

**CITY OF BUFFALO,  
NEW YORK**

*Basic Financial Statements, Required Supplementary  
Information, Supplementary Information and Federal  
Awards Information for the Year Ended  
June 30, 2016 and Independent Auditors' Reports*



CITY OF BUFFALO, NEW YORK

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Year Ended June 30, 2016

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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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Buffalo Fiscal Stability Authority ("BFSA"), which represents 2.0% and 0.8%, respectively, of the assets and revenues of the governmental activities. We also did not audit the financial statements of the Buffalo Board of Education ("BBOE"), which is shown as a discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for BFSA and BBOE, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Other Information***

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

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

November 1, 2016



**CITY OF BUFFALO, NEW YORK**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2016**

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As management of the City of Buffalo, New York (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016. This document should be read in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative. All amounts are expressed in thousands of dollars, unless otherwise indicated.

**Financial Highlights**

- The assets 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, 2016 by \$15,166 (net position). This consists of \$410,706 net investment in capital assets, \$40,497 restricted for specific purposes, and deficit unrestricted net position of \$436,037.
- The City's total primary government net position decreased by \$41,962 during the year ended June 30, 2016. Net position decreased \$47,935 for governmental activities and increased \$5,973 for business-type activities.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$216,820.
- At the end of the current fiscal year, the combined committed, assigned and unassigned fund balance for the General Fund was \$113,577, or 24.5 percent, of total General Fund expenditures and transfers out. Committed fund balance for the Emergency Stabilization fund is \$36,317 or 7.8 percent of total General Fund expenditures and transfers out, assigned fund balance is \$35,371, or 7.6 percent of total General Fund expenditures and transfers out, and unassigned fund balance is \$41,889, 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 \$255,244 (\$209,423 net governmental activities general obligation bonds issued by the City, \$34,925 governmental activities general obligation bonds issued by BFSA, and \$10,896 business-type activities general obligation bonds). The City issued serial bonds of \$21,703 and refunding bonds of \$21,220 for governmental activities, and issued serial bonds of \$4,067 for business-type activities, while the BFSA issued refunding bonds of \$14,170 during the year ended June 30, 2016.
- The total Buffalo Municipal Water Finance Authority revenue bonds outstanding within the Water System at the end of the current fiscal year were \$130,835.

**Overview of the Financial Statements**

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

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

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

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

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

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

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

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

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

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

The City maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund and Capital Projects Fund, which are considered major funds. Additionally, the General Fund of the Buffalo Fiscal Stability Authority (“BFSA”) is reported as a major fund of the City (BFSA Special Revenue). Data from the City’s Special Revenue and Permanent Funds, as well as the Debt Service Fund of the BFSA are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is presented in the form of combining statements in the Supplementary Information section of this report.

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

**Proprietary funds**—The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its 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 28-87 of this report.

**Other information**—In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City’s progress in funding its obligation to provide 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 88-96 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 97-105.

Finally, the Federal Awards Information can be found on pages 