>109,814</u>	<u>129,976,451</u>	<u>5,486</u>
NET POSITION					
Net investment in capital assets	322,565,277	57,182,218	379,747,495	149,542,698	784,570
Restricted for:					
Capital outlay	6,701,183	-	6,701,183	202,732	-
Debt service	25,987,683	-	25,987,683	34,469,402	-
Grants	6,358,782	-	6,358,782	-	63,186
State mandated initiatives	756,924	-	756,924	-	-
Real estate held for sale	9,451,083	-	9,451,083	-	-
Judgments and claims	-	-	-	17,750,000	-
Unemployment insurance	-	-	-	3,156,044	-
Joint Schools Construction Board projects	-	-	-	126,213	-
Perpetual care:					
Expendable	110,782	-	110,782	515,123	-
Unexpendable	30,000	-	30,000	-	-
Other purposes	1,148,931	-	1,148,931	3,821,650	-
Unrestricted	(372,634,178)	(530,790)	(373,164,968)	(696,198,166)	(11,335,001)
Total net position	<u>\$ 476,467</u>	<u>\$ 56,651,428</u>	<u>\$ 57,127,895</u>	<u>\$ (486,614,304)</u>	<u>\$ (10,487,245)</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, 2015

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-type Activities	Total	BOE	BURA
Primary government:									
Governmental activities:									
General government support	\$ 87,297,137	\$ 9,059,258	\$ 1,053,521	\$ 1,674,390	\$ (75,509,968)	\$ -	\$ (75,509,968)	\$ -	\$ -
Public safety	302,213,790	11,827,767	7,156,151	-	(283,229,872)	-	(283,229,872)	-	-
Streets and sanitation	39,220,179	2,116,842	4,304,506	28,215,513	(4,583,318)	-	(4,583,318)	-	-
Economic assistance and opportunity	21,131,708	4,522,201	5,313,383	2,674,721	(8,621,403)	-	(8,621,403)	-	-
Culture and recreation	10,924,724	229,404	98,438	433,423	(10,163,459)	-	(10,163,459)	-	-
Health and community services	5,222,106	171,930	22,862,687	-	17,812,511	-	17,812,511	-	-
Education	70,322,758	-	-	-	(70,322,758)	-	(70,322,758)	-	-
Interest and fiscal charges	9,550,576	-	-	-	(9,550,576)	-	(9,550,576)	-	-
Total governmental activities	<u>545,882,978</u>	<u>27,927,402</u>	<u>40,788,686</u>	<u>32,998,047</u>	<u>(444,168,843)</u>	<u>-</u>	<u>(444,168,843)</u>	<u>-</u>	<u>-</u>
Business-type activities:									
Solid Waste and Recycling	25,233,656	19,667,457	-	-	-	(5,566,199)	(5,566,199)	-	-
Parking	1,985,857	7,719,498	-	-	-	5,733,641	5,733,641	-	-
Water System	34,633,069	43,104,054	-	-	-	8,470,985	8,470,985	-	-
Total business-type activities	<u>61,852,582</u>	<u>70,491,009</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,638,427</u>	<u>8,638,427</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 607,735,560</u>	<u>\$ 98,418,411</u>	<u>\$ 40,788,686</u>	<u>\$ 32,998,047</u>	<u>(444,168,843)</u>	<u>8,638,427</u>	<u>(435,530,416)</u>	<u>-</u>	<u>-</u>
Component units:									
BOE	\$ 966,467,252	\$ 2,313,638	\$ 144,421,297	\$ -				(819,732,317)	-
BURA	50,412,406	-	48,664,726	-				-	(1,747,680)
Total component units	<u>\$ 1,016,879,658</u>	<u>\$ 2,313,638</u>	<u>\$ 193,086,023</u>	<u>\$ -</u>				<u>(819,732,317)</u>	<u>(1,747,680)</u>
General revenues:									
Taxes:									
Property taxes					124,100,783	-	124,100,783	-	-
Interest and penalties					3,171,071	-	3,171,071	-	-
Mortgage taxes					2,226,043	-	2,226,043	-	-
Payments in lieu of taxes					6,026,552	-	6,026,552	-	-
Gross utility tax					13,013,123	-	13,013,123	-	-
Intergovernmental—unrestricted					98,148,608	442,716	98,591,324	40,167,930	-
Grants and contributions not restricted to specific programs					283,228	-	283,228	-	-
Investment earnings					1,609,672	157,172	1,766,844	1,056,248	681,733
Contribution from City of Buffalo					-	-	-	70,322,758	-
State aid—unrestricted					167,724,524	-	167,724,524	659,863,938	-
Miscellaneous					27,927,500	-	27,927,500	12,525,015	-
Transfers					9,245,892	(9,245,892)	-	-	-
Total general revenues and transfers					<u>453,476,996</u>	<u>(8,646,004)</u>	<u>444,830,992</u>	<u>783,935,889</u>	<u>681,733</u>
Change in net position					9,308,153	(7,577)	9,300,576	(35,796,428)	(1,065,947)
Net position—beginning, as restated (see Note 2)					<u>(8,831,686)</u>	<u>56,659,005</u>	<u>47,827,319</u>	<u>(450,817,876)</u>	<u>(9,421,298)</u>
Net position—ending					<u>\$ 476,467</u>	<u>\$ 56,651,428</u>	<u>\$ 57,127,895</u>	<u>\$ (486,614,304)</u>	<u>\$ (10,487,245)</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, 2015

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>BFSA Special Revenue</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and cash equivalents	\$ 270,122,754	\$ -	\$ -	\$ -	\$ -	\$ 270,122,754
Restricted cash and cash equivalents	21,685,039	19,343,107	68,867,117	756,924	7,223,392	117,875,579
Investments	49,075,767	-	-	-	9,976,389	59,052,156
Receivables:						
Delinquent taxes and assessments	15,637,547	-	-	-	-	15,637,547
Accounts receivable	17,536,434	-	500	-	-	17,536,934
Other receivables	10,171	1,157	-	-	4,125	15,453
Due from other agencies	893,457	-	-	-	-	893,457
Intergovernmental receivables	3,404,752	-	6,444,875	13,403,299	10,131,351	33,384,277
Due from other funds	39,337,590	348,973	-	-	166,144	39,852,707
Due from component units	122,073	-	-	-	69,553	191,626
Allowances	(13,624,810)	-	-	-	-	(13,624,810)
Net receivables	63,317,214	350,130	6,445,375	13,403,299	10,371,173	93,887,191
Prepaid items	947,620	-	84,236	13,869	-	1,045,725
Real estate acquired for resale	9,451,082	-	-	-	-	9,451,082
Total assets	<u>\$ 414,599,476</u>	<u>\$ 19,693,237</u>	<u>\$ 75,396,728</u>	<u>\$ 14,174,092</u>	<u>\$ 27,570,954</u>	<u>\$ 551,434,487</u>
LIABILITIES						
Accounts payable	\$ 12,583,197	\$ -	\$ 9,208,207	\$ 31,241	\$ 4,247,995	\$ 26,070,640
Accrued liabilities	23,192,244	-	-	28,721	764,967	23,985,932
Intergovernmental payables	69,483	-	28,072	-	1,589,655	1,687,210
Due to other funds	1,182,181	73	8,632,195	7,902,985	4,444,667	22,162,101
Due to component units	213,252,191	-	15,775,638	4,681,168	803,919	234,512,916
Due to retirement systems	4,864,182	-	-	-	-	4,864,182
Unearned revenue	209,305	-	-	-	-	209,305
Total liabilities	<u>255,352,783</u>	<u>73</u>	<u>33,644,112</u>	<u>12,644,115</u>	<u>11,851,203</u>	<u>313,492,286</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenues - property taxes	8,021,950	-	-	-	-	8,021,950
Total deferred inflows of resources	<u>8,021,950</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,021,950</u>
FUND BALANCES						
Nonspendable	27,748,914	-	84,236	13,869	30,000	27,877,019
Restricted	7,850,114	19,693,164	41,668,380	756,924	15,689,751	85,658,333
Committed	37,215,538	-	-	-	-	37,215,538
Assigned	34,969,379	-	-	759,184	-	35,728,563
Unassigned	43,440,798	-	-	-	-	43,440,798
Total fund balances	<u>151,224,743</u>	<u>19,693,164</u>	<u>41,752,616</u>	<u>1,529,977</u>	<u>15,719,751</u>	<u>229,920,251</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 414,599,476</u>	<u>\$ 19,693,237</u>	<u>\$ 75,396,728</u>	<u>\$ 14,174,092</u>	<u>\$ 27,570,954</u>	<u>\$ 551,434,487</u>

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

CITY OF BUFFALO, NEW YORK
Reconciliation of the Balance Sheet—Governmental Funds
to the Government-wide Statement of Net Position
June 30, 2015

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

Total fund balances—governmental funds (page 17)		\$ 229,920,251
City capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of these assets is \$903,232,398 and the accumulated depreciation is \$419,316,354.		483,916,044
Buffalo Fiscal Stability Authority capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of these assets is \$69,377 and the accumulated depreciation is \$65,028.		4,349
Deferred charges associated with refunding of bonds are not reported in the governmental funds. The charge is reported as a deferred outflow of resources on the statement of net position and is recognized as a component of interest expense over the life of the related debt.		1,935,440
Property taxes are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the funds.		8,021,950
Deferred outflows and inflows of resources related to pensions (including BFSA) are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows related to employer contributions	\$ 7,886,043	
Deferred outflows related to experience and investment earnings	12,999,174	
Deferred inflows related to pension plans	<u>(22,092)</u>	20,863,125
Internal service funds are used by management to charge the costs of internal print services. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		85,511
Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.		77,793,361
Net accrued interest expense for serial bonds is not reported in the funds.		(2,925,668)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. The effects of these items are:		
General obligations bonds—City	\$ (218,583,985)	
General obligations bonds—BFSA	(48,895,000)	
Unamortized bond premiums—City	(11,649,008)	
Unamortized bond premiums—BFSA	(3,168,172)	
Notes payable	(540,368)	
Compensated absences	(29,269,400)	
Workers' compensation	(8,147,272)	
Landfill post-closure monitoring costs	(910,000)	
Other post-employment benefits obligation—City	(469,597,000)	
Other post-employment benefits obligation—BFSA	(568,375)	
Judgments and claims	(11,900,000)	
Net pension liability—City	(15,847,118)	
Net pension liability—BFSA	<u>(62,198)</u>	<u>(819,137,896)</u>
Net position of governmental activities		<u>\$ 476,467</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, 2015

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>BFSA Special Revenue</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
Property taxes, assessments, and other tax items	\$ 135,665,382	\$ -	\$ -	\$ -	\$ -	\$ 135,665,382
Utility and other nonproperty tax items	13,775,002	-	-	-	-	13,775,002
Intergovernmental	265,400,326	15,210,410	32,233,514	999,693	37,581,870	351,425,813
Investment interest	748,071	61,796	-	-	293,385	1,103,252
License, permit, rentals, fines, and other service charges	23,556,816	81,028	-	-	-	23,637,844
Miscellaneous	31,108,382	262	590,205	-	190,628	31,889,477
Total revenues	<u>470,253,979</u>	<u>15,353,496</u>	<u>32,823,719</u>	<u>999,693</u>	<u>38,065,883</u>	<u>557,496,770</u>
EXPENDITURES						
Current:						
General government support	55,702,563	-	-	506,601	6,734,547	62,943,711
Public safety	151,859,990	-	-	-	4,490,578	156,350,568
Streets and sanitation	11,294,770	-	-	-	4,155,106	15,449,876
Economic assistance and opportunity	1,782,500	-	-	-	18,222,459	20,004,959
Culture and recreation	7,627,256	-	-	-	1,174,136	8,801,392
Health and community services	2,012,914	-	-	-	1,597,079	3,609,993
Education	70,322,758	-	-	-	-	70,322,758
Fringe benefits	141,418,670	-	-	160,986	-	141,579,656
Other	3,719,868	-	-	-	-	3,719,868
Debt service:						
Principal	-	26,879,769	-	-	14,265,000	41,144,769
Interest and fiscal charges	845,163	8,354,555	86,691	-	2,436,826	11,723,235
Capital outlay:						
General government support	-	-	6,813,455	-	-	6,813,455
Public safety	-	-	1,737,499	-	-	1,737,499
Streets and sanitation	-	-	41,218,900	-	-	41,218,900
Economic assistance and opportunity	-	-	696,137	-	-	696,137
Culture and recreation	-	-	4,215,907	-	-	4,215,907
Total expenditures	<u>446,586,452</u>	<u>35,234,324</u>	<u>54,768,589</u>	<u>667,587</u>	<u>53,075,731</u>	<u>590,332,683</u>
Excess (deficiency) of revenues over expenditures	<u>23,667,527</u>	<u>(19,880,828)</u>	<u>(21,944,870)</u>	<u>332,106</u>	<u>(15,009,848)</u>	<u>(32,835,913)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	14,896,313	32,234,298	1,411,310	-	13,216,832	61,758,753
Transfers out	(33,712,521)	(11,750,738)	(4,908,162)	-	(2,141,440)	(52,512,861)
Serial bonds issued	-	-	29,088,985	-	-	29,088,985
Premium on serial bonds	-	3,692,249	990,000	-	-	4,682,249
Total other financing sources (uses)	<u>(18,816,208)</u>	<u>24,175,809</u>	<u>26,582,133</u>	<u>-</u>	<u>11,075,392</u>	<u>43,017,126</u>
Net change in fund balances	4,851,319	4,294,981	4,637,263	332,106	(3,934,456)	10,181,213
Fund balances—beginning	146,373,424	15,398,183	37,115,353	1,197,871	19,654,207	219,739,038
Fund balances—ending	<u>\$ 151,224,743</u>	<u>\$ 19,693,164</u>	<u>\$ 41,752,616</u>	<u>\$ 1,529,977</u>	<u>\$ 15,719,751</u>	<u>\$ 229,920,251</u>

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

CITY OF BUFFALO, NEW YORK
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balances—Governmental Funds to the Government-wide Statement of Activities
Year Ended June 30, 2015

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

Net change in fund balances—total governmental funds (page 19)	\$	10,181,213
<p>City governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.</p>		
Capital asset additions, net	\$	65,746,193
Depreciation expense		(30,855,012)
Loss on disposition of assets		<u>(268,312)</u>
		34,622,869
<p>Buffalo Fiscal Stability Authority governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.</p>		
		(1,655)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
		(660,679)
<p>Revenues reported in the statement of activities that do not provide current financial resources and, therefore, are not reported as revenues in the funds.</p>		
		(12,109,016)
<p>Net differences between pension contributions recognized on the fund financial statements and the government-wide financial statements are as follows:</p>		
Direct pension contributions	\$	7,886,043
Cost of benefits earned net of employee contributions		<u>7,604,632</u>
		15,490,675
<p>The internal service funds are used by management to charge the costs of internal print services. The net revenue of certain activities of internal service funds is reported with governmental activities.</p>		
		12,790
<p>In the statement of activities, interest expense is recognized as it accrues, regardless of when it is paid.</p>		
		130,698
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Additionally, in the statement of activities, certain operating expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The net effect of these differences in the treatment of long-term debt and the related items is as follows:</p>		
Proceeds from general obligations bonds—City	\$	(29,088,985)
Repayment of general obligations bonds—City		26,879,769
Repayment of general obligations bonds—BFSA		14,265,000
Premium on general obligations bonds—City		(4,682,249)
Amortization of bond premiums—City		2,440,394
Amortization of bond premiums—BFSA		509,684
Repayment of notes payable		262,264
Payment of capital leases		474,927
Change in compensated absences		314,548
Change in workers' compensation		416,519
Change in landfill post-closure monitoring costs		70,000
Change in other post-employment benefits obligation—City		(47,924,000)
Change in other post-employment benefits obligation—BFSA		(96,613)
Change in judgments and claims		<u>(2,200,000)</u>
		<u>(38,358,742)</u>
Change in net position of governmental activities	\$	<u>9,308,153</u>

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

CITY OF BUFFALO, NEW YORK
Statement of Net Position—
Proprietary Funds
June 30, 2015

	Business-type Activities—Enterprise Funds				Internal Service Fund
	Solid Waste and Recycling	Parking	Water System	Total	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 527,856	\$ 1,071,325	\$ 45,953,370	\$ 47,552,551	\$ 68,985
Restricted cash and cash equivalents	-	-	27,284,453	27,284,453	-
Receivables:					
Accounts receivable	10,976,304	2,019,008	21,901,568	34,896,880	18,762
Other receivables	80,395	-	1,091,736	1,172,131	-
Due from other agencies	-	-	127,425	127,425	-
Due from other funds	34,827	1,000,073	-	1,034,900	-
Allowances	<u>(10,402,431)</u>	<u>-</u>	<u>(16,061,421)</u>	<u>(26,463,852)</u>	<u>-</u>
Net receivables	<u>689,095</u>	<u>3,019,081</u>	<u>7,059,308</u>	<u>10,767,484</u>	<u>18,762</u>
Total current assets	<u>1,216,951</u>	<u>4,090,406</u>	<u>80,297,131</u>	<u>85,604,488</u>	<u>87,747</u>
Noncurrent assets:					
Capital assets not being depreciated:					
Land	1	3,217,093	145,116	3,362,210	-
Construction in progress	<u>-</u>	<u>31,557</u>	<u>1,622,745</u>	<u>1,654,302</u>	<u>-</u>
Total capital assets not being depreciated	<u>1</u>	<u>3,248,650</u>	<u>1,767,861</u>	<u>5,016,512</u>	<u>-</u>
Capital assets being depreciated:					
Buildings and infrastructure	4,088,220	74,881,819	199,925,136	278,895,175	-
Improvements other than buildings	175,071	77,117	252,393	504,581	-
Machinery and equipment	9,176,936	109,762	712,597	9,999,295	-
Accumulated depreciation	<u>(9,580,662)</u>	<u>(32,258,678)</u>	<u>(74,359,723)</u>	<u>(116,199,063)</u>	<u>-</u>
Total capital assets being depreciated	<u>3,859,565</u>	<u>42,810,020</u>	<u>126,530,403</u>	<u>173,199,988</u>	<u>-</u>
Total noncurrent assets	<u>3,859,566</u>	<u>46,058,670</u>	<u>128,298,264</u>	<u>178,216,500</u>	<u>-</u>
Total assets	<u>5,076,517</u>	<u>50,149,076</u>	<u>208,595,395</u>	<u>263,820,988</u>	<u>87,747</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred loss on refunding	-	408,115	4,538,997	4,947,112	-
Deferred outflows—relating to pensions	<u>462,527</u>	<u>-</u>	<u>365,186</u>	<u>827,713</u>	<u>-</u>
Total deferred outflows of resources	<u>462,527</u>	<u>408,115</u>	<u>4,904,183</u>	<u>5,774,825</u>	<u>-</u>
LIABILITIES					
Current liabilities:					
Accounts payable	1,117,051	358,297	1,687,302	3,162,650	2,236
Other accrued liabilities	1,826,696	30,499	3,969,944	5,827,139	-
Due to other funds	-	330,390	1,044,905	1,375,295	-
Unearned revenue	189,933	-	-	189,933	-
Due to retirement systems	335,935	364	265,236	601,535	-
Capital lease	240,698	-	-	240,698	-
Accrued compensated absences	35,106	-	53,921	89,027	-
Accrued workers' compensation	557,471	-	356,049	913,520	-
General obligation and revenue bonds payable within one year	<u>-</u>	<u>2,353,032</u>	<u>6,543,774</u>	<u>8,896,806</u>	<u>-</u>
Total current liabilities	<u>4,302,890</u>	<u>3,072,582</u>	<u>13,921,131</u>	<u>21,296,603</u>	<u>2,236</u>

(continued)

CITY OF BUFFALO, NEW YORK
Statement of Net Position—
Proprietary Funds
June 30, 2015

	Business-type Activities—Enterprise Funds				Internal Service Fund
	Solid Waste and Recycling	Parking	Water System	Total	
Noncurrent liabilities:					
Due to other funds	17,350,211	-	-	17,350,211	-
Accrued compensated absences	546,849	-	711,489	1,258,338	-
Accrued workers' compensation	1,296,631	-	533,811	1,830,442	-
Accrued other post-employment benefits obligation	14,938,000	37,000	10,834,000	25,809,000	-
General obligation and revenue bonds payable, net	-	6,506,396	137,534,225	144,040,621	-
Net pension liability	710,487	-	560,961	1,271,448	-
Total noncurrent liabilities	<u>34,842,178</u>	<u>6,543,396</u>	<u>150,174,486</u>	<u>191,560,060</u>	<u>-</u>
Total liabilities	<u>39,145,068</u>	<u>9,615,978</u>	<u>164,095,617</u>	<u>212,856,663</u>	<u>2,236</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred gain on refunding	-	31,888	55,834	87,722	-
Total deferred inflows of resources	<u>-</u>	<u>31,888</u>	<u>55,834</u>	<u>87,722</u>	<u>-</u>
NET POSITION					
Net investment in capital assets	3,618,868	37,575,469	15,987,881	57,182,218	-
Unrestricted	<u>(37,224,892)</u>	<u>3,333,856</u>	<u>33,360,246</u>	<u>(530,790)</u>	<u>85,511</u>
Total net position	<u>\$ (33,606,024)</u>	<u>\$ 40,909,325</u>	<u>\$ 49,348,127</u>	<u>\$ 56,651,428</u>	<u>\$ 85,511</u>

(concluded)

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

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CITY OF BUFFALO, NEW YORK
Statement of Revenues, Expenses, and Changes in Net Position—
Proprietary Funds
Year Ended June 30, 2015

	Business-type Activities—Enterprise Funds				Internal Service Fund
	Solid Waste and Recycling	Parking	Water System	Total	
Operating revenues:					
Charges for services	\$ 19,447,227	\$ -	\$ 42,550,935	\$ 61,998,162	\$ 47,812
Rent	-	7,719,498	-	7,719,498	-
Other	220,230	-	553,119	773,349	-
Total operating revenues	<u>19,667,457</u>	<u>7,719,498</u>	<u>43,104,054</u>	<u>70,491,009</u>	<u>47,812</u>
Operating expenses:					
Services and supplies	17,406,567	42,133	17,068,230	34,516,930	35,022
Fringe benefits	6,508,132	20,145	5,070,288	11,598,565	-
Depreciation	1,308,232	1,618,927	5,144,214	8,071,373	-
Other	-	-	945,888	945,888	-
Total operating expenses	<u>25,222,931</u>	<u>1,681,205</u>	<u>28,228,620</u>	<u>55,132,756</u>	<u>35,022</u>
Operating income (loss)	<u>(5,555,474)</u>	<u>6,038,293</u>	<u>14,875,434</u>	<u>15,358,253</u>	<u>12,790</u>
Nonoperating revenues (expenses):					
Interest earnings	193	355	156,624	157,172	-
Interest expense	(10,725)	(304,652)	(6,404,449)	(6,719,826)	-
Other	-	-	442,716	442,716	-
Total nonoperating revenues (expenses)	<u>(10,532)</u>	<u>(304,297)</u>	<u>(5,805,109)</u>	<u>(6,119,938)</u>	<u>-</u>
Income (loss) before transfers	(5,566,006)	5,733,996	9,070,325	9,238,315	12,790
Transfers in	3,734,462	-	37,436	3,771,898	-
Transfers out	<u>(673,078)</u>	<u>(6,665,654)</u>	<u>(5,679,058)</u>	<u>(13,017,790)</u>	<u>-</u>
Change in net position	(2,504,622)	(931,658)	3,428,703	(7,577)	12,790
Total net position—beginning, as restated (see Note 2)	<u>(31,101,402)</u>	<u>41,840,983</u>	<u>45,919,424</u>	<u>56,659,005</u>	<u>72,721</u>
Total net position—ending	<u>\$ (33,606,024)</u>	<u>\$ 40,909,325</u>	<u>\$ 49,348,127</u>	<u>\$ 56,651,428</u>	<u>\$ 85,511</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, 2015

	Business-type Activities—Enterprise Funds				Internal Service Fund
	Solid Waste and Recycling	Parking	Water System	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 19,774,337	\$ 10,135,149	\$ 43,397,493	\$ 73,306,979	\$ 47,812
Payments to suppliers for goods and services	(17,156,645)	(42,133)	(18,933,849)	(36,132,627)	(29,370)
Payments to employees for services	(5,109,720)	(34,072)	(4,715,036)	(9,858,828)	-
Net cash provided by (used for) operating activities	<u>(2,492,028)</u>	<u>10,058,944</u>	<u>19,748,608</u>	<u>27,315,524</u>	<u>18,442</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from other funds	3,734,462	-	12,398,794	16,133,256	-
Transfers to other funds	(673,078)	(6,665,654)	(18,040,416)	(25,379,148)	-
Advances from other funds	363,179	146,144	7,209,671	7,718,994	-
Advances to other funds	(34,827)	(1,000,000)	(7,458,653)	(8,493,480)	(15,349)
Net cash provided by (used for) noncapital financing activities	<u>3,389,736</u>	<u>(7,519,510)</u>	<u>(5,890,604)</u>	<u>(10,020,378)</u>	<u>(15,349)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition/construction of capital assets	(499,635)	(828,044)	(3,483,414)	(4,811,093)	-
Principal payments on bonds	(713,938)	(2,270,000)	(6,515,852)	(9,499,790)	-
Payment to escrow agent	-	-	(55,645,000)	(55,645,000)	-
Proceeds from issuance of debt	-	-	46,655,000	46,655,000	-
Interest payments	(10,725)	(289,430)	(1,472,314)	(1,772,469)	-
Net cash used for capital and related financing activities	<u>(1,224,298)</u>	<u>(3,387,474)</u>	<u>(20,461,580)</u>	<u>(25,073,352)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received on short-term investments	193	359	144,043	144,595	-
Net cash provided by investing activities	<u>193</u>	<u>359</u>	<u>144,043</u>	<u>144,595</u>	<u>-</u>
Net (decrease) increase in cash and cash equivalents	(326,397)	(847,681)	(6,459,533)	(7,633,611)	3,093
Cash and cash equivalents—beginning	854,253	1,919,006	79,697,356	82,470,615	65,892
Cash and cash equivalents—ending	<u>\$ 527,856</u>	<u>\$ 1,071,325</u>	<u>\$ 73,237,823</u>	<u>\$ 74,837,004</u>	<u>\$ 68,985</u>

(continued)

CITY OF BUFFALO, NEW YORK
Statement of Cash Flows—
Proprietary Funds
Year Ended June 30, 2015

	<u>Business-type Activities—Enterprise Funds</u>				Internal Service Fund
	Solid Waste and Recycling	Parking	Water System	Total	
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ (5,555,474)	\$ 6,038,293	\$ 14,875,434	\$ 15,358,253	\$ 12,790
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	1,308,232	1,618,927	5,144,214	8,071,373	-
Decrease in receivables	101,577	2,047,247	648,788	2,797,612	3,813
(Increase) in deferred outflow—relating to pensions	(184,613)	-	(145,760)	(330,373)	-
Increase (decrease) in payables	249,922	356,777	(1,275,600)	(668,901)	1,839
Increase (decrease) in other accrued liabilities	626,823	(10,300)	65,075	681,598	-
Increase in due to retirement systems	117,225	-	30,786	148,011	-
Increase in unearned revenue	5,303	-	-	5,303	-
(Decrease) increase in accrued compensated absences	(149,062)	-	23,038	(126,024)	-
(Decrease) increase in workers' compensation	(5,076)	-	139,033	133,957	-
Increase in accrued other post-employment benefits obligation	1,233,000	8,000	433,000	1,674,000	-
(Decrease) in net pension liability	(239,885)	-	(189,400)	(429,285)	-
Total adjustments	<u>3,063,446</u>	<u>4,020,651</u>	<u>4,873,174</u>	<u>11,957,271</u>	<u>5,652</u>
Net cash provided by (used for) operating activities	<u>\$ (2,492,028)</u>	<u>\$ 10,058,944</u>	<u>\$ 19,748,608</u>	<u>\$ 27,315,524</u>	<u>\$ 18,442</u>

(concluded)

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

CITY OF BUFFALO, NEW YORK
Statement of Net Position—
Fiduciary Funds
June 30, 2015

	Private Purpose Trust	Agency
ASSETS		
Cash and cash equivalents	\$ 23,910	\$ 1,533,868
Investments	32,912	-
Receivables	5,530	804
Total assets	62,352	1,534,672
LIABILITIES		
Accounts payable	-	110,575
Intergovernmental payables	-	23,182
Amounts held in custody for others	-	1,400,915
Total liabilities	-	\$ 1,534,672
NET POSITION		
Restricted	\$ 62,352	

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

CITY OF BUFFALO, NEW YORK
Statement of Changes in Net Position—
Fiduciary Funds
Year Ended June 30, 2015

	<u>Private Purpose Trust</u>
ADDITIONS	
Investment earnings:	
Interest	\$ <u>17</u>
DEDUCTIONS	
Awards	<u>-</u>
Total deductions	<u>-</u>
 Change in net position	 17
 Net position—beginning	 <u>62,335</u>
Net position—ending	<u>\$ 62,352</u>

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

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CITY OF BUFFALO, NEW YORK
Notes to the Financial Statements
Year Ended June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Buffalo, New York (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (the "GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Reporting Entity

The City of Buffalo, New York (the "City") is a municipal entity governed by an elected Mayor, Comptroller, and a nine-member elected City Common Council (the "Council"). The accompanying financial statements present the City (the "primary government") and its component units. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented in the funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

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 position of the Water System and is responsible for generating sufficient revenues to meet the debt service requirements of the City and Authority related to the Water System.

The Buffalo Fiscal Stability Authority (the "BFSA") is a corporate governmental agency and instrumentality of the State of New York (the "State") constituting a public benefit corporation created by the Buffalo Fiscal Stability Authority Act (the "BFSA Act"), Chapter 122 of the State Laws of 2003, as amended from time to time. Nine directors, seven of which are appointed by the Governor, govern the BFSA. Its corporate purpose is to act as a temporary financial intermediary to the City. The BFSA is included as a blended component unit of the City's primary government because their services are provided almost entirely to the City. The BFSA is fiscally dependent on the

City, as they cannot issue debt without approval of the City, and cannot levy taxes or set rates that affect revenues. As such, the City is financially accountable for the BFSA.

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

The Authority, Water Board 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 and that they are not simply an extension of the primary government. The majority of the governing body of the Buffalo Urban Renewal Agency (“BURA”) is composed of City officials. BURA provides services to the general public. The Board of Education, City of Buffalo, New York (the “Board”) is governed by the Board of Education, whose members are elected by the voters of the City in accordance with State statutes.

- BURA is a public benefit corporation formed by an act of the State Legislature in 1966. Its corporate purpose includes the general planning and operation of various urban renewal programs designed to prevent or eliminate blight and deterioration in the Buffalo urban area. Most of the funding for the various programs conducted by BURA is obtained from the federal government through the City, representing an ongoing relationship with both financial benefit and burden to the City. Additionally, the City has the ability to remove appointed members and to approve the BURA’s budget.
- The Board is a unit of local government created under the Constitution of the State. The Board’s primary function is to provide education for pupils. Services, such as transportation of pupils, administration, finance, and plant maintenance, support the primary function of the Board. The Board is financially dependent upon the City and has no independent authority to issue debt or levy taxes, with the exception of the Special Revenue Program Bonds issued by the State of New York Municipal Bond Bank Agency (see Note 12). The Board’s Joint Schools Construction Board (“JSCB”) bonds payable represent bonds issued by the Erie County Industrial Development Agency (the “Issuer”) to provide money to finance the renovation and/or equipping of certain public school facilities for use by the Board. The bonds are special limited obligations of the Issuer payable from amounts due from the Board under an installment sale agreement.

Complete financial statements of the individual component units can be obtained from their respective administrative offices as listed on the following page.

Buffalo Water Board
502 City Hall
Buffalo, NY 14202

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

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

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

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

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

Basis of Presentation – Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the City’s enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. It is the City’s policy to record transactions between funds as operating transfers. Interfund services provided and used are not eliminated in the process of consolidation.

Basis of Presentation – Fund Financial Statements

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

The City reports the following major governmental funds:

- ***General Fund***—The General Fund is the primary operating fund of the City and accounts for all financial resources of the general government, except those required to be accounted for in another fund. The majority of current operations are financed by this fund. Transfers to other funds and agencies are made from this fund. Monies from other funds may be received, unless prohibited by the purpose and object of such funds.

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

The City reports the following major proprietary funds:

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

Additionally, the City reports the following fund types:

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

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

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

Fiduciary Funds—These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Trust funds account for resources received and disbursements made in accordance with trust agreements or applicable legislative enactments for each particular fund. Fiduciary funds include the *Private Purpose Trust Fund* and *Agency Fund*. Activities reported in the fiduciary funds include monies held in trust for prisoners, deposits that are to be returned, and payroll withholdings due to other entities.

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

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

Measurement Focus and Basis of Accounting

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, sales taxes, charges for services provided, and state and federal aid associated with the current fiscal period are all considered susceptible to accrual and have been recognized as revenues of

the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met and the amount is received during the period of availability. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements are met and the amount is received during the period of availability. All other revenue items are considered to be measurable and available only when cash is received by the City.

The proprietary funds and Private Purpose Trust Fund are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The Agency Fund has no measurement focus, but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

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

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

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

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

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

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

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

	<u>Estimated Useful Life (Years)</u>
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:

	<u>Estimated Useful Life (Years)</u>
Buildings	50
Building improvements	20
Land improvements	20
General equipment	10
Computer, business machine, and audit visual equipment	5
Automotive	7

BURA does not own infrastructure assets such as roads, bridges or sewers. BURA defines capital assets as assets with an initial cost of more than \$250 and an estimated useful life exceeding five years. Assets are depreciated using the straight-line method over their useful lives, which range from 5 to 50 years.

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

Deferred Outflows/Inflows of Resources—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. At June 30, 2015, the City has two items that qualify for reporting in this category. The first item is deferred loss on refunding. The second item is related to pensions reported in the government-wide financial statements, as well as within individual proprietary funds. This represents the effect of the net change in the City’s proportion of the collective net position asset or liability, the difference during the measurement period between the City’s contributions and its proportionate share of the total contribution to the pension systems not included in the pension expense, and any contributions to the pension systems made subsequent to the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of*

resources, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. At June 30, 2015, the City has three items that qualify for reporting in this category. These items include a deferred gain on refunding and unavailable revenue from property taxes. The final item represents the effect of the net change in the City's proportion of the collective net pension liability and the difference during the measurement periods between the City's contributions and its proportionate share of total contributions to the pension systems not included in pension expense and is reported on the government-wide financial statements.

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

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

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

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

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

The City does not have a formally adopted minimum fund balance policy.

Revenues and Expenses/Expenditures

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

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

The City is permitted by the Constitution of the State of New York to levy taxes up to 2% of the five-year average full-assessed valuation for general governmental services other than the payment of debt services and capital expenditures. The City utilizes a full value system, assessing all properties at 100% of full market value. For the year ended June 30, 2015, the City had a legal tax margin of approximately \$45.1 million.

Unearned Revenue—Certain revenues have not met the revenue recognition criteria for government-wide or fund financial purposes. At June 30, 2015, the City reported unearned revenues within the General Fund and Solid Waste and Recycling Fund in the amounts of \$209,305 and \$189,933, respectively. The City received cash in advance related to grants and prepaid user fees but has not performed the services, and therefore recognizes a liability.

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

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

Pensions—The City is mandated by New York State law to participate in the New York State Teacher’s Retirement System (“TRS”), New York State Local Employees’ Retirement System (“ERS”) and the New York State Police and Fire Retirement System (“PFRS”). For purposes of measuring the net pension (asset)/liability, deferred outflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit pension plans, and changes thereof, have been determined on the same basis as they are reported by the respective defined benefit pension plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. More information regarding pensions is included in Note 7.

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

enterprise funds, and the Internal Service Fund, include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Other

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

Reclassifications—Certain amounts were reclassified from the Board's, BURA's, and BFSA's financial statements to conform to the City's reporting presentation. In the BFSA's statement of net position, \$4,681,168 previously classified as due to City of Buffalo was reclassified as due to component units. This amount represented sales tax that was a receivable from Erie County on behalf of the Board. And, in the BFSA's statement of revenue, expenditures, and change in net position, \$280,871,714 in investment income and intergovernmental revenue offset other distributions relating to proceeds and interest payments on bonds issued by the BFSA on behalf of the City.

Adoption of New Accounting Pronouncements—During the year ended June 30, 2015, the City implemented GASB Statements No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*; No. 69, *Government Combinations and Disposals of Government Operations*; and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. GASB Statements No. 68 and 71 improve accounting and recognizing liabilities/(assets), deferred outflows of resources, deferred inflows of resources and expenses related to pensions. GASB Statement No. 69 improves the accounting and financial reporting for reporting mergers, acquisitions, and transfers of operations by providing specific guidance for combinations and disposals in the governmental environment.

Future Impacts of Accounting Pronouncements—The City has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 72, *Fair Value Measurement and Application*; and No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for the year ending June 30, 2016, No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*; No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*; and No. 77, *Tax Abatement Disclosures*, effective for the year ending June 30, 2017, and No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, effective for the year ending June 30, 2018. The City is, therefore, unable to disclose the impact that adopting GASB Statements No. 72, 73, 74, 75, 76 and 77 will have on its financial position and results of operations when such statements are adopted.

Stewardship, Compliance and Accountability

Deficit Fund Equity—At June 30, 2015, the Solid Waste and Recycling Fund had a total net position deficit of \$33,606,024. This net deficit includes accrued post-employment benefits obligation of \$14,938,000. Although the City anticipates the deficit to be remedied by future tax rate increases or through General Fund subsidies, no formal plan exists.

The Board has a total net position deficit of \$486,614,304 at June 30, 2015, which is caused primarily by its recognition of long-term liabilities including other post-employment benefits obligation.

BURA has a total net position deficit of \$10,487,245 at June 30, 2015, which is caused primarily by its recognition of long-term liabilities including other post-employment benefits obligation.

Legal Compliance—Budgets

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

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

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

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

2. RESTATEMENT OF NET POSITION

For the fiscal year ended June 30, 2015, the City and its component units implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The implementation of GASB Statements No. 68 and No. 71 resulted in the reporting of an asset, deferred outflows of resources, a liability and a deferred inflow of resources related to the entities’ participation in the New York State Teachers’, Employees’ and Police and Fire Retirement Systems.

Additionally, based on BURA's valuation of Real Estate Acquired for Resale during the year ended June 30, 2015, BURA has increased Real Estate Acquired for Resale as of June 30, 2014 by \$2,932,738. Governmental net position has been increased by \$2,932,738 at June 30, 2014. Additionally, as of June 30, 2014, BURA excluded a long-term retirement liability of \$186,304 within its governmental activities. Accordingly, BURA's net position has been decreased and long-term liabilities have been increased to include this item.

During the year ended June 30, 2014, BURA recorded contributions related to required debt payments prior to the debt payment being expended. As a result, BURA's governmental activities net position has been decreased by \$2,155,000.

During the year ended June 30, 2014, BURA recorded a receivable for items that did not meet the revenue recognition criteria. A related allowance for these items should have been recorded on the government-wide financial statements. As a result, BURA's governmental activities net position has been decreased by \$2,645,000.

Finally, during the year ended June 30, 2015, BURA adopted a change in accounting principles related to grant revenue recognition. Revenues from Federal, State, and other grants designated for specific BURA expenditures are recognized when the related expenditures are incurred. As a result of this implementation, BURA's governmental net position has been decreased by \$786,718.

The effects of these restatements and changes in accounting principle are shown below.

	Primary Government			Component Units	
	Governmental	Business-type	Total	BOE	BURA
	Activities	Activities			
Net Position	Net Position	Net Position	Net Position	Net Position	
Net position—June 30, 2014, as previously stated	\$ 1,705,180	\$ 57,862,398	\$ 59,567,578	\$ (497,670,378)	\$ (6,311,174)
Change in valuation of real estate acquired for resale	-	-	-	-	2,932,738
Retirement liability	-	-	-	-	(186,304)
Debt contributions	-	-	-	-	(2,155,000)
Revenue recognition	-	-	-	-	(2,645,000)
Grant revenue	-	-	-	-	(786,718)
GASB Statements No. 68 and No. 71:					
Beginning system asset—					
Teachers' Retirement System	-	-	-	10,757,018	-
Beginning system liability—					
Police and Fire Retirement System	(14,895,509)	-	(14,895,509)	-	-
Beginning system liability—					
Employees' Retirement System	(8,106,819)	(1,700,733)	(9,807,552)	(6,439,054)	(363,893)
Beginning deferred outflow of resources for contributions subsequent to the measurement date:					
Teachers' Retirement System	-	-	-	40,700,597	-
Police and Fire Retirement System	10,103,522	-	10,103,522	-	-
Employees' Retirement System	2,361,940	497,340	2,859,280	1,833,941	94,053
Net position—June 30, 2014, as restated	<u>\$ (8,831,686)</u>	<u>\$ 56,659,005</u>	<u>\$ 47,827,319</u>	<u>\$ (450,817,876)</u>	<u>\$ (9,421,298)</u>

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

The City's available cash is deposited and invested in accordance with the State General Municipal Law (Article 2, Section 11), which governs the City's investment policies. The City has its own written investment guidelines, which have been established by the Comptroller's Office pursuant to Section 114A of the City Charter. The City is authorized to deposit or invest funds in banks or trust companies located in, and authorized to do business in, the State. The City's investment policy governs the investment of excess funds. Permissible investments include time deposits, certificates of deposit, obligations of the U.S. Treasury and U.S. Agencies, and obligations of New York State and its localities. Cash in banks was fully collateralized at June 30, 2015, of which the bank carrying balance at June 30, 2015, was \$470,083,847.

Cash, cash equivalents and investments at June 30, 2015 are shown below.

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Petty cash (uncollateralized)	\$ 9,400	\$ -	\$ -	\$ 9,400
Deposits	388,057,918	74,837,004	1,557,778	464,452,700
Investments	59,052,156	-	32,912	59,085,068
Total	<u>\$ 447,119,474</u>	<u>\$ 74,837,004</u>	<u>\$ 1,590,690</u>	<u>\$ 523,547,168</u>

Cash and cash equivalents consisted of:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Cash and cash equivalents	\$ 270,191,739	\$ 47,552,551	\$ -	\$ 317,744,290
Restricted cash and cash equivalents	117,875,579	27,284,453	-	145,160,032
Cash held in fiduciary funds	-	-	1,557,778	1,557,778
Total	<u>\$ 388,067,318</u>	<u>\$ 74,837,004</u>	<u>\$ 1,557,778</u>	<u>\$ 464,462,100</u>

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

Custodial Credit Risk—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 demand deposit accounts, time deposit accounts and certificates of deposit at 100% 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. 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.

Investments—At June 30, 2015, total investments of \$59,085,068 consisted of investments held by the City of \$49,137,239, held by the BFSA of \$9,914,917, and maintained in fiduciary funds of \$32,912. Investments at June 30, 2015, consisted of the following:

	Carrying Value	Fair Value
Certificates of deposit	\$ 30,170,151	\$ 30,170,151
Revenue anticipation notes	19,000,000	19,000,000
U.S. Treasury SLGs	1,128,844	1,128,844
U.S. Treasury bills	177,145	184,086
Federal National Mortgage Association discount notes	2,892,332	2,962,694
Federal Home Loan Mortgage Corp. Med. Term note	5,120,982	5,217,038
Federal Home Loan Banks	516,139	537,122
Federal Farms Credit Banks	77,478	74,520
Accrued interest	1,997	1,997
Total	<u>\$ 59,085,068</u>	<u>\$ 59,276,452</u>

Investments in the City consist of certificates of deposit issued with thirteen week maturities and a revenue anticipation note issued to the Kiryas Joel Union Free School District, and a tax anticipation note issued to the West Seneca Central School District. Investments in fiduciary funds consist solely of certificates of deposit at June 30, 2015. Additionally, investments include restricted amounts for those fund balances constrained to specific purposes through constitutional provisions or by enabling legislation.

The risk and type of investments presented above generally indicate activity and positions held throughout the year. Maturities related to the BFSA's investments are generally short-term with certificates of deposit issued with 30-day maturities and U.S. Treasuries and commercial paper due within 45 days. The credit rating of Federal Home Loan Mortgage corporate discount paper, Federal National Mortgage Association discount notes, Federal Home Loan Mortgage corporate medium term note and commercial paper, as reported by Standard & Poor's, for short-term debt is AA+.

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

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

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

Governmental Activities Restricted Cash and Cash Equivalents—General Fund restricted cash of \$3,821,650 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. The initial settlement was bonded and such restricted cash is being used to pay the debt service requirements. Additionally, \$10,013,275 in restricted cash in the General Fund represents additional cash held in a bank custodial account. The Debt Service Fund restricted assets of \$19,343,107 are held by a trustee for future debt service payments. Restricted cash of \$68,867,117 is reported within the Capital Projects Fund for amounts representing nonoperating cash raised through borrowings, grants and transfers from other funds. Additionally, the City reports \$7,850,114, \$756,924, \$7,060,173, \$88,034, and \$75,185 in the General Fund, BFSA Special Revenue Fund, Special Revenue Fund, BFSA Debt Service Fund and Permanent Fund, respectively, which represent amounts with constraints placed on their use by either external parties and/or statute.

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

The restricted cash consists primarily of Treasury notes, Treasury bills, and certificates of deposit with a commercial bank. At June 30, 2015, \$725,264 of the Water System’s restricted cash consisted of U.S. government securities recorded in the Water System’s name and held in a bank custodial account. The Water System also maintains restricted money market accounts with fair values totaling \$26,559,189 at June 30, 2015.

Board of Education

At June 30, 2015, cash in banks was \$271,919. This amount was fully collateralized.

Restricted Cash and Cash Equivalents—The Board has restricted cash of \$39,121,986 at June 30, 2015, for various purposes as follows:

- \$551,303 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.
- \$21,062,467 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.
- \$13,406,935 represents a local share contribution to be held in trust and can only be disbursed in accordance with the Local Share Trust and Depository Agreement.
- \$3,517,810 represents endowment funds and can be used in accordance with the respective endowment document.
- \$583,471 is restricted to support obligations related to workers’ compensation claims.

Buffalo Urban Renewal Agency

Restricted Cash and Cash Equivalents—Cash reported in BURA’s special revenue fund represents grant funds held prior to disbursement of approved expenditures. Substantially all cash on hand is restricted in use in accordance with specific funding source requirements. BURA’s deposits are maintained in demand deposit or savings accounts. By State statute, all deposits in excess of FDIC insurance coverage must be collateralized. At June 30, 2015, BURA’s deposits were either FDIC insured or collateralized with securities held by the pledging bank’s agent in BURA’s name, with the exception of \$504. At June 30, 2015, BURA reported \$127,950 of restricted cash.

4. RECEIVABLES

Receivables at June 30, 2015, for the City’s individual funds and related allowances for estimated uncollectible amounts are as follows:

Receivables:	<u>Gross</u> <u>Receivable</u>	<u>Allowance</u>	<u>Net</u> <u>Receivable</u>
Governmental funds:			
General Fund:			
Taxes	\$ 15,637,547	\$ (6,621,810)	\$ 9,015,737
Accounts receivable	17,536,434	(7,003,000)	10,533,434
Other receivables	10,171	-	10,171
Due from other agencies	893,457	-	893,457
Intergovernmental receivables	3,404,752	-	3,404,752
Due from other funds	39,337,590	-	39,337,590
Due from component units	122,073	-	122,073
Total	<u>\$ 76,942,024</u>	<u>\$ (13,624,810)</u>	<u>\$ 63,317,214</u>
Debt Service Fund:			
Other receivables	\$ 1,157	\$ -	\$ 1,157
Due from other funds	348,973	-	348,973
Total	<u>\$ 350,130</u>	<u>\$ -</u>	<u>\$ 350,130</u>
Capital Projects Fund:			
Accounts receivable	\$ 500	\$ -	\$ 500
Intergovernmental receivables	6,444,875	-	6,444,875
Total	<u>\$ 6,445,375</u>	<u>\$ -</u>	<u>\$ 6,445,375</u>
BFSAs Special Revenue Fund:			
Intergovernmental receivables	<u>\$ 13,403,299</u>	<u>\$ -</u>	<u>\$ 13,403,299</u>
Nonmajor governmental funds:			
Other receivables	\$ 4,125	\$ -	\$ 4,125
Intergovernmental receivables	10,131,351	-	10,131,351
Due from other funds	166,144	-	166,144
Due from component units	69,553	-	69,553
Total	<u>\$ 10,371,173</u>	<u>\$ -</u>	<u>\$ 10,371,173</u>

Receivables:	Gross Receivable	Allowance	Net Receivable
Proprietary funds:			
Solid Waste and Recycling Fund:			
Accounts receivable	\$ 10,976,304	\$ (10,346,523)	\$ 629,781
Other receivables	80,395	(55,908)	24,487
Due from other funds	34,827	-	34,827
Total	<u>\$ 11,091,526</u>	<u>\$ (10,402,431)</u>	<u>\$ 689,095</u>
Parking Fund:			
Accounts receivable	\$ 2,019,008	\$ -	\$ 2,019,008
Due from other funds	1,000,073	-	1,000,073
Total	<u>\$ 3,019,081</u>	<u>\$ -</u>	<u>\$ 3,019,081</u>
Water System:			
Accounts receivable	\$ 21,901,568	\$ (16,061,421)	\$ 5,840,147
Other receivables	1,091,736	-	1,091,736
Due from other agencies	127,425	-	127,425
Total	<u>\$ 23,120,729</u>	<u>\$ (16,061,421)</u>	<u>\$ 7,059,308</u>
Internal Service Fund:			
Accounts receivable	<u>\$ 18,762</u>	<u>\$ -</u>	<u>\$ 18,762</u>
Total proprietary funds	<u>\$ 37,250,098</u>	<u>\$ (26,463,852)</u>	<u>\$ 10,786,246</u>

Intergovernmental Receivables—Represents amounts due from other units of government, such as Federal, New York, State, or other local governments. Amounts are shown net of related advances from New York State. Intergovernmental receivables at June 30, 2015 are shown below:

Intergovernmental receivables:

Governmental funds:

General Fund:

Due from Erie County	\$ 109,023
Due from New York State	2,887,338
Due from federal government	408,391
Total	<u>\$ 3,404,752</u>

Capital Projects Fund:

Due from New York State	<u>\$ 6,444,875</u>
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BFSA Special Revenue Fund:

Due from New York State	<u>\$ 13,403,299</u>
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Nonmajor governmental funds:

Special Revenue Fund:

Due from federal government	\$ 8,417,024
Due from New York State	1,714,327
Total	<u>\$ 10,131,351</u>

Total governmental funds	<u>\$ 33,384,277</u>
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Board of Education

Significant revenues accrued by the Board include the following:

Receivables at June 30, 2015, consisted of the following:

General Fund:	
Tuition billing	\$ 694,971
Health Services	402,056
Miscellaneous revenues	335,914
Special Aid Fund	472,732
Nonmajor governmental funds	<u>45,791</u>
Total	<u>\$ 1,951,464</u>

Intergovernmental receivables at June 30, 2015, consisted of the following:

General Fund:	
State aid - basic	\$ 11,482,761
State aid - excess	16,329,739
Special Aid Fund: Federal and state aid	56,731,515
School Lunch Fund: Federal and state reimbursements	<u>2,173,725</u>
Total	<u>\$ 86,717,740</u>

In addition, the Board reports amounts owed from the City of \$233,627,439 as due from primary government at June 30, 2015.

Buffalo Urban Renewal Agency

Major revenues accrued by BURA at June 30, 2015 consisted of the following:

	General	Community Development Block Grant	HOME Program	Total Nonmajor Funds	Total
Program loans receivable	\$ -	\$ 19,193,501	\$ 56,469,054	\$ 3,895,051	\$ 79,557,606
Notes receivable	3,636,059	-	-	-	3,636,059
Advances to subgrantees	-	-	-	10,629	10,629
Allowance for uncollectibles	<u>(2,425,519)</u>	<u>(19,193,501)</u>	<u>(56,469,054)</u>	<u>(3,895,051)</u>	<u>(81,983,125)</u>
Total receivables	<u>\$ 1,210,540</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,629</u>	<u>\$ 1,221,169</u>

Program Loans Receivable—Represents amounts due to BURA of \$79,557,606, which are entirely allowed for.

Notes Receivable—Represents amounts due from various sources for projects designed to stimulate economic development and housing improvements in the City provided net of allowances for uncollectible accounts. BURA reports amounts of \$3,636,059 which are allowed for in the amount of \$2,425,519.

Advances to Subgrantees—Represents amounts funded through CDBG and other grant programs, the Agency contracts with subgrantees such as the Buffalo Economic Renaissance Corporation (“BERC”) and the Buffalo Neighborhood Revitalization Corporation (“BNRC”) to perform program services at the community level. In connection with those subgrantee contractors, BURA has advanced CDBG and other funds to provide working capital for the subgrantees. Both BNRC and BERC are in the process of dissolution. BURA reports advances to subgrantees of \$10,629.

Intergovernmental Receivables and Due from Component Units—Represent amounts due from other units of government, such as federal or City government. Intergovernmental receivables and due from component units at June 30, 2015 amount to \$2,933,024 and include the following:

	General	Community Development Block Grant	HOME Program	Total Nonmajor Funds	Total
Due from federal government	\$ 15,221	\$ 739,043	\$ 1,265,563	\$ 27,720	\$ 2,047,547
Due from City of Buffalo	120,893	477,886	284,655	2,043	885,477
Total	<u>\$ 136,114</u>	<u>\$ 1,216,929</u>	<u>\$ 1,550,218</u>	<u>\$ 29,763</u>	<u>\$ 2,933,024</u>

5. CAPITAL ASSETS

Governmental Activities—Capital asset activity for the primary government’s governmental activities, for the fiscal year ended June 30, 2015, was as follows:

	Balance 7/1/2014	Increases	Decreases	Balance 6/30/2015
Capital assets, not being depreciated:				
Land	\$ 10,168,121	\$ -	\$ 120,000	\$ 10,048,121
Construction in progress	1,958,704	5,280,464	1,958,704	5,280,464
Total capital assets, not being depreciated	<u>12,126,825</u>	<u>5,280,464</u>	<u>2,078,704</u>	<u>15,328,585</u>
Capital assets, being depreciated:				
Buildings and building improvements	285,578,610	13,538,994	462,210	298,655,394
Improvements other than buildings	50,360,523	6,202,512	3,913	56,559,122
Machinery and equipment	63,808,352	3,394,777	1,489,140	65,713,989
Infrastructure	427,636,535	39,408,150	-	467,044,685
Total capital assets, being depreciated	<u>827,384,020</u>	<u>62,544,433</u>	<u>1,955,263</u>	<u>887,973,190</u>
Less accumulated depreciation for:				
Buildings and building improvements	112,286,659	6,313,660	250,358	118,349,961
Improvements other than buildings	30,626,688	2,316,646	3,913	32,939,421
Machinery and equipment	44,680,819	5,107,411	1,432,680	48,355,550
Infrastructure	202,617,500	17,118,950	-	219,736,450
Total accumulated depreciation	<u>390,211,666</u>	<u>30,856,667</u>	<u>1,686,951</u>	<u>419,381,382</u>
Total capital assets, being depreciated, net	<u>437,172,354</u>	<u>31,687,766</u>	<u>268,312</u>	<u>468,591,808</u>
Governmental activities capital assets, net	<u>\$ 449,299,179</u>	<u>\$ 36,968,230</u>	<u>\$ 2,347,016</u>	<u>\$ 483,920,393</u>

Business-type Activities—Capital asset activity for the primary government’s business-type activities, for the fiscal year ended June 30, 2015, was as follows:

	Balance 7/1/2014	Increases	Decreases	Balance 6/30/2015
Capital assets, not being depreciated:				
Land	\$ 3,362,210	\$ -	\$ -	\$ 3,362,210
Construction in progress	1,017,192	2,741,178	2,104,068	1,654,302
Total capital assets, not being depreciated	<u>4,379,402</u>	<u>2,741,178</u>	<u>2,104,068</u>	<u>5,016,512</u>
Capital assets, being depreciated:				
Buildings and building improvements	175,418,506	1,474,979	-	176,893,485
Improvements other than buildings	504,581	-	-	504,581
Machinery and equipment	8,927,474	1,071,821	-	9,999,295
Infrastructure	100,374,507	1,627,183	-	102,001,690
Total capital assets, being depreciated	<u>285,225,068</u>	<u>4,173,983</u>	<u>-</u>	<u>289,399,051</u>
Less accumulated depreciation for:				
Buildings and building improvements	55,426,424	4,168,281	-	59,594,705
Improvements other than buildings	363,407	24,042	-	387,449
Machinery and equipment	6,262,110	1,347,686	-	7,609,796
Infrastructure	46,075,749	2,531,364	-	48,607,113
Total accumulated depreciation	<u>108,127,690</u>	<u>8,071,373</u>	<u>-</u>	<u>116,199,063</u>
Total capital assets, being depreciated, net	<u>177,097,378</u>	<u>(3,897,390)</u>	<u>-</u>	<u>173,199,988</u>
Business-type activities capital assets, net	<u>\$ 181,476,780</u>	<u>\$ (1,156,212)</u>	<u>\$ 2,104,068</u>	<u>\$ 178,216,500</u>

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

Governmental activities:	
General government support	\$ 3,351,752
Public safety	6,236,071
Streets and sanitation	16,516,578
Economic assistance and opportunity	30,263
Culture and recreation	4,302,940
Health and community services	419,063
Total governmental activities depreciation expense	<u>\$ 30,856,667</u>
Business-type activities:	
Solid waste and recycling	\$ 1,308,232
Parking	1,618,927
Water system	5,144,214
Total business-type activities depreciation expense	<u>\$ 8,071,373</u>

The carrying value of idle impaired assets within business-type activities at June 30, 2015, totaling \$175,400, represents an impaired firehouse, a library and a community center land improvements.

Board of Education

Capital asset activity for the Board, for the fiscal year ended June 30, 2015, was as follows:

	Balance 7/1/2014	Increases	Decreases	Balance 6/30/2015
Capital assets, not being depreciated:				
Land	\$ 3,424,003	\$ -	\$ 417,303	\$ 3,006,700
Construction in progress	10,231,998	11,392,890	6,820,086	14,804,802
Total capital assets, not being depreciated	<u>13,656,001</u>	<u>11,392,890</u>	<u>7,237,389</u>	<u>17,811,502</u>
Capital assets, being depreciated:				
Land improvements	5,689,833	-	147,147	5,542,686
Buildings and building improvement	1,705,694,583	16,479,483	4,577,406	1,717,596,660
Equipment	23,804,049	1,226,851	295,432	24,735,468
Total capital assets, being depreciated	<u>1,735,188,465</u>	<u>17,706,334</u>	<u>5,019,985</u>	<u>1,747,874,814</u>
Less accumulated depreciation for:				
Land improvements	4,348,811	95,341	147,147	4,297,005
Buildings and building improvement	576,098,493	75,782,376	4,150,436	647,730,433
Equipment	15,992,366	2,281,651	284,761	17,989,256
Total accumulated depreciation	<u>596,439,670</u>	<u>78,159,368</u>	<u>4,582,344</u>	<u>670,016,694</u>
Total capital assets being depreciated, net	<u>1,138,748,795</u>	<u>(60,453,034)</u>	<u>437,641</u>	<u>1,077,858,120</u>
Board capital assets, net	<u>\$ 1,152,404,796</u>	<u>\$ (49,060,144)</u>	<u>\$ 7,675,030</u>	<u>\$ 1,095,669,622</u>

Buffalo Urban Renewal Agency

Capital asset activity for BURA, for the fiscal year ended June 30, 2015, was as follows:

	Balance 7/1/2014	Additions and Reclassifications	Deletions and Reclassifications	Balance 6/30/2015
Capital assets, being depreciated:				
Buildings	\$ 7,223,998	\$ -	\$ 4,831,668	\$ 2,392,330
Equipment	623,547	349	-	623,896
Vehicles	105,558	-	-	105,558
Total capital assets, being depreciated	<u>7,953,103</u>	<u>349</u>	<u>4,831,668</u>	<u>3,121,784</u>
Less accumulated depreciation for:				
Buildings	4,059,752	65,164	2,510,936	1,613,980
Equipment	623,547	1,083	6,954	617,676
Vehicles	105,558	-	-	105,558
Total accumulated depreciation	<u>4,788,857</u>	<u>66,247</u>	<u>2,517,890</u>	<u>2,337,214</u>
BURA capital assets, net	<u>\$ 3,164,246</u>	<u>\$ (65,898)</u>	<u>\$ 2,313,778</u>	<u>\$ 784,570</u>

During the year ended June 30, 2015, BURA came to an agreement with a third party to sell a building. As a result, the building's book value was compared to the sale price and BURA recognized an impairment of \$700,062. Additionally, BURA incurred a loss on sale of capital assets of \$1,613,716.

6. ACCRUED LIABILITIES

Accrued liabilities reported by governmental funds at June 30, 2015, were as follows:

	General Fund	BFSA Special Revenue Fund	Nonmajor Funds	Total Governmental Funds
Salary and employee benefits	\$ 23,192,244	\$ 28,721	\$ -	\$ 23,220,965
Other accruals	-	-	764,967	764,967
Total accrued liabilities	<u>\$ 23,192,244</u>	<u>\$ 28,721</u>	<u>\$ 764,967</u>	<u>\$ 23,985,932</u>

7. PENSION OBLIGATIONS

The City participates in the New York State and Local Police and Fire Retirement System (“PFRS”) and the New York State and Local Employees’ Retirement System (“ERS”), which are collectively referred to as the New York State and Local Retirement System (the “System”). These cost-sharing multiple-employer public employee retirement systems compute contribution retirements based on the New York State Retirement and Social Security Law (“NYSRSSL”).

Plan Descriptions and Benefits Provided

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

The systems are noncontributory, except for employees who joined the ERS after July 27, 1976 who contribute three percent (3%) of their salary for the first ten years of membership, and employees who joined on or after January 10, 2010 (ERS) or January 9, 2010 (PFRS), who generally contribute three percent (3%) to three and one half percent (3.5%) of their salary for their entire length of service. In addition, employee contribution rates under ERS Tier VI vary based on a sliding salary scale. The Comptroller annually certifies the actuarially determined rates expressly used in computing the employers’ contributions based on salaries paid during the System’s fiscal year ending March 31.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Inflows of Resources Related to Pensions—At June 30, 2015, the City reported the following liabilities for its proportionate share of the net pension liabilities for PFRS and ERS. The net pension liabilities were measured as of March 31, 2015. The total pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of April 1, 2014, with update procedures used to roll forward the total net pension liabilities to the measurement date. The City’s proportion of the net pension liabilities were based on projections of the City’s long-term share of contributions to the System relative to the projected contributions of all participating members, actuarially determined. This information was provided by the System in reports provided to the City.

	<u>PFRS</u>	<u>ERS</u>
Measurement date	March 31, 2015	March 31, 2015
Net pension liability	\$ 9,848,756	\$ 7,269,810
City's portion of the Plan's total net pension liability	3.5779889%	0.2151949%

For the year ended June 30, 2015, the City recognized pension expenses of \$24,177,746 and \$6,748,341, respectively, for PFRS and ERS. At June 30, 2015, the City reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	
	<u>PFRS</u>	<u>ERS</u>
Differences between expected and actual experiences	\$ 1,187,697	\$ 232,715
Net difference between projected and actual earnings on pension plan investments	3,306,555	1,262,674
Changes in proportion and differences between the City's contributions and proportionate share of contributions	6,700,192	676,375
City contributions subsequent to the measurement date	<u>5,756,199</u>	<u>2,560,888</u>
Total	<u>\$ 16,950,643</u>	<u>\$ 4,732,652</u>

The City’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>PFRS</u>	<u>ERS</u>
2016	\$ 2,404,217	\$ 542,941
2017	2,404,217	542,941
2018	2,404,217	542,941
2019	2,404,217	542,941
2020	1,577,576	-

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

	<u>PFRS</u>	<u>ERS</u>
Measurement date	March 31, 2015	March 31, 2015
Actuarial valuation date	April 1, 2014	April 1, 2014
Interest rate	7.50%	7.50%
Salary scale	6.00%	4.90%
Decrement tables	April 1, 2005- March 31, 2010	April 1, 2005- March 31, 2010
Inflation rate	2.7%	2.7%

Annuitant mortality rates are based on April 1, 2005 – March 31, 2010 System’s experience with adjustments for mortality improvements based on Society of Actuaries’ Scale MP-2014.

The actuarial assumptions used in the April 1, 2014 valuation are based on the results of an actuarial experience study for the period April 1, 2005 – March 31, 2010.

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

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
	<u>PFRS and ERS</u>	
	<u>March 31, 2015</u>	
Measurement date		
Asset class:		
Domestic equities	38.0 %	7.3 %
International equities	13.0	8.6
Private equity	10.0	11.0
Real estate	8.0	8.3
Absolute return strategies	3.0	6.8
Opportunistic portfolio	3.0	8.6
Real assets	3.0	8.7
Bonds and mortgages	18.0	4.0
Cash	2.0	2.3
Inflation-indexed bonds	2.0	4.0
Total	<u>100.0 %</u>	

Discount Rate—The discount rate used to calculate the total pension liabilities was 7.5%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption—The chart below presents the City’s proportionate share of the net pension liabilities calculated using the discount rate of 7.5%, as well as what the City’s proportionate share of the net pension liabilities would be if they were calculated using a discount rate that is one percentage-point lower (6.5%) or one percentage-point higher (8.5%) than the current assumption.

	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
Employer's proportionate share of the net pension liability—PFRS	\$ 131,131,032	\$ 9,848,756	\$ (91,793,110)
Employer's proportionate share of the net pension liability—ERS	48,456,421	7,269,810	(27,501,905)

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

	(Dollars in Thousands)		
	PFRS	ERS	Total
Valuation date	March 31, 2015	March 31, 2015	
Employers' total pension liability	\$ 28,474,417	\$ 164,591,504	\$ 193,065,921
Plan fiduciary net position	28,199,157	161,213,259	189,412,416
Employers' net pension liability	<u>\$ 275,260</u>	<u>\$ 3,378,245</u>	<u>\$ 3,653,505</u>
System fiduciary net position as a percentage of total pension liability	99.03%	97.95%	98.11%

Payables to the Pension Plan—Employer contributions are paid annually based on the System’s fiscal year which ends on March 31. Accrued retirement contributions as of June 30, 2015 represent the projected employer contribution for the period of April 1, 2015 through June 30, 2015 based on paid System wages multiplied by the employer’s contribution rate, by tier. Accrued retirement contributions as of June 30, 2015 amounted to \$2,067,206 and \$3,398,511 for PFRS and ERS, respectively.

Buffalo Fiscal Stability Authority

The BFSA also participates in the ERS. A liability to ERS of \$16,841 is accrued based on the BFSA’s legally required contribution for employee services rendered from April 1, 2015 through June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Inflows of Resources Related to Pensions—At June 30, 2015, the BFSA reported a liability of \$62,198 for its proportionate share of the net pension liability. At the March 31, 2015 measurement date, the BFSA’s proportion was 0.0018411%.

For the year ended June 30, 2015, BFSA recognized pension expense of \$50,767. At June 30, 2015, the BFSA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u>ERS</u>	
Differences between expected and actual experiences	\$ 1,991	\$ -
Net difference between projected and actual earnings on pension plan investments	10,803	-
Changes in proportion and differences between BFSA's contributions and proportionate share of contributions	-	22,092
BFSA contributions subsequent to the measurement date	<u>16,841</u>	<u>-</u>
Total	<u>\$ 29,635</u>	<u>\$ 22,092</u>

The BFSA’s contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ending June 30, 2016. Other amounts reported as net deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>ERS</u>
2016	\$ 2,325
2017	2,325
2018	2,325
2019	2,323
2020	-
Thereafter	-

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption—The chart on the following page presents the BFSA’s proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the BFSA’s proportionate share of the net pension liability would be if they were calculated using a discount rate that is one percentage-point lower (6.5%) or one percentage-point higher (8.5%) than the current assumption.

ERS	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
Employer's proportionate share of the net pension liability	\$ 414,575	\$ 62,198	\$ (235,296)

Board of Education

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

Plan Descriptions and Benefits Provided

Teachers' Retirement System—The Board participates in the New York State Teachers' Retirement System ("TRS"). This is a cost-sharing multiple-employer retirement system. TRS provides retirement benefits as well as death and disability benefits to plan members and beneficiaries as authorized by the Education Law and Retirement and the New York State Retirement and Social Security Law ("NYSRSSL"). TRS is governed by a 10 member Board of Trustees. TRS benefits are established under New York State Law. Membership is mandatory and automatic for all full-time teachers, teaching assistants, guidance counselors and administrators employed in New York State Public Schools and BOCES who elect to participate in TRS. Once a public employer elects to participate in TRS, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. Additional information regarding TRS may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395 or by referring to the NYSSTR Comprehensive Annual Financial Report which can be found on TRS' website at www.nystrs.org.

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Inflows of Resources Related to Pensions—At June 30, 2015, the Board reported the following (asset)/liability for its proportionate share of the net pension (asset)/liability for each of the Systems. The net pension (asset)/liability was measured as of March 31, 2015 for ERS and June 30, 2014 for TRS. The total pension (asset)/liability used to calculate the net pension (asset)/liability was determined by an actuarial valuation. The Board's proportion of the net pension (asset)/liability was based on a projection of the Board's long-term share of contributions to the Systems relative to the projected contributions of all participating members, actuarially determined. This information was provided by ERS and TRS in reports provided to the Board.

	TRS	ERS
Measurement date	June 30, 2014	March 31, 2015
Net pension (asset)/liability	\$ (188,878,283)	\$ 4,813,758
Board's portion of the Plan's total net pension (asset)/liability	1.695591%	0.142493%

For the year ended June 30, 2015, the Board recognized an actuarial increase of \$7,444,071 for the TRS and pension expense of \$4,429,256 for ERS. At June 30, 2015, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources
	TRS	ERS	TRS
Differences between expected and actual experiences	\$ -	\$ 154,094	\$ 2,761,999
Net difference between projected and actual earnings on pension plan investments	-	836,089	126,852,294
Changes in proportion and differences between the Board's contributions and proportionate share of contributions	-	291,029	362,158
The Board's contributions subsequent to the measurement date	<u>43,929,324</u>	<u>1,836,921</u>	<u>-</u>
Total	<u>\$ 43,929,324</u>	<u>\$ 3,118,133</u>	<u>\$ 129,976,451</u>

Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources and deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	TRS	ERS
2016	\$ 32,076,348	\$ 320,303
2017	32,076,348	320,303
2018	32,076,348	320,303
2019	32,076,348	320,303
2020	363,274	-
Thereafter	1,307,785	-

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

	TRS	ERS
Measurement date	June 30, 2014	March 31, 2015
Actuarial valuation date	June 30, 2013	April 1, 2014
Interest rate	8.00%	7.50%
Salary scale	4.01-10.91%	4.90%
Decrement tables	July 1, 2005- June 30, 2010	April 1, 2005- March 31, 2010
Inflation rate	3.0%	2.7%

For TRS, annuitant mortality rates are based on July 1, 2005-June 30, 2010 System experience with adjustments for mortality improvements based on the Society of Actuaries Scale AA. The actuarial assumptions used in the June 30, 2013 valuation are based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2010.

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

Measurement date Asset class:	Target Allocation		Long-Term Expected Real Rate of Return	
	TRS	ERS	TRS	ERS
			June 30, 2015	March 31, 2015
Domestic equities	37.0 %	38.0 %	7.3 %	7.3 %
International equities	18.0	13.0	8.5	8.6
Private equity	0.0	10.0	0.0	11.0
Real estate	10.0	8.0	5.0	8.3
Alternative investments	7.0	0.0	11.0	0.0
Absolute return strategies	20.0	3.0	1.4	6.8
Opportunistic portfolio	0.0	3.0	0.0	8.6
Real assets	0.0	3.0	0.0	8.7
Bonds and mortgages	8.0	18.0	3.4	4.0
Cash	0.0	2.0	0.0	2.3
Inflation-indexed bonds	0.0	2.0	0.0	4.0
Total	<u>100.0 %</u>	<u>100.0 %</u>		

Discount Rate—The discount rate used to calculate the total pension liabilities was 7.5% for ERS and 8.0% for TRS. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption—The chart on the following page presents the Board’s proportionate share of the net pension liabilities calculated using the discount rate of 7.5% for ERS and 8.0% for TRS, as well as what the Board’s proportionate share of the net pension (asset)/liability would be if they were calculated using a discount rate that is one percentage-point lower (6.5% for ERS and 7.0% for TRS) or one percentage-point higher (8.5% for ERS and 9.0% for TRS) than the current assumption.

TRRS	1% Decrease (7.0%)	Current Assumption (8.0%)	1% Increase (9.0%)
Employer's proportionate share of the net pension (asset)/liability	\$ (4,074,369)	\$ (188,878,283)	\$ (346,356,883)
ERS	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
Employer's proportionate share of the net pension (asset)/liability	\$ 32,085,783	\$ 4,813,758	\$ (18,210,592)

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

	(Dollars in Thousands)		
	TRRS	ERS	Total
Valuation date	June 30, 2014	March 31, 2015	
Employers' total pension (asset)/liability	\$ 97,015,706	\$ 164,591,504	\$ 261,607,210
Plan fiduciary net position	108,155,083	161,213,259	269,368,342
Employers' net pension (asset)/liability	<u>\$ (11,139,377)</u>	<u>\$ 3,378,245</u>	<u>\$ (7,761,132)</u>
System fiduciary net position as a percentage of total pension liability	111.48%	97.95%	102.97%

Payables to the Pension Plan—For TRRS, employer and employee contributions for the fiscal year ended June 30, 2015 are paid to the System in September, October and November 2015 through a state aid intercept. Accrued retirement contributions as of June 30, 2015 represent employee and employer contributions for the fiscal year ended June 30, 2015 based on paid TRRS wages multiplied by the employer's contribution rate, by tier, and employee contributions for the fiscal year as reported to the TRRS System. Accrued retirement contributions for TRRS as of June 30, 2015 amounted to \$46,188,345. For ERS, accrued retirement contributions as of June 30, 2015 amounted to \$1,836,921.

Buffalo Urban Renewal Agency

BURA also participates in the ERS. Accrued retirement contributions as of June 30, 2015 represent the projected employer contribution for the period of April 1, 2015 through June 30, 2015 based on paid ERS wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2015 amounted to \$93,902.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Inflows of Resources Related to Pensions—At June 30, 2015, BURA reported a liability of \$272,042 for its proportionate share of the net pension liability. At the March 31, 2015 measurement date, BURA's proportion was 0.0080528%.

For the year ended June 30, 2015, BURA recognized pension expense of \$242,124. At June 30, 2015, BURA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	ERS	
Differences between expected and actual experiences	\$ 8,708	\$ -
Net difference between projected and actual earnings on pension plan investments	47,250	-
Changes in proportion and differences between BURA's contributions and proportionate share of contributions	-	5,486
BURA contributions subsequent to the measurement date	<u>130,955</u>	<u>-</u>
Total	<u>\$ 186,913</u>	<u>\$ 5,486</u>

BURA's contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	ERS
2016	\$ 12,618
2017	12,618
2018	12,618
2019	12,618
2020	-
Thereafter	-

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption—The chart below presents BURA's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what BURA's proportionate share of the net pension liability would be if they were calculated using a discount rate that is one percentage-point lower (6.5%) or one percentage-point higher (8.5%) than the current assumption.

ERS	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
Employer's proportionate share of the net pension liability	\$ 1,813,276	\$ 272,042	\$ (1,029,142)

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

	<u>(Dollars in Thousands)</u>
	<u>ERS</u>
Valuation date	March 31, 2015
Employers' total pension liability	\$ 164,591,504
Plan fiduciary net position	<u>161,213,259</u>
Employers' net pension liability	<u>\$ 3,378,245</u>
System fiduciary net position as a percentage of total pension liability	97.95%

Payables to the Pension Plan—Accrued retirement contributions as of June 30, 2015 amounted to \$93,902.

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

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

Plan Description—The City provides continuation of medical insurance coverage to employees that retire under the New York State Retirement Systems at the same time such service is ended, if such employees have been continuously employed by the City for the equivalent of at least 10 years at the date of retirement. Based on collective bargaining agreements, the retiree and/or his beneficiaries receive health care coverage for the life of the retiree. The retiree’s share of premium costs depends on the employee group and length of service. Health care benefits for nonunion employees are similar to those of union employees pursuant to City Charter. Additionally, under requirements of state and local law, the City compensates firefighters that retire due to disability before the mandatory retirement age of 70. This compensation is equal to the differential between the retiree’s pension and the salary that he/she would receive if still in active service. There is no separate audited GAAP-basis post-employment benefit plan report available. There are currently 138 firefighters that receive such compensation.

There have been no significant changes in the number of employees covered. The number of participants as of July 1, 2014, the effective date of the biannual OPEB valuation, is as follows:

Active employees	2,526
Retired employees	2,697
Spouses of retirees	1,640
Dependents	<u>863</u>
Total	<u>7,726</u>

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

For the year ended June 30, 2015, the City's annual OPEB cost (expense) is \$95,585,000 while the Annual Required Contribution ("ARC") is \$95,129,000. Considering the annual expense, as well as payment for current health insurance premiums which totaled approximately \$45,987,000 for retirees and their beneficiaries, the result was an increase in the net OPEB obligation of approximately \$49,598,000 for the year ended June 30, 2015.

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

	Governmental Activities Medical	Governmental Activities Disability	Business-Type Activities	Total Primary Government
	(000s omitted)			
Annual OPEB Cost and Net OPEB Obligation				
Actuarial accrued liability ("AAL")	\$ 1,289,752	\$ 71,973	\$ 66,687	\$ 1,428,412
Unfunded actuarial accrued liability ("UAAL")	\$ 1,289,752	\$ 71,973	\$ 66,687	\$ 1,428,412
Normal cost — beginning of the year	\$ 35,563	\$ 1,787	\$ 1,330	\$ 38,680
Amortization factor based on 30 years	26.2	26.2	26.2	26.2
Annual covered payroll	\$ 180,257	\$ 2,779	\$ 14,024	\$ 197,060
UAAL as a percentage of covered payroll	715.5%	2589.9%	475.5%	724.9%
Level Dollar Amortization				
Calculation of ARC Under Projected Unit Credit Method				
ARC normal cost with interest — end of year	\$ 35,563	\$ 1,330	\$ 1,787	\$ 38,680
UAAL over 30 years with interest — end of year	49,284	2,750	2,549	54,583
Interest	1,697	82	87	1,866
Annual required contribution ("ARC")	86,544	4,162	4,423	95,129
Interest on net OPEB obligation	13,464	3,403	965	17,832
Adjustment to ARC	(13,119)	(3,316)	(941)	(17,376)
Annual OPEB cost (expense)	86,889	4,249	4,447	95,585
Contributions for the year ended June 30, 2015	(38,073)	(5,141)	(2,773)	(45,987)
Increase in net OPEB obligation	48,816	(892)	1,674	49,598
Net OPEB obligation — June 30, 2014	336,595	85,078	24,135	445,808
Net OPEB obligation — June 30, 2015	\$ 385,411	\$ 84,186	\$ 25,809	\$ 495,406
Percent of annual OPEB cost contributed	44%	121%	62%	48%

Funding Status and Funding Progress—As of July 1, 2014, calculations were based on plan data as of July 1, 2014 and financial data as of July 1, 2014. The actuarial accrued liability for benefits was \$1,428,411,700, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was \$197,060 and the ratio of the unfunded actuarial accrued liability ("UAAL") to the covered payroll was 93.6%.

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

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

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

Year Ended June 30,	Annual OPEB Cost	Contributions Made	Percentage Contributed	Net OPEB Obligation
(000's omitted)				
2015	\$ 95,584	\$ 45,987	48.1%	\$ 495,406
2014	107,857	46,490	43.1%	445,808
2013	103,307	42,815	41.4%	384,441

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

In the July 1, 2014 actuarial valuation, the liability was computed using the projected unit credit method. The actuarial assumptions utilized a 4% investment rate of return for both governmental and business-type activities. The rate is based on the projected long-term earning rate of the assets expected to be available-to-pay benefits. The inflation growth rate for total payroll is assumed to be 3%, for fire base salary, 2.25% and for NYS fire disability, 1.5% annual growth after 5 years of retirement. The valuation assumes healthcare cost trends as follows: all plans pre-Medicare/Medicare inflation rates, 8.2%; all reduced by decrements to reach a rate of 4.4% in 2088.

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

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to

continual revision as actual results are compared to past expectations and new estimates are made about the future.

Buffalo Fiscal Stability Authority

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

The Plan does not issue a publicly available financial report. Eligibility is based on covered employees who retire from the BFSFA over age 55 and with ten or more years of service. The required contribution is based on projected pay-as-you-go financing requirements, with no current funding of actuarially determined liabilities. For the year ended June 30, 2015 there were no retirees of the BFSFA receiving benefits.

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

The table below summarizes the BFSFA’s annual OPEB for the year ended June 30, 2015.

Annual OPEB Cost and Net OPEB Obligation		(000's omitted)
Normal cost	\$	113
Amortization of UAAL		<u>12</u>
Annual required contribution ("ARC")		125
Interest on net OPEB obligation		18
Adjustment to ARC		<u>(47)</u>
Annual OPEB cost		96
Contributions for the year ended June 30, 2015		<u>-</u>
Increase in net OPEB obligation		96
Net OPEB obligation—beginning		<u>472</u>
Net OPEB obligation—ending	\$	<u><u>568</u></u>

As of June 30, 2015, the most recent alternative measurement method date, the funded status of BFSFA’s plan was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability ("AAL") (b)	Unfunded AAL ("UAAL") (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
(000's) omitted						
As of June 30, 2015	\$ -	\$ 338	\$ 338	0.0%	\$ 361	93.6%

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

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
(000's omitted)			
2015	\$ 96	0.0%	\$ 568
2014	44	0.0%	472
2013	57	0.0%	428

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

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

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

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

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

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

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

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

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

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

Board of Education

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

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

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

Annual OPEB Costs and Net OPEB Obligation—The Board’s OPEB cost (expense) is calculated based on the annual required contribution of the employer. The Board has engaged an actuary to calculate the ARC and related information per the provisions of GASB for employers in plans with more than 100 total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The components of the Board’s annual OPEB cost for the year, the amount actually contributed to the Board’s Plan, and the Board’s net OPEB obligation to the Board’s Plan at June 30, 2015, are shown below:

Annual OPEB Cost and Net OPEB Obligation	(000's omitted)
Annual required contribution (ARC)	\$ 163,504
Interest on net OPEB obligation	27,221
Adjustment to ARC	<u>(39,356)</u>
Annual OPEB cost (expense)	151,369
Contributions for the year ended June 30, 2014	<u>(61,575)</u>
Increase in net OPEB obligation	89,794
Net OPEB obligation—beginning	<u>680,531</u>
Net OPEB obligation—ending	<u>\$ 770,325</u>
Percent of annual OPEB cost contributed	40.7%

Funding Status and Funding Progress—As of June 30, 2015, the most recent interim actuarial valuation performed, the actuarial accrued liability for benefits was \$1,825,333,000, all of which was unfunded. The funded status of the plan was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability ("AAL") (b)	Unfunded AAL ("UAAL") (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
(000's omitted)						
As of June 30, 2015	\$ -	\$ 1,825,333	\$ 1,825,333	0.0%	\$ 296,956	614.7%

Actuarial valuations for OPEB involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. These actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future.

Year Ended June 30,	Annual OPEB Cost	Contributions Made	Percentage Contributed	Net OPEB Obligation
(000's omitted)				
2015	\$ 151,369	\$ 61,575	40.7%	\$ 770,325
2014	158,587	62,414	39.4%	680,531
2013	166,001	60,065	36.2%	584,358

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 actuarial calculations of the OPEB plan reflect a long-term perspective. Consistent with this perspective, actuarial valuations will use actuarial methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The June 30, 2015 actuarial valuation utilized the projected unit cost method. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is the expected short-term investment rate of the Board's own assets since currently the plan has no assets at the valuation date in order to establish a plan investment rate. The assumed rate for all pre-65 healthcare benefits is initially at 8.5% and decreases to a 5.0% long-term trend rate after seven years. For all post-65 healthcare benefits this rate initially is at 7.0% and decreases to a 5.0% long-term trend rate after four years. Both rates included a 3% inflation assumption. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The amortization period is not to exceed 30 years.

Buffalo Urban Renewal Agency

Plan Description—In addition to pension benefits, BURA provides continuation of medical insurance coverage to employees that retire under the System at the same time they end their service to BURA. Based on the collective bargaining agreement, the retiree and his or her beneficiaries receive this coverage for the life of the retiree. Health care benefits for non-union employees are

similar to those of union employees. The retiree's share of premium cost range from 0%-25%, depending on the employee hire date.

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

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

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

Annual OPEB Cost and Net OPEB Obligation	
(000's omitted)	
Annual required contribution ("ARC")	\$ 1,374
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost (expense)	<u>1,374</u>
Contributions made	<u>(449)</u>
Increase in net OPEB obligation	925
Net OPEB obligation—beginning	<u>12,014</u>
Net OPEB obligation—ending	<u><u>\$ 12,939</u></u>

Funding Status and Funding Progress—As of June 30, 2014, the most recent actuarial valuation date, the plan was not funded. An interim valuation was performed as of June 30, 2015. Since there were no assets, the unfunded actuarial accrued liability for benefits for governmental activities was \$16,499,280. The funded status of the plan was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability ("AAL") (b)	Unfunded AAL ("UAAL") (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
(000's omitted)						
As of June 30, 2014	\$ -	\$ 12,014	\$ 12,014	0.0%	\$ 1,936	620.7%

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

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

Year Ended June 30,	Annual OPEB Cost	Contributions Made	Percentage Contributed	Net OPEB Obligation
(000's omitted)				
2015	\$ 1,374	\$ 449	32.7%	\$ 12,939
2014	1,347	794	58.9%	12,014
2013	2,735	722	26.4%	11,818

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

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

In the June 30, 2014 actuarial valuation, the Age Adjusted Contribution Actuarial Cost Method was used, using an age adjustment factor of 1.03. The actuarial assumptions included a valuation date of June 30, 2014 and measurement date of June 30, 2015. The discount rate and payroll growth rate used were 2.5% and 2.0%, respectively. The unfunded actuarial accrued liability is being amortized over 30 years on a level percent of pay, open group basis, therefore the remaining amortization period at June 30, 2015 was twenty-four years.

9. RISK MANAGEMENT

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

The City is self-insured for general liability risk. The City is self-insured for workers' compensation and has accrued its best estimate of both asserted and unasserted workers' compensation losses. The reserve for workers' compensation is recorded at an estimated percent value using a discount rate of 5%. For the fiscal years ended June 30, 2013, 2014, and 2015, the City incurred expenditures of \$5,539,094, \$4,098,492, and \$3,542,084, respectively, for property damage and personal injury claims. For the fiscal years ended June 30, 2013, 2014, and 2015, the City expensed \$6,034,245, \$7,291,697, and \$6,809,060 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, 2015, the City estimated the following general liabilities:

	Governmental Activities	Business-type Activities
Workers' compensation — fire and police medical	\$ 3,021,103	\$ -
Workers' compensation — other employees	5,126,169	2,743,962
	<u>\$ 8,147,272</u>	<u>\$ 2,743,962</u>

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

Changes in the reported liability in the governmental and business-type activities since June 30, 2013, are shown below:

	Governmental Activities	Business-type Activities
Estimated claims — June 30, 2013	\$ 7,882,908	\$ 1,776,677
Claims incurred	6,187,893	2,618,015
Payments 2013-2014	<u>(5,507,010)</u>	<u>(1,784,687)</u>
Estimated claims — June 30, 2014	8,563,791	2,610,005
Claims incurred	5,445,229	1,081,269
Payments 2014-2015	<u>(5,861,748)</u>	<u>(947,312)</u>
Estimated claims — June 30, 2015	<u>\$ 8,147,272</u>	<u>\$ 2,743,962</u>

The City has estimated claims arising during the ordinary course of its operation which are probable of a future loss to total \$11,900,000 and has been included within the City's liabilities. Additionally, management has identified claims judged to be reasonably possible of a negative impact which are not included within the City's liabilities. Such claims have been estimated to range from \$8,200,000 to \$11,600,000.

Board of Education

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

10. LEASE OBLIGATIONS

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

The City's future minimum lease payments under capital leases as of June 30, 2015, are as follows:

Fiscal Year Ending June 30,	Business-Type Activities
Total minimum lease payments—2016	\$ 241,554
Less: amount representing interest	<u>(856)</u>
Present value of minimum lease payments	<u>\$ 240,698</u>

The assets acquired through capital leases are as follows:

	Business-type Activities
Assets:	
Equipment	<u>\$ 2,800,000</u>
Total assets	2,800,000
Less: accumulated depreciation	<u>(2,566,667)</u>
Total assets, net	<u>\$ 233,333</u>

Operating Leases—Operating lease obligations are primarily for rental of space and equipment. Lease expenditures/ expenses for the year were approximately \$167,121. The future minimum rental payments required by the primary government for noncancelable operating leases are as follows:

Fiscal Year Ending June 30,	
2016	\$ 94,530
2017	60,155
2018	<u>13,320</u>
Total	<u>\$ 168,005</u>

Buffalo Fiscal Stability Authority

The BFSFA leases its office space from a City-related entity under the terms of an expired operating lease with a month to month arrangement. Rental expense amounted to \$42,063 for the year ended June 30, 2015.

Board of Education

Operating lease obligations are primarily for rental of space and equipment. Lease expenses for the year were approximately \$3,936,778. The future minimum rental payments required for noncancelable leases are shown below:

Fiscal Year Ending June 30,	
2016	\$ 3,501,087
2017	3,612,625
2018	3,746,949
2019	3,334,457
2020	3,406,351
2021-2025	16,102,380
2026-2028	<u>7,733,735</u>
Total	<u>\$ 41,437,584</u>

11. SHORT-TERM DEBT

Liabilities for bond anticipation notes (“BANs”) are generally accounted for in the Capital Projects Fund. Principal payments on BANs must be made annually. State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. The following is a summary of the City’s short-term debt for the year ended June 30, 2015:

Description	Interest Rate	Maturity Date	Balance 7/1/2014	Issues	Redemptions	Balance 6/30/2015
Capital Projects Fund:						
Various purposes	2.0%	5/29/2015	<u>\$ 7,367,399</u>	<u>\$ -</u>	<u>\$ 7,367,399</u>	<u>\$ -</u>

12. LONG-TERM LIABILITIES

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

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

The City's outstanding long-term liabilities include bonds payable, notes payable, capital leases, compensated absences, workers' compensation, landfill post-closure monitoring costs, other post-employment benefits ("OPEB") obligations, accrued derivative liability, judgments and claims, and net pension liability.

A summary of changes in the City's long-term debt at June 30, 2015 follows:

	Balance 7/1/2014 (as restated)	Additions	Reductions	Balance 6/30/2015	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligations bonds, net - City	\$ 216,374,769	\$ 29,088,985	\$ 26,879,769	\$ 218,583,985	\$ 28,288,985
General obligations bonds, net - BFSA	63,160,000	-	14,265,000	48,895,000	8,780,000
Premiums on bonds - City	9,407,153	4,682,249	2,440,394	11,649,008	2,295,690
Premiums on bonds - BFSA	3,677,856	-	509,684	3,168,172	509,356
Total bonds payable	<u>292,619,778</u>	<u>33,771,234</u>	<u>44,094,847</u>	<u>282,296,165</u>	<u>39,874,031</u>
Notes payable	802,632	-	262,264	540,368	267,509
Capital leases	474,927	-	474,927	-	-
Compensated absences	29,583,948	21,482,968	21,797,516	29,269,400	1,465,334
Workers' compensation	8,563,791	5,445,229	5,861,748	8,147,272	5,296,780
Landfill post-closure monitoring costs	980,000	-	70,000	910,000	70,000
OPEB obligation - City	421,673,000	91,138,000	43,214,000	469,597,000	-
OPEB obligation - BFSA	471,762	96,613	-	568,375	-
Judgments and claims	9,700,000	7,140,859	4,940,859	11,900,000	2,920,000
Net pension liability - City	22,919,130	-	7,072,012	15,847,118	-
Net pension liability - BFSA	83,198	-	21,000	62,198	-
Total governmental activities	<u>\$ 787,872,166</u>	<u>\$ 159,074,903</u>	<u>\$ 127,809,173</u>	<u>\$ 819,137,896</u>	<u>\$ 49,893,654</u>

(continued)

	Balance 7/1/2014 (as restated)	Additions	Reductions	Balance 6/30/2015	Due Within One Year
Business-type activities:					
Bonds payable:					
General obligations bonds - Parking	\$ 11,120,000	\$ -	\$ 2,270,000	\$ 8,850,000	\$ 2,340,000
General obligations bonds - Water	967,268	-	315,852	651,416	331,797
Water System revenue bonds	152,105,000	46,655,000	61,845,000	136,915,000	6,080,000
Premiums on bonds	801,528	6,158,955	200,962	6,759,521	156,123
Discounts on bonds	(249,581)	-	(11,071)	(238,510)	(11,114)
Total bonds payable	164,744,215	52,813,955	64,620,743	152,937,427	8,896,806
Capital leases	954,636	-	713,938	240,698	240,698
Compensated absences	1,473,389	1,347,365	1,473,389	1,347,365	89,027
Workers' compensation	2,610,005	1,081,269	947,312	2,743,962	913,520
OPEB obligation	24,135,000	4,447,000	2,773,000	25,809,000	-
Accrued derivative liability	1,816,216	-	1,816,216	-	-
Net pension liability	1,700,733	-	429,285	1,271,448	-
Total business-type activities	<u>\$ 197,434,194</u>	<u>\$ 59,689,589</u>	<u>\$ 72,773,883</u>	<u>\$ 184,349,900</u>	<u>\$ 10,140,051</u>

(concluded)

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

On April 28, 2015, the City issued \$29,088,985 in general improvement serial bonds. The serial bonds were issued at a premium of \$4,682,249 and at an interest rate of 2.0%-5.0%. Principal payments on the bonds begin April 1, 2016 and mature on April 1, 2026.

On June 3, 2015, the Water System issued \$46,655,000 in Series 2015 Water System Revenue Refunding bonds, which refunded the previously issued Series 2008A Water System Refunding bonds, the outstanding principal of which was \$55,645,000 at June 30, 2014. At the date of their issuance, \$61,500,000 of the variable rate 2008A bonds were hedged by means of an interest rate swap that had a notional amount of approximately \$53,700,000 at the time of refunding. As a result, the Water System no longer has any variable rate bonds or interest rate swaps outstanding. The Series 2015 refunding bonds were issued at a premium of \$6,158,955 and included issuance costs of \$521,025. The interest on the refunding bond ranges from 2.0 percent to 5.0 percent. The Water System deposited \$55,828,668 with an escrow agent and as a result, the 2008 bonds, as described above, are considered refunded and the liability of these bonds, \$55,645,000 has been removed from the financial statements. The difference between the reacquisition price and the amount refunded is reported as a deferred outflow of resources and is amortized over the life of the refunding issuance. The refunded bonds will produce a net present value debt service savings of approximately \$4,525,752. Principal payments on the bonds begin on July 1, 2016 and mature on July 1, 2035.

A summary of additions and payments for the year ended June 30, 2015 is shown below:

Year of Issuance	Original Issue	Interest Rate (%)	Year of Maturity	Balance 7/1/2014	Additions	Payments	Balance 6/30/2015	Due Within One Year
Governmental activities general obligations bonds issued by City of Buffalo:								
2002	\$ 23,825,000	2.5-5	2022	\$ 1,155,000	\$ -	\$ 1,155,000	\$ -	\$ -
2004	15,245,000	2-4.2	2016	3,240,000	-	1,585,000	1,655,000	1,655,000
2005	26,167,250	5.0	2025	9,235,651	-	2,121,211	7,114,440	1,040,972
2005	34,346,833	5.0	2019	4,727,288	-	1,536,065	3,191,223	1,525,842
2006	25,275,917	5.0	2022	12,979,000	-	1,907,000	11,072,000	2,003,000
2007	22,226,126	5.0	2023	14,578,433	-	1,323,228	13,255,205	1,388,740
2008	22,000,000	3.0-5.3	2023	14,725,000	-	1,340,000	13,385,000	1,410,000
2009	21,500,000	1.4-6.0	2024	15,515,000	-	1,275,000	14,240,000	1,315,000
2010	21,985,000	2.0-5.0	2025	17,295,000	-	1,235,000	16,060,000	1,295,000
2011	12,825,000	3.0-5.0	2021	4,185,000	-	1,315,000	2,870,000	1,320,000
2012	22,265,000	2.0-4.0	2026	18,475,000	-	1,265,000	17,210,000	1,300,000
2012	3,480,000	3.0-4.0	2022	3,480,000	-	-	3,480,000	1,255,000
2012	21,640,000	2.0-5.0	2023	18,205,000	-	1,755,000	16,450,000	1,805,000
2012	4,255,000	2.0-4.0	2024	3,525,000	-	2,170,000	1,355,000	295,000
2013	7,540,000	0.8-3.5	2025	6,930,000	-	570,000	6,360,000	575,000
2014	25,639,769	4.0-5.0	2023	25,639,769	-	2,734,769	22,905,000	2,725,000
2015	29,088,985	2.0-5.0	2026	-	29,088,985	-	29,088,985	2,848,985
Total				173,890,141	29,088,985	23,287,273	179,691,853	23,757,539
Governmental activities general obligations bonds issued by the City of Buffalo on behalf of discretely presented component unit – Board of Education:								
2004	\$ 2,700,000	2.0-4.9	2022	\$ 1,495,000	\$ -	\$ 160,000	\$ 1,335,000	\$ 165,000
2005	7,258,477	5.0	2016	1,595,444	-	778,083	817,361	817,361
2006	2,483,000	5.0	2020	1,276,000	-	188,000	1,088,000	197,000
2007	5,889,000	5.0	2019	2,885,000	-	522,000	2,363,000	548,000
2008	8,920,000	3.0-5.3	2023	5,970,000	-	540,000	5,430,000	570,000
2009	3,530,000	2.5-5.0	2024	2,545,000	-	210,000	2,335,000	220,000
2010	4,900,000	2.5-4.0	2025	3,775,000	-	290,000	3,485,000	300,000
2011	21,825,000	3.0-4.0	2021	15,230,000	-	3,455,000	11,775,000	3,635,000
2012	4,900,000	3.0-4.0	2026	4,070,000	-	280,000	3,790,000	290,000
2012	15,355,000	2.0-5.0	2021	14,850,000	-	2,100,000	12,750,000	2,250,000
2012	5,000,000	2.0-3.3	2027	4,420,000	-	295,000	4,125,000	300,000
2012	6,720,000	2.0-4.0	2025	5,095,000	-	820,000	4,275,000	365,000
2012	11,230,000	1.0-4.0	2023	9,490,000	-	850,000	8,640,000	875,000
2012	20,515,000	1.0-5.0	2024	17,065,000	-	1,480,000	15,585,000	1,520,000
Total				89,761,444	-	11,968,083	77,793,361	12,052,361
Less bonds issued by City to BFSA:								
2005A	26,167,250	4.0-5.0	2025	(9,235,651)	-	(2,121,211)	(7,114,440)	(1,040,972)
2005BC	41,605,310	5.0	2019	(6,322,732)	-	(2,314,148)	(4,008,584)	(2,343,203)
2006A	27,758,917	4.0-5.0	2020	(14,255,001)	-	(2,095,000)	(12,160,001)	(2,200,000)
2007A	28,115,126	4.0-5.0	2023	(17,463,432)	-	(1,845,228)	(15,618,204)	(1,936,740)
Total mirror bonds				(47,276,816)	-	(8,375,587)	(38,901,229)	(7,520,915)
Net governmental activities general obligation bonds issued by the City of Buffalo				216,374,769	29,088,985	26,879,769	218,583,985	28,288,985

(continued)

Year of Issuance	Original Issue	Interest Rate (%)	Year of Maturity	Balance 7/1/2014	Additions	Payments	Balance 6/30/2015	Due Within One Year
Governmental activities general obligations bonds issued by Buffalo Fiscal Stability Authority:								
2004	\$ 25,745,000	4.0-5.3	2015	\$ 3,215,000	\$ -	\$ 3,215,000	\$ -	\$ -
2005A	28,030,000	4.0-5.0	2025	11,430,000	-	2,090,000	9,340,000	2,140,000
2005BC	47,065,000	5.0	2019	12,435,000	-	5,145,000	7,290,000	2,630,000
2006A	27,270,000	4.0-5.0	2020	16,250,000	-	1,995,000	14,255,000	2,095,000
2007A	28,470,000	4.0-5.0	2023	19,830,000	-	1,820,000	18,010,000	1,915,000
Total				<u>63,160,000</u>	<u>-</u>	<u>14,265,000</u>	<u>48,895,000</u>	<u>8,780,000</u>
Total governmental activities bonds				<u>279,534,769</u>	<u>29,088,985</u>	<u>41,144,769</u>	<u>267,478,985</u>	<u>37,068,985</u>
Unamortized premium - City				9,407,153	4,682,249	2,440,394	11,649,008	2,295,690
Unamortized premium - BFSA				<u>3,677,856</u>	<u>-</u>	<u>509,684</u>	<u>3,168,172</u>	<u>509,356</u>
Total governmental activities bonds, net				<u>\$ 292,619,778</u>	<u>\$ 33,771,234</u>	<u>\$ 44,094,847</u>	<u>\$ 282,296,165</u>	<u>\$ 39,874,031</u>
Business-type activities — general obligation bonds:								
Parking:								
2002	\$ 21,310,000	2.5-5.4	2022	\$ 1,390,000	\$ -	\$ 1,390,000	\$ -	\$ -
2012	8,415,000	2.0-5.0	2022	8,165,000	-	75,000	8,090,000	1,580,000
2012	2,250,000	2.0-4.0	2024	1,565,000	-	805,000	760,000	760,000
Subtotal — Parking				<u>11,120,000</u>	<u>-</u>	<u>2,270,000</u>	<u>8,850,000</u>	<u>2,340,000</u>
Water System:								
2005	6,552,147	5.0	2018	967,268	-	315,852	651,416	331,797
Total				<u>12,087,268</u>	<u>-</u>	<u>2,585,852</u>	<u>9,501,416</u>	<u>2,671,797</u>
Business-type activities — Water System Revenue Bonds:								
2002	\$ 11,785,000	2.5-4.8	2018	1,290,000	-	300,000	990,000	315,000
2003	3,901,741	5.6-6.3	2031	240,000	-	115,000	125,000	125,000
2006	19,917,236	3.6-4.8	2028	13,955,000	-	815,000	13,140,000	835,000
2007	13,010,000	3.6-4.4	2038	11,505,000	-	285,000	11,220,000	300,000
2007	29,220,000	5	2027	25,460,000	-	3,610,000	21,850,000	3,395,000
2008	62,020,000	3.7-5.1	2036	55,645,000	-	55,645,000	-	-
2010	23,975,000	2.0-6.9	2041	22,565,000	-	490,000	22,075,000	505,000
2011	2,720,000	1.5-5.1	2022	2,065,000	-	230,000	1,835,000	235,000
2012	17,150,000	1.8-4.0	2043	16,805,000	-	355,000	16,450,000	370,000
2012	2,575,000	5.6-6.3	2031	2,575,000	-	-	2,575,000	-
2015	46,655,000	2.0-5.0	2036	-	46,655,000	-	46,655,000	-
Total				<u>152,105,000</u>	<u>46,655,000</u>	<u>61,845,000</u>	<u>136,915,000</u>	<u>6,080,000</u>
Total business-type activities bonds				<u>164,192,268</u>	<u>46,655,000</u>	<u>64,430,852</u>	<u>146,416,416</u>	<u>8,751,797</u>
Unamortized premium				801,528	6,158,955	200,962	6,759,521	156,123
Unamortized discount				<u>(249,581)</u>	<u>-</u>	<u>(11,071)</u>	<u>(238,510)</u>	<u>(11,114)</u>
Total business-type activities bonds, net				<u>\$ 164,744,215</u>	<u>\$ 52,813,955</u>	<u>\$ 64,620,743</u>	<u>\$ 152,937,427</u>	<u>\$ 8,896,806</u>

(concluded)

Amortization of Bond Premiums and Discounts—As noted above, on April 28, 2015, the City issued general improvement serial bonds totaling \$29,088,985 and received a bond premium of \$4,682,249. The premium is being amortized on a straight-line annual basis over the life of the bonds, which mature on April 1, 2026. In addition, on June 3, 2015 the City issued \$46,655,000 in Water System Refunding bonds and received a premium of \$6,158,955. The premium is being amortized on a straight-line annual basis over the life of the bonds, which mature on July 1, 2035. The total remaining unamortized premiums on bonds at June 30, 2015 are \$14,817,180 and \$6,759,521 reported in governmental activities and business-type activities, respectively. Additionally, unamortized discounts on bonds of \$238,510 are reported in business-type activities at June 30, 2015.

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

Governmental Activities — City of Buffalo, New York

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 23,757,539	\$ 7,711,734	\$ 31,469,273
2017	21,003,445	6,934,418	27,937,863
2018	20,050,809	6,074,282	26,125,091
2019	19,982,815	5,188,519	25,171,334
2020	20,364,181	4,226,388	24,590,569
2021-2025	69,843,064	9,044,557	78,887,621
2026	4,690,000	215,000	4,905,000
Total	<u>\$ 179,691,853</u>	<u>\$ 39,394,898</u>	<u>\$ 219,086,751</u>

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 12,052,361	\$ 2,730,541	\$ 14,782,902
2017	11,708,000	2,201,739	13,909,739
2018	8,726,000	1,796,798	10,522,798
2019	9,028,000	1,482,889	10,510,889
2020	8,699,000	1,159,844	9,858,844
2021-2025	26,375,000	2,169,209	28,544,209
2026-2027	1,205,000	54,913	1,259,913
Total	<u>\$ 77,793,361</u>	<u>\$ 11,595,933</u>	<u>\$ 89,389,294</u>

Governmental Activities — Buffalo Fiscal Stability Authority

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 8,780,000	\$ 2,109,494	\$ 10,889,494
2017	7,935,000	1,696,969	9,631,969
2018	6,380,000	1,339,094	7,719,094
2019	6,600,000	1,020,131	7,620,131
2020	6,400,000	706,456	7,106,456
2021-2025	12,495,000	907,188	13,402,188
2026	305,000	3,291	308,291
Total	<u>\$ 48,895,000</u>	<u>\$ 7,782,623</u>	<u>\$ 56,677,623</u>

Business-Type Activities

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 8,751,797	\$ 5,828,893	\$ 14,580,690
2017	9,767,152	6,419,832	16,186,984
2018	9,342,467	6,029,914	15,372,381
2019	9,360,000	5,601,393	14,961,393
2020	9,370,000	5,174,987	14,544,987
2021-2025	33,110,000	20,958,685	54,068,685
2026-2030	35,900,000	12,619,359	48,519,359
2031-2035	14,315,000	6,209,267	20,524,267
2036-2040	12,440,000	2,636,590	15,076,590
2041 and thereafter	4,060,000	211,192	4,271,192
Total	<u>\$ 146,416,416</u>	<u>\$ 71,690,112</u>	<u>\$ 218,106,528</u>

Notes Payable—The Niagara International Transportation Technology Coalition and Management Council (“NITTEC”) provided a \$2,500,000 loan at 2% for 10 years to the City toward the installation of controllers to standardize the signal system and improve traffic flow on designated corridors. The outstanding balance at June 30, 2015, was \$540,368. The loan repayment schedule at June 30, 2015, is as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 267,509	\$ 10,807	\$ 278,316
2017	272,859	5,457	278,316
Total	<u>\$ 540,368</u>	<u>\$ 16,264</u>	<u>\$ 556,632</u>

Capital Leases—During the year ended June 30, 2005, the City entered into a capital lease agreement for \$4,094,993 for various capital items. Interest on the lease-purchase agreement is 3.3%. The remaining balance was paid off in full during the year ended June 30, 2015. During the year ended June 30, 2012, JP Morgan Chase Bank, N.A. provided a \$2,800,000 lease-purchase agreement at 1.7% for 4 years to the City’s Solid Waste and Recycling Fund for the purchase of recycling totes.

The outstanding balance at June 30, 2015 was \$240,698. Refer to Note 10 for additional information related to the City's capital leases.

Compensated Absences—As described in Note 1, the liability for compensated absences, which totals \$29,269,400 for governmental activities and \$1,347,365 for business-type activities, represents amounts relating to sick and personal leave for employees. Payments of these liabilities are dependent upon many factors (including retirement, termination, or employees leaving service) and, therefore, timing of future payments of such are not readily determinable. Typically, the General Fund has been used to liquidate this liability within the governmental funds. The City has estimated that \$1,465,334 and \$89,027 for governmental activities and business-type activities, respectively, will be paid in the next fiscal year.

Workers' Compensation—Accrued workers' compensation, which totals \$8,147,272 and \$2,743,962 for governmental activities and business-type activities, respectively, represents the City's estimate of both asserted and unasserted workers' compensation losses. The payments related to these liabilities are dependent upon many factors and, therefore, timing of future payments are not readily determinable. The City has estimated that \$5,296,780 and \$913,520 for governmental activities and business-type activities, respectively, will be paid in the next fiscal year. Refer to Note 9 for additional information related to workers' compensation.

Landfill Post-Closure Monitoring Costs—In accordance with the Environmental Conservation Law of the State of New York, the City is complying with post-closure monitoring of Squaw Island. The cost of post-closure is based on the percentage of the landfill's total capacity used to date, which is 100%. The City is still required to monitor the site for another 13 years, with an estimated annual cost of \$70,000 each of the remaining years. The estimate, which is subject to various changes resulting from inflation, deflation, technology or changes in the applicable laws or regulations, for the outstanding liability at June 30, 2015 was \$910,000.

OPEB Obligation—As explained in Note 8, the City provides health insurance coverage for certain retirees. The City's annual other post-employment benefit ("OPEB") cost is calculated based on the annual required contributions of the employer, an amount actuarially determined in accordance with the parameters of GASB. Typically, the General Fund has been used to liquidate this liability within the governmental funds. The long-term OPEB liability is estimated to be \$470,165,375 and \$25,809,000 in the governmental activities and business-type activities, respectively.

Judgments and Claims—As explained in Note 9, the City records a liability for general liability claims in the government-wide financial statements. The City's judgments and claims liability, which totals \$11,900,000 at June 30, 2015, represents estimated amounts due for various outstanding claims. Payment of these estimated amounts are dependent upon many factors (including outstanding litigation). The City has estimated that \$2,920,000 will be paid in the next fiscal year.

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

Of the \$62,020,000 variable bonds issued, \$61,500,000 were hedged by an interest rate swap agreement between the Water System and Citibank, N.A, NY ("Swap Provider") that converted the Water System's variable-rate exposure relating to the Series 2008-A Bonds to a fixed rate. 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 Water System entered into this swap agreement to hedge its interest rate exposure over the life of the bonds.

As part of the June 3, 2015 refunding bonds, the Water System was granted the right to terminate the swap at par. During the year ended June 30, 2015, the Series 2008A bonds were refunded with the Series 2015 refunding bonds. This qualified as a terminating event under the requirements set forth in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments Standards of Governmental Accounting and Financial Reporting*, thereby resulting in the accrued derivative liability being removed from the Water System's Statement of Net Position as of June 30, 2015.

Net Pension Liability—The City reports a liability for its proportionate share of the net pension liability for the Employee Retirement System and Police and Fire Retirement System. The net pension liability is estimated to be \$15,909,316 and \$1,271,448 in the governmental activities and business-type activities, respectively. Typically, the General Fund has been used to liquidate this liability within the governmental funds. Refer to Note 7 for additional information related to the City's net pension liability.

Debt Contracting Limitation and Unissued Bonds—The City's debt contracting limitation under its legal debt margin at July 1, 2015, was approximately \$605.3 million. The effective borrowing capacity is \$387.4 million.

The list of the City's authorized and unissued bonds at June 30, 2015, is as follows:

Project	Total Authorized and Unissued
General Improvement Bonds—City of Buffalo	<u>\$ 11,186,074</u>

Board of Education

A summary of changes in the Board's long-term liabilities for the year ended June 30, 2015, is as follows:

	Balance 7/1/2014 (as restated)	Additions	Reductions	Balance 6/30/2015	Due Within One Year
Governmental activities:					
Due to other governments	\$ 11,693,332	\$ -	\$ 713,332	\$ 10,980,000	\$ 713,334
Revenue bonds payable	13,305,000	-	575,000	12,730,000	590,000
JSCB bonds payable	990,125,000	236,975,000	318,740,000	908,360,000	41,995,000
Premium on bonds	99,357,522	36,801,089	31,528,761	104,629,850	8,426,006
Compensated absences	21,642,507	7,781,860	8,510,244	20,914,123	8,223,829
Pension deferral	3,423,927	-	231,025	3,192,902	239,711
Workers' compensation	43,814,848	4,813,403	5,515,967	43,112,284	8,275,003
OPEB obligation	680,531,000	151,369,000	61,575,000	770,325,000	-
Net pension liability	<u>6,439,054</u>	<u>-</u>	<u>1,625,296</u>	<u>4,813,758</u>	<u>-</u>
Total	<u>\$ 1,870,332,190</u>	<u>\$ 437,740,352</u>	<u>\$ 429,014,625</u>	<u>\$ 1,879,057,917</u>	<u>\$ 68,462,883</u>

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

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

Fiscal Year Ending June 30,	Principal
2016	\$ 713,334
2017	713,334
2018	713,332
2019	713,334
2020	713,334
2021-2025	3,566,666
2026-2030	3,566,668
2031-2035	233,334
2036	46,664
	<u>\$ 10,980,000</u>

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

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

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 590,000	\$ 493,191	\$ 1,083,191
2017	610,000	472,141	1,082,141
2018	630,000	453,641	1,083,641
2019	645,000	440,891	1,085,891
2020	665,000	421,141	1,086,141
2021-2025	3,840,000	1,577,956	5,417,956
2026-2030	4,695,000	722,034	5,417,034
2031	1,055,000	26,375	1,081,375
Total	<u>\$ 12,730,000</u>	<u>\$ 4,607,370</u>	<u>\$ 17,337,370</u>

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

In June 2015, the Board issued \$236,975,000 in school facility revenue refunding bonds with an average interest rate of 4.99% to advance refund \$281,295,000 of outstanding school facility revenue refunding bonds with an average interest rate of 5.73%. The net proceeds of \$272,186,249 (after payment of \$1,581,864 in underwriting fees, insurance and other issuance costs) were used to purchase United States governmental securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased, and the liability for those bonds has been removed from the Board’s financial statements. The Board advance refunded the bonds to revise its payment schedule due to changes in New York State’s aid payment schedules. The economic gain on the transactions (the difference between the present values of the debt service payments on the old and new debt) is approximately \$23,697,091.

In prior years, the Board defeased certain general obligations and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Board’s financial statements. \$5,160,000 of these bonds defeased in the prior years is outstanding at June 30, 2015.

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 41,995,000	\$ 43,838,870	\$ 85,833,870
2017	52,640,000	43,617,363	96,257,363
2018	55,330,000	40,990,163	96,320,163
2019	58,165,000	38,228,663	96,393,663
2020	61,145,000	35,325,513	96,470,513
2021-2025	371,885,000	124,268,188	496,153,188
2026-2030	241,510,000	39,766,975	281,276,975
2031-2032	25,690,000	1,662,000	27,352,000
Total	<u>\$ 908,360,000</u>	<u>\$ 367,697,735</u>	<u>\$ 1,276,057,735</u>

Pension Deferral—As explained in Note 7, the Board participates in the New York and Local Employees’ Retirement System (“ERS”). In the prior year, the Board elected to participate in the alternate contribution stabilization program for ERS as enacted by New York State under Chapter 57, Laws of 2013. The program provides short-term cash relief by allowing municipalities to defer payment on a portion of the annual contribution, but requires repayment with interest in the following year. The Board made a payment of \$231,025 under this program and deferred payment of the remaining \$3,192,902.

Compensated Absences—Compensated absences, which totaled \$20,914,123 at June 30, 2015, represent amounts relating to sick and personal leave for employees. Payment of these liabilities is dependent upon many factors (including retirement, termination, or employees leaving service), and, therefore, payment of such is not readily determinable. The Board has estimated that \$8,223,829 will be paid in the next fiscal year.

Workers' Compensation—Workers' compensation obligations total \$43,112,284 at June 30, 2015, representing estimated amounts due for various outstanding claims.

OPEB Obligation—Refer to Note 8.

Net Pension Liability—The Board reported a liability, \$4,813,758, for its proportionate share of the net pension liability of the Employees' Retirement System. Refer to Note 7 for additional information related to the Board's net pension liability.

Buffalo Urban Renewal Agency

BURA's outstanding long-term liabilities include Section 108 debt, compensated absences, other post-employment benefits ("OPEB") obligation, New York State retirement liability, and net pension liability.

A summary of changes in BURA's long-term liabilities at June 30, 2015 follows:

	Balance 7/1/2014 (as restated)	Additions	Reductions	Balance 6/30/2015	Due Within One Year
Governmental activities:					
Section 108 debt	\$ 6,025,000	\$ -	\$ 2,155,000	\$ 3,870,000	\$ 1,085,000
Compensated absences	234,576	-	4,976	229,600	11,480
OPEB obligation	12,014,340	1,374,043	448,872	12,939,511	-
Long-term retirement liability	186,304	-	21,332	164,972	21,332
Net pension liability	363,893	-	91,851	272,042	-
Total	<u>\$ 18,824,113</u>	<u>\$ 1,374,043</u>	<u>\$ 2,722,031</u>	<u>\$ 17,476,125</u>	<u>\$ 1,117,812</u>

Section 108 Debt—BURA is indebted to the Federal Financing Bank ("FFB") under promissory notes for advances received under HUD Section 108 Loan Guarantee Program. There are two types of HUD Section 108 loan programs. Under the first type, promissory notes are payable in 20 annual installments of principal and interest. Under the second type, interest on promissory notes is payable in 12 semi-annual installments, starting with the first February or August after loan issuance. The entire principal amount of the loan is due at the same time as the 12th semi-annual 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.

BURA has loaned the advances from the FFB to BERC which, in turn, has loaned these funds to various business for economic development purposes. BURA's future obligations for interest and principal payments to the FFB on such loans are to be provided by BERC, through interest and principal repayments from the individual borrowers. BURA has an agreement with City of Buffalo that the City will make payments on the amounts due to FFB in the event of default by the individual borrowers on such loans. BURA records contributions from the City in the amount paid on their behalf. During the year ended June 30, 2015, the City contributed \$2,155,000 to BURA for principal reduction of the debt.

The following is a maturity schedule of BURA’s indebtedness:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 1,085,000	\$ 157,240	\$ 1,242,240
2017	1,035,000	108,845	1,143,845
2018	1,035,000	59,541	1,094,541
2019	715,000	17,343	732,343
Total	<u>\$ 3,870,000</u>	<u>\$ 342,969</u>	<u>\$ 4,212,969</u>

Compensated Absences—As explained in Note 1, BURA records the value of compensated absences. The annual budgets of the operating funds provide funding for these benefits as they become payable. The value recorded in the government-wide financial statements at June 30, 2015, for governmental activities is \$229,600. Management estimates that \$11,480 is due within one year. Since payment of compensated absences is dependent upon many factors, the timing of future payments is not readily determinable.

OPEB Obligation—As explained in Note 8, BURA provides health insurance coverage for certain retirees. BURA’s annual other post-employment benefits (“OPEB”) cost is calculated based on the annual required contributions of the employer, an amount actuarially determined in accordance with the parameters of GASB. The estimated long-term OPEB liability is \$12,939,511 as of June 30, 2015.

Long-Term Retirement Liability—As explained in Note 7, BURA participates in the New York and Local Employees’ Retirement System (“ERS”). BURA elected to amortize certain payments relating to ERS during 2005 and 2006 over ten years in accordance with Chapter 260 of the Laws of 2004 of the State of New York. Accordingly, at June 30, 2015, BURA has recorded a liability in the amount of \$164,972, of which \$21,332 is considered due within one year.

Net Pension Liability—BURA reported a liability, \$272,042, for its proportionate share of the net pension liability of the Employees’ Retirement System. Refer to Note 7 for additional information related to BURA’s net pension liability.

13. NET POSITION AND FUND BALANCE

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

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

Governmental activities:		
Capital assets, net of accumulated depreciation		\$ 483,920,393
Related debt:		
Serial bonds issued for capital assets	\$ (189,685,624)	
Unspent debt proceeds	<u>41,752,616</u>	
Bonds payable issued for capital assets		(147,933,008)
Deferred loss on refunding		1,935,440
Unamortized premiums		(14,817,180)
Notes payable		<u>(540,368)</u>
Net investment in capital assets—governmental activities		<u>\$ 322,565,277</u>

Business-type activities:		
Capital assets, net of accumulated depreciation		\$ 178,216,500
Related debt:		
Serial bonds issued for capital assets	(146,416,416)	
Unspent debt proceeds	<u>27,284,453</u>	
Bonds payable issued for capital assets		(119,131,963)
Deferred gain on refunding		(87,722)
Deferred loss on refunding		4,947,112
Unamortized premium		(6,759,521)
Unamortized discount		238,510
Capital leases		<u>(240,698)</u>
Net investment in capital assets—business-type activities		<u>\$ 57,182,218</u>

- **Restricted Net Position**—This category presents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments, and restrictions imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position**—This category represents net position of the City not restricted for any project or other purpose.

In the fund financial statements, nonspendable amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balances maintained by the City at June 30, 2015 include:

Real estate acquired for sale	\$ 9,451,083
Long-term due from other funds	17,350,211
Prepaid items	1,045,725
Permanent fund - corpus	<u>30,000</u>
Total	<u>\$ 27,877,019</u>

- **Real Estate Acquired for Sale**—This amount represents real estate acquired for resale.
- **Long-term Due from Other Funds**—Represents a long-term receivable from the Solid Waste and Recycling Fund for operating losses incurred in the fund since its inception.

- **Prepaid Items**—Represents amounts prepaid to vendors and employees that are applicable to future accounting periods.
- **Permanent Fund—Corpus**—Represents the amount of principal that is nonspendable due to specific purposes stipulated in the respective bequest and trust agreements.

In the fund financial statements, restricted fund balances are amounts constrained to specific purposes (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation. Restricted fund balances of the City at June 30, 2015 are shown below:

	General Fund	Debt Service Fund	Capital Projects Fund	BFSA Special Revenue Fund	Nonmajor Governmental Funds	Total
Capital projects	\$ -	\$ -	\$ 41,668,380	\$ -	\$ -	\$ 41,668,380
Capital outlay	6,701,183	-	-	-	-	6,701,183
Debt service	-	19,693,164	-	-	9,220,187	28,913,351
Grants	-	-	-	-	6,358,782	6,358,782
State mandated initiatives	-	-	-	756,924	-	756,924
Emergency medical services	1,148,931	-	-	-	-	1,148,931
Permanent fund - interest	-	-	-	-	110,782	110,782
Total	\$ 7,850,114	\$ 19,693,164	\$ 41,668,380	\$ 756,924	\$ 15,689,751	\$ 85,658,333

- **Restricted for Capital Projects**—Represents funds that have been reserved to fund future capital projects and the purchase of capital assets. This amount includes commitments for the expenditures of monies within the Capital Projects Fund.
- **Restricted for Capital Outlay**—This category represents amounts set aside for future departmental capital expenditures.
- **Restricted for Debt Service**—Represents resources that have been legally restricted for principal and interest payments that will be made in future periods.
- **Restricted for Grants**—This category includes federal and state monies that have been restricted as they can only be used for specific purposes as authorized by grantor agencies. This amount includes \$6,358,782 which is restricted by commitments for the expenditure of money within the Special Revenue Fund.
- **Restricted for State Mandated Initiatives**—Represents money provided by the State through aid and incentives for municipalities that is held by the BFSAs on behalf of the City. At June 30, 2015, \$756,924 of fund balance was restricted for state aid that did not meet the BFSAs Special Revenue Fund revenue recognition criteria.
- **Restricted for Emergency Medical Services**—Represents funds that have been restricted as they can only be used for specific purposes as outlined within emergency ambulance service agreement.
- **Restricted for Permanent Fund – Interest**—Represents the amount of interest earnings on the nonspendable principal, that is reserved to be used for specific purposes stipulated in the respective bequest and trust agreements.

In the fund financial statements, commitments are amounts that are subject to a purpose constraint imposed by a formal action of the City’s highest level of decision-making authority. The City’s policy

requires commitments to be adopted through formal action (adoption of an ordinance) of the Common Council. As of June 30, 2015, the City reported the commitment described below:

- **Committed to Emergency Stabilization**—Represents a minimum of 30 days of the prior fiscal year’s total general fund operating expenditures. If during a fiscal year, the City has extraordinary operating or capital needs that could not be anticipated and cannot be funded with current budget resources, the City may use this fund. At June 30, 2015, the City reported \$37,215,538 within its Emergency Stabilization fund.

In the fund financial statements, assignments are not legally required segregations but are segregated for a specific purpose by the City. For example, the amount appropriated to reduce the tax levy as determined through the budget process and finalized when the tax rates are established would be considered assigned fund balance. The Common Council authorizes the Comptroller to make a determination of the assigned amounts of fund balance. At June 30, 2015 assigned fund balance includes:

	General Fund	BFSA Special Revenue Fund	Total
Encumbrances	\$ 7,462,854	\$ -	\$ 7,462,854
Motor vehicle self-insurance	606,525	-	606,525
Subsequent year's expenditures	15,000,000	-	15,000,000
Judgments and claims	11,900,000	-	11,900,000
Specific use	-	759,184	759,184
Total	<u>\$ 34,969,379</u>	<u>\$ 759,184</u>	<u>\$ 35,728,563</u>

- **Assigned to Encumbrances**—Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures of monies are recorded, is employed as part of the City’s budgetary control mechanism for all funds. Unencumbered appropriations lapse at fiscal year-end.
- **Assigned to Motor Vehicle Self-Insurance**—Represents fund balance set aside for motor vehicle self-insurance.
- **Assigned to Subsequent Year’s Expenditures**—Represents available fund balance being appropriated to meet expenditure requirements in the 2015-2016 fiscal year.
- **Assigned to Judgments and Claims**—Represents amounts assigned to cover potential settlement of various claims and litigation.
- **Assigned to Specific Use**—Represents fund balance within the special revenue funds that is assigned for a specific purpose. The assignment’s purpose relates to each fund’s operations and represents amounts within funds that are not restricted or committed.

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

14. INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables are generally short-term in nature and exist because of temporary advances or payments made on behalf of other funds. The composition of interfund balances as of June 30, 2015 is as follows:

Fund	Interfund	
	Receivable	Payable
Governmental funds:		
General Fund	\$ 39,337,590	\$ 1,182,181
Debt Service Fund	348,973	73
Capital Projects Fund	-	8,632,195
BFSA Special Revenue Fund	-	7,902,985
Nonmajor governmental funds	166,144	4,444,667
Total governmental funds	<u>39,852,707</u>	<u>22,162,101</u>
Proprietary funds:		
Solid Waste and Recycling Fund	34,827	17,350,211
Parking Fund	1,000,073	330,390
Water System	-	1,044,905
Total proprietary funds	<u>1,034,900</u>	<u>18,725,506</u>
Total	<u>\$ 40,887,607</u>	<u>\$ 40,887,607</u>

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

Included within the General Fund's due from other funds totaling \$39,337,590 is a portion in the amount of \$17,350,211, which is considered long-term and has been reserved within nonspendable fund balance.

The City made the following transfers during the year ended June 30, 2015:

Transfers out:	Transfers in:						Total
	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Solid Waste & Recycling Fund	Water System	
General Fund	\$ -	\$ 27,972,255	\$ 400,000	\$ 2,140,266	\$ 3,200,000	\$ -	\$ 33,712,521
Debt Service Fund	-	-	1,011,310	10,739,428	-	-	11,750,738
Capital Projects Fund	-	4,096,389	-	312,138	499,635	-	4,908,162
Nonmajor Governmental Funds	2,044,177	-	-	25,000	34,827	37,436	2,141,440
Solid Waste & Recycling Fund	673,078	-	-	-	-	-	673,078
Parking Fund	6,500,000	165,654	-	-	-	-	6,665,654
Water System	5,679,058	-	-	-	-	-	5,679,058
Total	<u>\$ 14,896,313</u>	<u>\$ 32,234,298</u>	<u>\$ 1,411,310</u>	<u>\$ 13,216,832</u>	<u>\$ 3,734,462</u>	<u>\$ 37,436</u>	<u>\$ 65,530,651</u>

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

15. LABOR RELATIONS

Approximately 3,123 of the City’s employees are covered by a total of eight collective bargaining agreements. The following table shows, for each union, the dates through which a contract has been negotiated.

Union	Expiration Date
Firefighters	6/30/17
Operating Engineers	6/30/13
Crossing Guards	8/31/15
Building Inspectors	6/30/12
White Collar	6/30/19
Blue Collar	6/30/11
Police	6/30/19
Pipe Caulkers	6/30/16

16. COMMITMENTS

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

The City considers encumbrances to be significant for amounts that are encumbered in excess of \$500,000. The City has a total of \$62,317,800 encumbrances outstanding at June 30, 2015. In the General Fund, encumbrances of \$7,462,854 are supported by assigned fund balance. The Capital Projects Fund and Special Revenue Fund have \$16,296,568 and \$38,558,378 of outstanding encumbrances, respectively. As of June 30, 2015, the City had the following significant encumbrances:

Description	Capital Projects Fund	Special Revenue Fund
Buildings	\$ 579,354	\$ 1,432,060
Building Rehabilitation	-	2,938,104
Demolitions	624,850	747,229
General improvements	847,297	-
Parks	1,095,299	738,171
Bridges	6,800,591	-
Streets	22,400,611	882,655

Board of Education

Encumbrances—At June 30, 2015, the amount of encumbrances expected to be honored upon performance by the vendor in the next year were \$2,938,925 in the Board’s general fund.

Construction Commitment—As of June 30, 2015, the Board has approximately \$8,962,000 committed to various renovations.

17. CONTINGENCIES

Litigation—The City is involved in litigation in the ordinary course of its operations. Various legal actions are pending against the City. The outcome of these matters is not presently determinable but, in the opinion of management, the ultimate liability will not have a material adverse effect on the City’s financial condition or results of operation.

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

Landfill Postclosure—As discussed in Note 12, the City is responsible to perform specified operation and maintenance functions at a landfill site for a period of thirty years. At June 30, 2015, the liability is \$910,000. The landfill postclosure care liability is an estimate and is subject to changes resulting from inflation, deflation, technology or changes in applicable laws or regulations.

Board of Education

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

State Aid—The State periodically reviews its distribution of aid to school boards throughout the State. Thus, revenues recorded as of June 30, 2015 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.

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

Buffalo Urban Renewal Agency

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

Litigation—Various legal actions are pending against the Agency. The outcome of these matters is not presently determinable, but in the opinion of management, the ultimate liability will not have a material adverse effect on the financial condition or results of operation of the Agency.

18. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 16, 2015, which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BUFFALO, NEW YORK
Schedule of Funding Progress—Other Post-Employment Benefits Plan
Year Ended June 30, 2015
(Amounts expressed in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
City of Buffalo:						
As of July 1, 2014	\$ -	\$ 1,428,412	\$ 1,428,412	0.0%	\$ 197,060	724.9%
As of July 1, 2012	-	1,535,570	1,535,570	0.0%	172,567	889.8%
As of July 1, 2010	-	1,637,159	1,637,159	0.0%	185,120	884.4%
Buffalo Fiscal Stability Authority:						
As of June 30, 2015	\$ -	\$ 338	\$ 338	0.0%	\$ 361	93.6%
As of June 30, 2012	-	116	116	0.0%	319	36.4%
As of June 30, 2011	-	83	83	0.0%	228	36.4%
Board of Education:						
As of June 30, 2014	\$ -	\$ 1,825,333	\$ 1,825,333	0.0%	\$ 296,956	614.7%
As of June 30, 2013	-	1,896,318	1,896,318	0.0%	293,169	646.8%
As of June 30, 2012	-	1,881,696	1,881,696	0.0%	283,103	664.7%
Buffalo Urban Renewal Agency:						
As of June 30, 2014	\$ -	\$ 12,014	\$ 12,014	0.0%	\$ 1,936	620.6%
As of June 30, 2011	-	11,818	11,818	0.0%	2,290	516.1%

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

	<u>Year Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Board of Education ("BOE"):		
Measurement date	June 30, 2014	June 30, 2013
BOE's proportion of the net pension liability (asset)	1.695591%	1.695591%
BOE's proportionate share of the net pension liability (asset)	<u>\$ (188,878,283)</u>	<u>\$ (10,757,018)</u>
BOE's covered-employee payroll	\$ 259,159,687	\$ 258,505,177
BOE's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(72.9%)	(4.2%)
Plan fiduciary net position as a percentage of the total pension liability	111.5%	100.7%

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

	<u>Year Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Board of Education ("BOE"):		
Contractually required contribution	\$ 43,929,324	\$ 40,700,597
Contributions in relation to the contractually required contribution	<u>(43,929,324)</u>	<u>(40,700,597)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
BOE's covered-employee payroll	\$ 259,159,687	\$ 258,505,177
Contributions as a percentage of covered-employee payroll	17.0%	15.7%

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

	<u>Year Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
City of Buffalo ("City"):		
Measurement date	March 31, 2015	March 31, 2014
City's proportion of the net pension liability	3.5779889%	3.5779889%
City's proportionate share of the net pension liability	<u>\$ 9,848,756</u>	<u>\$ 14,895,509</u>
City's covered-employee payroll	\$ 117,701,459	\$ 130,718,240
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	8.4%	11.4%
Plan fiduciary net position as a percentage of the total pension liability	99.0%	98.5%

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

	Year Ended June 30,	
	2015	2014
City of Buffalo ("City"):		
Contractually required contribution	\$ 40,418,943	\$ 30,767,293
Contributions in relation to the contractually required contribution	(40,418,943)	(30,767,293)
Contribution deficiency (excess)	\$ -	\$ -
City's covered-employee payroll	\$ 117,701,459	\$ 130,718,240
Contributions as a percentage of covered-employee payroll	34.3%	23.5%

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

	<u>Year Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Measurement date	March 31, 2015	March 31, 2014
Plan fiduciary net position as a percentage of the total pension liability	97.9%	97.2%
City of Buffalo ("City"):		
City's proportion of the net pension liability	0.2151949%	0.2151949%
City's proportionate share of the net pension liability	<u>\$ 7,269,810</u>	<u>\$ 9,724,354</u>
City's covered-employee payroll	\$ 58,216,351	\$ 57,291,143
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	12.5%	17.0%
Buffalo Fiscal Stability Authority ("BFSA"):		
BFSA's proportion of the net pension liability	0.0018411%	0.0018411%
BFSA's proportionate share of the net pension liability	<u>\$ 62,198</u>	<u>\$ 67,581</u>
BFSA's covered-employee payroll	\$ 334,762	\$ 348,621
BFSA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	18.6%	19.4%
Board of Education ("BOE"):		
BOE's proportion of the net pension liability	0.142493%	0.142493%
BOE's proportionate share of the net pension liability	<u>\$ 4,813,758</u>	<u>\$ 6,439,054</u>
BOE's covered-employee payroll	\$ 39,579,898	\$ 40,651,043
BOE's proportionate share of the net pension liability as a percentage of its covered-employee payroll	12.2%	15.8%
Buffalo Urban Renewal Agency ("BURA"):		
BURA's proportion of the net pension liability	0.0080528%	0.0080528%
BURA's proportionate share of the net pension liability	<u>\$ 272,042</u>	<u>\$ 363,893</u>
BURA's covered-employee payroll	\$ 2,083,059	\$ 2,336,983
BURA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	13.1%	15.6%

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

	<u>Year Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
City of Buffalo ("City"):		
Contractually required contributions	\$ 11,374,650	\$ 11,646,194
Contributions in relation to the contractually required contribution	<u>(11,374,650)</u>	<u>(11,646,194)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 58,216,351	\$ 57,291,143
Contributions as a percentage of covered-employee payroll	19.5%	20.3%
Buffalo Fiscal Stability Authority ("BFSA"):		
Contractually required contributions	\$ 62,469	\$ 75,625
Contributions in relation to the contractually required contribution	<u>(62,469)</u>	<u>(75,625)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
BFSA's covered-employee payroll	\$ 334,762	\$ 348,621
Contributions as a percentage of covered-employee payroll	18.7%	21.7%
Board of Education ("BOE"):		
Contractually required contributions	\$ 7,335,763	\$ 8,494,573
Contributions in relation to the contractually required contribution	<u>(7,695,528)</u>	<u>(5,070,646)</u>
Contribution deficiency (excess)	<u>\$ (359,765)</u>	<u>\$ 3,423,927</u>
BOE's covered-employee payroll	\$ 39,579,898	\$ 40,651,043
Contributions as a percentage of covered-employee payroll	19.4%	12.5%
Buffalo Urban Renewal Agency ("BURA"):		
Contractually required contributions	\$ 393,546	\$ 466,649
Contributions in relation to the contractually required contribution	<u>(393,546)</u>	<u>(466,649)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
BURA's covered-employee payroll	\$ 2,083,059	\$ 2,336,983
Contributions as a percentage of covered-employee payroll	18.9%	20.0%

CITY OF BUFFALO, NEW YORK
Schedule of Revenues, Expenditures, and Changes in Fund
Balances—Budget and Actual (Non-GAAP Budgetary Basis)—General Fund
Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Budgetary</u>	<u>Variance with</u>
	<u>Adopted</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Final Budget</u>
REVENUES				
Property taxes, assessments, and other tax items	\$ 134,190,215	\$ 134,190,215	\$ 135,665,382	\$ 1,475,167
Utility and other nonproperty tax items	13,125,000	13,125,000	13,775,002	650,002
Federal aid	1,445,600	1,460,600	1,115,472	(345,128)
State aid	188,126,019	188,126,019	183,584,487	(4,541,532)
Local sources and other	81,205,273	81,205,273	80,700,367	(504,906)
Investment interest	950,000	950,000	748,071	(201,929)
Charges for services	14,093,825	14,093,825	13,301,718	(792,107)
Licenses and permits	4,986,235	4,986,235	4,059,576	(926,659)
Fines	9,901,200	9,901,200	6,195,522	(3,705,678)
Miscellaneous	13,847,172	13,847,172	31,108,382	17,261,210
Total revenues	<u>461,870,539</u>	<u>461,885,539</u>	<u>470,253,979</u>	<u>8,368,440</u>
EXPENDITURES				
Current:				
General government support:				
Legislative	4,342,153	4,424,373	4,379,672	44,701
Executive	1,686,144	1,688,318	1,577,484	110,834
Audit and control	3,038,945	3,079,518	3,008,120	71,398
Law	3,397,796	3,454,554	3,192,562	261,992
Assessment	3,287,156	3,299,606	2,030,588	1,269,018
Public works, parks and streets	7,361,390	7,971,638	7,378,622	593,016
Management information systems	4,330,978	4,349,884	3,619,406	730,478
Administration and finance	11,431,258	11,471,371	10,043,665	1,427,706
Human resources	5,061,694	5,745,680	4,867,748	877,932
Other	19,366,500	19,932,841	18,266,083	1,666,758
Public safety:				
Administration and finance	1,829,792	1,866,118	1,742,822	123,296
Police	80,551,355	80,885,927	81,013,295	(127,368)
Fire	59,133,888	60,037,045	63,132,667	(3,095,622)
Public works, parks and streets	1,666,002	1,666,336	1,711,521	(45,185)
Permit and inspection services	5,324,684	5,549,421	5,050,352	499,069
Streets and sanitation:				
Public works, parks and streets	12,342,856	13,813,705	12,401,633	1,412,072
Economic assistance and opportunity:				
Executive	1,743,005	2,046,549	1,798,996	247,553
Community services	214,115	214,115	2,864	211,251
Culture and recreation:				
Public works, parks and streets	5,144,553	5,320,104	5,156,333	163,771
Community services	2,971,147	2,391,840	2,281,169	110,671
Other	795,000	944,126	487,000	457,126
Health and community services:				
Public works, parks and streets	1,199,575	1,215,130	1,137,052	78,078
Community services	1,099,725	1,116,179	935,760	180,419
Education	70,322,758	70,322,758	70,322,758	-
Fringe benefits	161,698,280	157,292,975	143,945,877	13,347,098
Other	2,710,000	3,942,275	3,720,094	222,181
Debt service	876,900	889,400	845,163	44,237
Total expenditures	<u>472,927,649</u>	<u>474,931,786</u>	<u>454,049,306</u>	<u>20,882,480</u>
Excess (deficiency) of revenues over expenditures	<u>(11,057,110)</u>	<u>(13,046,247)</u>	<u>16,204,673</u>	<u>29,250,920</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	15,152,136	15,152,136	14,896,313	(255,823)
Transfers out	(31,572,255)	(34,303,268)	(33,712,521)	590,747
Total other financing sources (uses)	<u>(16,420,119)</u>	<u>(19,151,132)</u>	<u>(18,816,208)</u>	<u>334,924</u>
Net change in fund balances *	<u>(27,477,229)</u>	<u>(32,197,379)</u>	<u>(2,611,535)</u>	<u>29,585,844</u>
Fund balances—beginning	146,373,424	146,373,424	146,373,424	-
Fund balances—ending	<u>\$ 118,896,195</u>	<u>\$ 114,176,045</u>	<u>\$ 143,761,889</u>	<u>\$ 29,585,844</u>

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

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

CITY OF BUFFALO, NEW YORK
Note to the Required Supplementary Information
Year Ended June 30, 2015

1. BUDGETARY INFORMATION

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

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

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

Actual results of operations presented in accordance with GAAP and the City’s accounting policies do not recognize encumbrances and restricted fund balance as expenditures until the period in which the actual goods or services are received and a liability is incurred. Encumbrances are only reported on the balance sheet of the governmental funds included within restricted, committed or assigned fund balance. Significant encumbrances are disclosed in the notes to the financial statements.

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

Excess of revenues and other financing sources over expenditures and other financing uses—GAAP basis	\$ 4,851,319
Less: encumbrances	<u>(7,462,854)</u>
Excess of revenues and other financing sources over expenditures and other financing uses—non-GAAP budgetary basis	<u>\$ (2,611,535)</u>

Excess of Expenditures Over Appropriations—For the year ended June 30, 2015, an unfavorable variance within public safety of \$3,095,622 pertaining to fire was caused by the effects of unanticipated overtime and the settlement of the firefighters’ union contract (in effect in fiscal 2015) after the fiscal 2015 budget was adopted. Additionally, unfavorable variances within public safety of \$127,368 and \$45,185 pertaining to police and public works, parks and streets, respectively, were caused by unanticipated costs relating to emergency operations during the November 2014 snowstorm.

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SUPPLEMENTARY INFORMATION

CITY OF BUFFALO, NEW YORK
Schedule of Revenues, Expenditures, and Changes in Fund Balances—
Budget and Actual (Non-GAAP Budgetary Basis)—Debt Service Fund
Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Budgetary Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Adopted</u>	<u>Final</u>		
REVENUES				
Intergovernmental charges	\$ 15,210,410	\$ 15,210,410	\$ 15,210,410	\$ -
Investment interest	81,633	81,633	61,796	(19,837)
License, permit, rentals, fines, and other service charges	18,247	18,247	81,028	62,781
Miscellaneous	-	-	262	262
Total revenues	<u>15,310,290</u>	<u>15,310,290</u>	<u>15,353,496</u>	<u>43,206</u>
EXPENDITURES				
Debt service:				
Principal	35,255,356	35,255,356	26,879,769	8,375,587
Interest and fiscal charges	10,943,646	10,943,646	8,354,555	2,589,091
Total expenditures	<u>46,199,002</u>	<u>46,199,002</u>	<u>35,234,324</u>	<u>10,964,678</u>
Excess (deficiency) of revenues over expenditures	<u>(30,888,712)</u>	<u>(30,888,712)</u>	<u>(19,880,828)</u>	<u>11,007,884</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	28,137,909	28,137,909	32,234,298	4,096,389
Transfers out	(1,011,310)	(1,011,310)	(11,750,738)	(10,739,428)
Serial bonds issued	285,838	285,838	-	(285,838)
Premium on bonds	1,670,486	1,670,486	3,692,249	2,021,763
Total other financing sources (uses)	<u>29,082,923</u>	<u>29,082,923</u>	<u>24,175,809</u>	<u>(4,907,114)</u>
Net change in fund balances *	(1,805,789)	(1,805,789)	4,294,981	6,100,770
Fund balances—beginning	<u>15,398,183</u>	<u>15,398,183</u>	<u>15,398,183</u>	<u>-</u>
Fund balances—ending	<u>\$ 13,592,394</u>	<u>\$ 13,592,394</u>	<u>\$ 19,693,164</u>	<u>\$ 6,100,770</u>

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

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

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

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

BFSA DEBT SERVICE FUND

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

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

PERMANENT FUND

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

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

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CITY OF BUFFALO, NEW YORK
Combining Balance Sheet—
Nonmajor Governmental Funds
June 30, 2015

	<u>Special Revenue</u>	<u>BFSA Debt Service</u>	<u>Permanent</u>	<u>Total Nonmajor Funds</u>
ASSETS				
Restricted cash and cash equivalents	\$ 7,060,173	\$ 88,034	\$ 75,185	\$ 7,223,392
Investments	-	9,914,917	61,472	9,976,389
Receivables:				
Other receivables	-	-	4,125	4,125
Intergovernmental receivables	10,131,351	-	-	10,131,351
Due from other funds	166,144	-	-	166,144
Due from component units	69,553	-	-	69,553
Total assets	<u>\$ 17,427,221</u>	<u>\$ 10,002,951</u>	<u>\$ 140,782</u>	<u>\$ 27,570,954</u>
LIABILITIES				
Accounts payable	\$ 4,247,995	\$ -	\$ -	\$ 4,247,995
Due to other governments	1,589,655	-	-	1,589,655
Accrued liabilities	-	764,967	-	764,967
Due to other funds	4,426,870	17,797	-	4,444,667
Due to component units	803,919	-	-	803,919
Total liabilities	<u>11,068,439</u>	<u>782,764</u>	<u>-</u>	<u>11,851,203</u>
FUND BALANCES				
Nonspendable	-	-	30,000	30,000
Restricted	6,358,782	9,220,187	110,782	15,689,751
Total fund balances	<u>6,358,782</u>	<u>9,220,187</u>	<u>140,782</u>	<u>15,719,751</u>
Total liabilities and fund balances	<u>\$ 17,427,221</u>	<u>\$ 10,002,951</u>	<u>\$ 140,782</u>	<u>\$ 27,570,954</u>

CITY OF BUFFALO, NEW YORK
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—
Nonmajor Governmental Funds
Year Ended June 30, 2015

	<u>Special Revenue</u>	<u>BFSA Debt Service</u>	<u>Permanent</u>	<u>Total Nonmajor Funds</u>
REVENUES				
Intergovernmental	\$ 37,581,870	\$ -	\$ -	\$ 37,581,870
Investment interest	308	293,068	9	293,385
Miscellaneous	190,628	-	-	190,628
Total revenues	<u>37,772,806</u>	<u>293,068</u>	<u>9</u>	<u>38,065,883</u>
EXPENDITURES				
Current:				
General government support	6,734,547	-	-	6,734,547
Public safety	4,490,578	-	-	4,490,578
Streets and sanitation	4,155,106	-	-	4,155,106
Economic assistance and opportunity	18,222,459	-	-	18,222,459
Culture and recreation	1,174,136	-	-	1,174,136
Health and community services	1,597,079	-	-	1,597,079
Debt service:				
Principal	-	14,265,000	-	14,265,000
Interest and fiscal charges	-	2,436,826	-	2,436,826
Total expenditures	<u>36,373,905</u>	<u>16,701,826</u>	<u>-</u>	<u>53,075,731</u>
Excess (deficiency) of revenues over expenditures	<u>1,398,901</u>	<u>(16,408,758)</u>	<u>9</u>	<u>(15,009,848)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	2,477,404	10,739,428	-	13,216,832
Transfers out	<u>(2,141,440)</u>	<u>-</u>	<u>-</u>	<u>(2,141,440)</u>
Total other financing sources (uses)	<u>335,964</u>	<u>10,739,428</u>	<u>-</u>	<u>11,075,392</u>
Net change in fund balances	1,734,865	(5,669,330)	9	(3,934,456)
Fund balances—beginning	<u>4,623,917</u>	<u>14,889,517</u>	<u>140,773</u>	<u>19,654,207</u>
Fund balances—ending	<u>\$ 6,358,782</u>	<u>\$ 9,220,187</u>	<u>\$ 140,782</u>	<u>\$ 15,719,751</u>

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WATER SYSTEM

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

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CITY OF BUFFALO, NEW YORK
Combining Statement of Net Position—Water System
June 30, 2015

	<u>Water Board</u>	<u>Water Authority</u>	<u>Water Enterprise</u>	<u>Eliminations</u>	<u>Total Water System</u>
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 45,432,033	\$ 377,956	\$ 143,381	\$ -	\$ 45,953,370
Restricted cash and cash equivalents	-	27,284,453	-	-	27,284,453
Receivables:					
Accounts receivable	21,302,425	599,143	-	-	21,901,568
Other receivables	1,091,736	-	-	-	1,091,736
Due from other agencies	127,425	-	-	-	127,425
Due from other funds	-	113,706,309	15,618,246	(129,324,555)	-
Allowances	(16,061,421)	-	-	-	(16,061,421)
Net receivables	<u>6,460,165</u>	<u>114,305,452</u>	<u>15,618,246</u>	<u>(129,324,555)</u>	<u>7,059,308</u>
Total current assets	<u>51,892,198</u>	<u>141,967,861</u>	<u>15,761,627</u>	<u>(129,324,555)</u>	<u>80,297,131</u>
Noncurrent assets:					
Capital assets not being depreciated:					
Land	145,116	-	-	-	145,116
Construction in progress	1,622,745	-	-	-	1,622,745
Total capital assets not being depreciated	<u>1,767,861</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,767,861</u>
Capital assets being depreciated:					
Buildings and infrastructure	199,925,136	-	-	-	199,925,136
Improvements other than buildings	252,393	-	-	-	252,393
Machinery and equipment	712,597	-	-	-	712,597
Accumulated depreciation	(74,359,723)	-	-	-	(74,359,723)
Total capital assets being depreciated	<u>126,530,403</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>126,530,403</u>
Total noncurrent assets	<u>128,298,264</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>128,298,264</u>
Total assets	<u>180,190,462</u>	<u>141,967,861</u>	<u>15,761,627</u>	<u>(129,324,555)</u>	<u>208,595,395</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred loss on refunding	-	4,538,997	-	-	4,538,997
Deferred outflows—relating to pensions	-	-	365,186	-	365,186
Total deferred outflows of resources	<u>-</u>	<u>4,538,997</u>	<u>365,186</u>	<u>-</u>	<u>4,904,183</u>
LIABILITIES					
Current liabilities:					
Accounts payable	1,322,770	100,975	263,557	-	1,687,302
Other accrued liabilities	-	2,984,260	985,684	-	3,969,944
Due to other funds	129,519,565	-	849,895	(129,324,555)	1,044,905
Accrued compensated absences	-	-	53,921	-	53,921
Accrued workers' compensation	-	-	356,049	-	356,049
General obligation and revenue bonds payable within one year	-	6,209,109	334,665	-	6,543,774
Total current liabilities	<u>130,842,335</u>	<u>9,294,344</u>	<u>3,109,007</u>	<u>(129,324,555)</u>	<u>13,921,131</u>

(continued)

CITY OF BUFFALO, NEW YORK
Combining Statement of Net Position—Water System
June 30, 2015

	<u>Water Board</u>	<u>Water Authority</u>	<u>Water Enterprise</u>	<u>Eliminations</u>	<u>Total Water System</u>
Noncurrent liabilities:					
Accrued compensated absences	-	-	711,489	-	711,489
Accrued workers' compensation	-	-	533,811	-	533,811
Accrued other post-employment benefits plan	-	-	10,834,000	-	10,834,000
General obligation and revenue bonds payable	-	137,212,514	321,711	-	137,534,225
Net pension liability	560,961	-	560,961	(560,961)	560,961
Total noncurrent liabilities	<u>560,961</u>	<u>137,212,514</u>	<u>12,961,972</u>	<u>(560,961)</u>	<u>150,174,486</u>
Total liabilities	<u>131,403,296</u>	<u>146,506,858</u>	<u>16,070,979</u>	<u>(129,885,516)</u>	<u>164,095,617</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred gain on refunding	-	-	55,834	-	55,834
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>55,834</u>	<u>-</u>	<u>55,834</u>
NET POSITION					
Net investment in capital assets	13,940,539	-	-	2,047,342	15,987,881
Unrestricted	34,846,627	-	-	(1,486,381)	33,360,246
Total net position	<u>\$ 48,787,166</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 560,961</u>	<u>\$ 49,348,127</u>

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CITY OF BUFFALO, NEW YORK
Combining Statement of Revenues, Expenses, and Changes in Net Position—
Water System
Year Ended June 30, 2015

	<u>Water Board</u>	<u>Water Authority</u>	<u>Water Enterprise</u>	<u>Eliminations</u>	<u>Total Water System</u>
Operating revenues:					
Charges for services	\$ 42,550,935	\$ -	\$ -	\$ -	\$ 42,550,935
Other	553,119	-	-	-	553,119
Total operating revenues	<u>43,104,054</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,104,054</u>
Operating expenses:					
Services and supplies	10,258,595	1,080,389	5,729,246	-	17,068,230
Fringe benefits	-	-	5,070,288	-	5,070,288
Depreciation	5,144,214	-	-	-	5,144,214
Other	755,971	-	517	189,400	945,888
Total operating expenses	<u>16,158,780</u>	<u>1,080,389</u>	<u>10,800,051</u>	<u>189,400</u>	<u>28,228,620</u>
Operating income (loss)	<u>26,945,274</u>	<u>(1,080,389)</u>	<u>(10,800,051)</u>	<u>(189,400)</u>	<u>14,875,434</u>
Nonoperating revenues (expenses):					
Interest earnings	144,043	-	12,581	-	156,624
Interest expense	(6,404,449)	-	-	-	(6,404,449)
Other	442,716	-	-	-	442,716
Total nonoperating revenues (expenses)	<u>(5,817,690)</u>	<u>-</u>	<u>12,581</u>	<u>-</u>	<u>(5,805,109)</u>
Income (loss) before transfers	21,127,584	(1,080,389)	(10,787,470)	(189,400)	9,070,325
Transfers in	-	1,080,389	11,318,405	(12,361,358)	37,436
Transfers out	<u>(18,040,416)</u>	<u>-</u>	<u>-</u>	<u>12,361,358</u>	<u>(5,679,058)</u>
Change in net position	3,087,168	-	530,935	(189,400)	3,428,703
Total net position—beginning, as restated	<u>45,699,998</u>	<u>-</u>	<u>(530,935)</u>	<u>750,361</u>	<u>45,919,424</u>
Total net position—ending	<u>\$ 48,787,166</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 560,961</u>	<u>\$ 49,348,127</u>

CITY OF BUFFALO, NEW YORK
Combining Statement of Cash Flows—
Water System
Year Ended June 30, 2015

	<u>Water Board</u>	<u>Water Authority</u>	<u>Water Enterprise</u>	<u>Eliminations</u>	<u>Total Water System</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 43,397,493	\$ -	\$ -	\$ -	\$ 43,397,493
Payments to suppliers for goods and services	(11,786,012)	(1,590,587)	(5,557,250)	-	(18,933,849)
Payments to employees for services	-	-	(4,715,036)	-	(4,715,036)
Net cash provided by (used for) operating activities	<u>31,611,481</u>	<u>(1,590,587)</u>	<u>(10,272,286)</u>	<u>-</u>	<u>19,748,608</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from other funds	-	1,080,389	11,318,405	-	12,398,794
Transfers to other funds	(18,040,416)	-	-	-	(18,040,416)
Advances from other funds	3,460,954	3,748,717	-	-	7,209,671
Advances to other funds	(6,777,948)	-	(680,705)	-	(7,458,653)
Net cash provided by (used for) noncapital financing activities	<u>(21,357,410)</u>	<u>4,829,106</u>	<u>10,637,700</u>	<u>-</u>	<u>(5,890,604)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition/construction of capital assets	(3,483,414)	-	-	-	(3,483,414)
Principal payments on bonds	-	(6,200,000)	(315,852)	-	(6,515,852)
Payment to escrow agent	-	(55,645,000)	-	-	(55,645,000)
Proceeds from issuance of debt	-	46,655,000	-	-	46,655,000
Interest payments	(6,685,508)	5,262,621	(49,427)	-	(1,472,314)
Net cash used for capital and related financing activities	<u>(10,168,922)</u>	<u>(9,927,379)</u>	<u>(365,279)</u>	<u>-</u>	<u>(20,461,580)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received on short-term investments	144,043	-	-	-	144,043
Net cash provided by investing activities	<u>144,043</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>144,043</u>
Net increase (decrease) in cash and cash equivalents	229,192	(6,688,860)	135	-	(6,459,533)
Cash and cash equivalents—beginning	45,202,841	34,351,269	143,246	-	79,697,356
Cash and cash equivalents—ending	<u>\$ 45,432,033</u>	<u>\$ 27,662,409</u>	<u>\$ 143,381</u>	<u>\$ -</u>	<u>\$ 73,237,823</u>

(continued)

CITY OF BUFFALO, NEW YORK
Combining Statement of Cash Flows—
Water System
Year Ended June 30, 2015

	Water Board	Water Authority	Water Enterprise	Eliminations	Total Water System
Reconciliation of operating income (loss) to net cash provided by (used for) by operating activities:					
Operating income (loss)	\$ 26,945,274	\$ (1,080,389)	\$ (10,800,051)	\$ (189,400)	\$ 14,875,434
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation expense	5,144,214	-	-	-	5,144,214
Increase (decrease) in receivables	1,238,810	(599,143)	9,121	-	648,788
(Increase) in deferred outflow—relating to pensions	-	-	(145,760)	-	(145,760)
(Increase) decrease in payables	(1,527,417)	88,945	162,872	-	(1,275,600)
Decrease in accrued liabilities	-	-	65,075	-	65,075
Increase in retirement systems	-	-	30,786	-	30,786
Increase in compensated absences	-	-	23,038	-	23,038
Increase in workers' compensation	-	-	139,033	-	139,033
Increase in accrued other post-employment benefits obligation	-	-	433,000	-	433,000
(Decrease) in net pension liability	(189,400)	-	(189,400)	189,400	(189,400)
Total adjustments	<u>4,666,207</u>	<u>(510,198)</u>	<u>527,765</u>	<u>189,400</u>	<u>4,873,174</u>
Net cash provided by (used for) operating activities	<u>\$ 31,611,481</u>	<u>\$ (1,590,587)</u>	<u>\$ (10,272,286)</u>	<u>\$ -</u>	<u>\$ 19,748,608</u>

(concluded)

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AGENCY FUND

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

CITY OF BUFFALO, NEW YORK
Statement of Changes in Assets and Liabilities
Agency Fund
Year Ended June 30, 2015

	<u>Balance</u> <u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2015</u>
ASSETS				
Cash and cash equivalents	\$ 1,525,457	\$ 12,880,973	\$ 12,872,562	\$ 1,533,868
Receivables	-	804	-	804
Total assets	<u>\$ 1,525,457</u>	<u>\$ 12,881,777</u>	<u>\$ 12,872,562</u>	<u>\$ 1,534,672</u>
LIABILITIES				
Accounts payable	\$ 538	\$ 22,206,580	\$ 22,096,543	\$ 110,575
Intergovernmental payables	23,381	16,766	16,965	23,182
Amounts held in custody for others:				
Surety bonds and deposits	22,751	-	-	22,751
Prisoner property	1,118,672	310,491	299,753	1,129,410
Fire insurance proceeds	240,069	-	11,500	228,569
Medical reimbursements	104,337	89,547	184,662	9,222
Miscellaneous - other	15,709	12,755	17,501	10,963
Total amounts held in custody for others	<u>1,501,538</u>	<u>412,793</u>	<u>513,416</u>	<u>1,400,915</u>
Total liabilities	<u>\$ 1,525,457</u>	<u>\$ 22,636,139</u>	<u>\$ 22,626,924</u>	<u>\$ 1,534,672</u>

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FEDERAL AWARDS INFORMATION

CITY OF BUFFALO, NEW YORK
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Federal Grantor/Pass-through Grantor Program or Cluster Title (a)	Federal CFDA Number (b)	Pass-through Entity's Identifying Number	Federal Expenditures (c)
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
<i>Passed through New York State Homes and Community Renewal:</i>			
Neighborhood Stabilization Program	14.228	2010-NSP-1030	\$ 69,581
<i>Direct programs:</i>			
Community Development Block Grants/Entitlement Grants	14.218	N/A	23,910,173
Emergency Solutions Grant Program	14.231	N/A	700,881
HOME Investment Partnerships Program	14.239	N/A	2,271,709
Housing Opportunities for Persons with AIDS	14.241	N/A	78,884
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>27,031,228</u>
U.S. DEPARTMENT OF THE INTERIOR:			
<i>Passed through New York State Office of Parks, Recreation, and Historic Preservation:</i>			
Historic Preservation Fund Grants-In-Aid	15.904	C361202	2,595
TOTAL U.S. DEPARTMENT OF THE INTERIOR			<u>2,595</u>
U.S. DEPARTMENT OF JUSTICE:			
<i>Passed through New York State Division of Criminal Justice Services:</i>			
Juvenile Accountability Block Grants	16.523	T612171	1,833
Juvenile Accountability Block Grants	16.523	T612173	1,900
Juvenile Accountability Block Grants	16.523	T612203	5,709
Juvenile Accountability Block Grants	16.523	T612205	5,975
Total Juvenile Accountability Block Grants			15,417
<i>Direct programs:</i>			
Public Safety Partnership and Community Policing Grants	16.710	N/A	512,338
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	352,450
Byrne Criminal Justice Innovation Program	16.817	N/A	191,454
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>1,071,659</u>
U.S. DEPARTMENT OF TRANSPORTATION:			
<i>Passed through New York State Department of Transportation:</i>			
Highway Planning and Construction	20.205	See Note 3	10,472,996
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	D033949	209,985
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	D033967	63,035
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	D034003	6,533,013
Total Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research			6,806,033
State and Community Highway Safety	20.600	HSG2014 00411-PD	6,000
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>17,285,029</u>
NATIONAL ENDOWMENT FOR THE ARTS:			
<i>Direct programs:</i>			
Promotion of the Arts - Grants to Organizations and Individuals	45.024	N/A	68,910
TOTAL NATIONAL ENDOWMENT FOR THE ARTS			<u>68,910</u>

(continued)

CITY OF BUFFALO, NEW YORK
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

(concluded)

<u>Federal Grantor/Pass-through Grantor Program or Cluster Title (a)</u>	<u>Federal CFDA Number (b)</u>	<u>Pass-through Entity's Identifying Number</u>	<u>Federal Expenditures (c)</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
<i>Passed through Erie County:</i>			
Homeland Security Preparedness Technical Assistance Program	97.067	C173609	1,250
Homeland Security Preparedness Technical Assistance Program	97.067	C173619	10,619
Homeland Security Preparedness Technical Assistance Program	97.067	C173629	9,779
<i>Passed through New York State Division of Homeland Security/Emergency Services:</i>			
Homeland Security Preparedness Technical Assistance Program	97.067	C152310	212,958
Homeland Security Preparedness Technical Assistance Program	97.067	C152320	299,033
Homeland Security Preparedness Technical Assistance Program	97.067	C152330	1,135
Homeland Security Preparedness Technical Assistance Program	97.067	C191939	33,876
Homeland Security Preparedness Technical Assistance Program	97.067	C191949	11,415
Homeland Security Preparedness Technical Assistance Program	97.067	C834215	280,771
Homeland Security Preparedness Technical Assistance Program	97.067	C970339	13,000
Total Homeland Security Preparedness Technical Assistance Program			873,836
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4204DRNY	4,519,268
<i>Direct programs:</i>			
Assistance to Firefighters Grant	97.044	N/A	41,395
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>5,434,499</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE (d)			<u>\$ 50,893,920</u>

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

CITY OF BUFFALO, NEW YORK
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Buffalo, New York (the "City") under programs of the federal government for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a select portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

The following notes were identified on the schedule of expenditures of federal awards:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

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

Detail of highway administration expenditures for the year ended June 30, 2015 with their corresponding pass-through grantor numbers are as follows:

	Expenditures Year Ended June 30, 2015	CFDA No.	Pass-through Grantor Number
West Ferry Street Bridge over Black Rock Canal	\$ 1,935,707	20.205	D017626
Bailey Avenue Bridge over Cazenovia Creek	466,351	20.205	D017846
Inner Harbor and Waterfront Development	24,799	20.205	D017907
North Buffalo-Rails to Trails	220,054	20.205	D022061
Kenmore Avenue Reconstruction - Starin to Main Street	474,384	20.205	D030039
Buffalo-Niagara Medical Campus - Phase 2	390,084	20.205	D030124
Niagara Street Gateway	426,405	20.205	D030444
Restoration of Vehicle Traffic on Main Street - 600 Block	1,074,489	20.205	D032531
Fillmore Avenue Rehab and Streetscape Enhancement	434,390	20.205	D032782
Ohio Street Reconstruction Project	4,761,886	20.205	D034228
Buffalo-Niagara Medical Campus - Phase 3	264,447	20.205	D034267
Total	<u>\$ 10,472,996</u>		

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Certified Public Accountants

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Buffalo, New York (the "City") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 16, 2015. Our report includes a reference to other auditors who audited the financial statements of the Buffalo Fiscal Stability Authority and the Buffalo Board of Education, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. We have also audited the financial statements of the Buffalo Urban Renewal Agency (the "Agency"). This report does not include the results of our testing of internal control over financial reporting and compliance and other matters of the Agency which are reported on separately in our reported dated September 29, 2015.

Internal Control Over Financial Reporting

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

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

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

financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2015-001, that we consider to be a significant deficiency.

Compliance and Other Matters

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

The City's Response to Finding

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

Purpose of this Report

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



November 16, 2015

Certified Public Accountants

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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Buffalo, New York's (the "City") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2015. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The City's basic financial statements include the operations of the Buffalo Board of Education (the "Board") and the Buffalo Urban Renewal Agency (the "Agency"), which received \$99,973,375 and \$121,888,505, respectively, in federal awards which are not included in the City's Schedule of Expenditures of Federal Awards for the year ended June 30, 2015. Our compliance audit, described below, did not include the operations of the Board or the Agency. It did not include the operations of the Board and the Agency since other auditors were engaged to perform such audit of the Board in accordance with OMB Circular A-133 and since the Agency's compliance is reported separately in our report dated September 29, 2015 based on our audit of the operations of the Agency in accordance with OMB Circular A-133.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



November 16, 2015

CITY OF BUFFALO, NEW YORK
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Part I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unmodified*

* (which report includes a reference to other auditors)

Internal control over financial reporting:

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

Federal Awards:

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

Internal control over major programs:

- | | | |
|---|-----------|---|
| 4. Material weakness(es) identified? | _____ Yes | _____ <input checked="" type="checkbox"/> No |
| 5. Significant deficiency(ies) identified not considered to be material weakness(es)? | _____ Yes | _____ <input checked="" type="checkbox"/> None reported |
| 6. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510(a))? | _____ Yes | _____ <input checked="" type="checkbox"/> No |
| 7. The City's major programs were: | | |

Name of Federal Program

CFDA Number

Community Development Block Grants/Entitlement Grants	14.218
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036

- | | | |
|---|---|---------------------|
| 8. Dollar threshold used to distinguish between Type A and Type B programs? | | \$ <u>1,526,818</u> |
| 9. Auditee qualified as low-risk auditee? | _____ <input checked="" type="checkbox"/> Yes | _____ No |

Part II. FINANCIAL STATEMENT FINDINGS SECTION

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

Finding 2015-001—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 and Context—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, 2015, the General Fund has advanced \$17,350,211 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.

For more than five years, the Solid Waste and Recycling Fund has reported operating losses. Since 2011, the operating expenses, on average, have increased about 2.7% per year while operating revenues over the same period, on average, have increased by 0.2% per year.

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, 2015, the Solid Waste and Recycling Fund's operating loss was \$5,555,474.

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

Recommendation—Consistent with Section 216.58 of the City's Charter, we recommend that the City establish appropriate Solid Waste and Recycling Fund basic residential and commercial rates that will generate sufficient revenue to support program expenses within the fund.

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.

View of Responsible Officials and Planned Corrective Action Plan—Management is continuing the process of developing a formal deficit reduction plan for the Solid Waste and Recycling Fund, which will include the evaluation of the need for rate increases.

Part III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

No findings noted.

CITY OF BUFFALO, NEW YORK
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2015

Finding 2014-001—Solid Waste and Recycling Fund Deficit

See Finding 2015-001 within the Schedule of Findings and Questioned Costs for current status.

Finding 2014-002—Community Development Block Grant Earmarking

Criteria—In accordance with Part 4 of OMB Circular A-133 as it applies to the Housing and Urban Development Community Development Block Grant, “not less than 70 percent of the funds must be used over a period of up to 3 years, as specified by the grantee in its certification, for activities that benefit low-and-moderate-income persons”.

Condition and Context—The City certified the grant periods ending 2012-2014 to be included within the three year period for which the earmarking requirement is applicable. The City reports the results of HUD grants during the year in a Consolidated Annual Performance and Evaluation Report (“CAPER”). Through review of the 2012 and 2013 CAPERs, we noted that the City reported an average of 56.77% CDBG expenditures on activities that benefit low-and-moderate income persons. Although the City expected to achieve a higher percentage for the grant period ending in 2014, it did not expect to expend a high enough percentage to achieve a 3 year average of 70%.

Cause—There is a lack of controls surrounding payment of invoices to ensure that the funds are primarily being used for activities that benefit low-and-moderate income persons.

Effect or Potential Effect—Noncompliance with federal requirements jeopardizes the City’s eligibility to receive future federal HUD funds.

Recommendation—We recommend that the City develop specific plans of action to address similar requirements in the future. Plans should include establishing a system of internal controls surrounding the grants to ensure that the requirements are being met. This should include a system to track invoices on a more frequent basis to ensure that as funds are expended they are within grant requirements.

View of Responsible Officials and Planned Corrective Actions—During the 2013 grant year, the City had regular meetings with project managers on the status of all open CDBG projects with an emphasis on the timeliness of disbursing funds. The Mayor’s Office of Strategic Planning has since established a written policy, effective October 1, 2014, which includes the preparation of a Six Month Budget Report to gauge compliance with the CDBG Program’s primary objective of 70% benefit to low-to-moderate income persons. The 2013 program year rate was 74.4%, which brought the three-year average to 69.9%. This number is still under review by HUD and could be increased above 70%, which would mean the City complied with the objective. The City is currently below the 70% objective because HUD froze the disbursement of CDBG funds to the City during the 2012 grant year while requiring a change in the designated grantee from the Buffalo Urban Renewal Agency to the City. The freeze disproportionately affected low-to-moderate income programs. Despite the freeze, the City nearly met the HUD objective and still might. New procedures set up by the City to ensure compliance with the regulations lead the City to anticipate this objective will be met in future program years.

Current Status—The City has exceeded the 70% benefit to low-to-moderate income persons for the program year ended September 30, 2015. HUD reviewed the City’s corrective action plan as described above. In a letter dated September 25, 2015, HUD agreed that the actions taken were sufficient to satisfy the requirements cited in the finding.

Finding 2014-003—Subrecipient Monitoring Plan

Criteria—In accordance with Part 3 of OMB Circular A-133 as it applies to the Housing and Urban Development Community Development Block Grant, subrecipient monitoring is to be performed to ensure that subrecipients are administering federal awards in compliance with federal requirements and achieve performance goals. Additionally, monitoring is required to ensure that subrecipients take timely and appropriate corrective action on all audit findings.

Condition and Context—During single audit testing, we noted that the City has subrecipients that receive pass-through federal funding. While the City performs monitoring on subrecipient activity, there were instances noted where they were not performed in a timely manner. The City has not yet completed performance of monitoring activities for multiple of the prior year's subrecipients of the Community Development Block Grant. Additionally, a trivial amount of program income was collected from one subrecipient, which represented income from several grant award years that should be remitted to the City on a more timely basis to reflect its applicable grant award year. Finally, it was noted that when findings and recommendations result from subrecipient monitoring, there are no formalized procedures in place which identify the follow-up procedures.

Cause—Although there is review performed by fiscal and program monitors, there is no formalized subrecipient monitoring plan that is followed. Additionally, there are no procedures to ensure that findings have been followed-up on.

Effect or Potential Effect—Without a formalized subrecipient monitoring plan, the City risks that the funds are not being spent in accordance with federal requirements. This puts the City at risk of not receiving future funding within the program.

Recommendation—We recommend that the City formalize a subrecipient monitoring plan. The plan should include a rotation schedule to ensure all subrecipients have been monitored in a timely manner and a checklist of items to be reviewed. Additionally, the plan should include recommended methods for following up on findings which have been identified through subrecipient monitoring.

View of Responsible Officials and Planned Corrective Actions—The City currently follows the U.S. Department of Housing and Urban Development's *Managing CDBG – a Guidebook for CDBG Grantees on Subrecipient Oversight* monitoring procedures. This includes the follow-up procedures used when a subrecipient monitoring has resulted in findings and recommendations. Subrecipients are required to submit a corrective action plan for any findings within 30 days of monitoring completion. If the corrective action plan is sufficient, the finding will be closed and noted for review during the next monitoring cycle. However, if the corrective action plan is not sufficient, the fiscal and program monitors will provide technical assistance to help the agency into compliance. Recommendations do not require a follow-up; however, they are noted for further review during the next monitoring cycle. Additionally, the subrecipient monitoring plan is created annually using risk assessment data to determine the timing and depth of monitoring. Subrecipient monitoring is performed in order from highest to lowest risk agency. HUD's *CPD Monitoring Handbook 6509.2 Rev-6* has been adapted for use by the City as a guidebook or checklist of items to be reviewed. The City is in the process of creating formalized monitoring policies and procedures.

Current Status—The City developed a Compliance Monitoring Policies and Procedures Manual. In a letter dated September 25, 2015, HUD agreed that the actions taken were sufficient to satisfy the requirements cited in the finding.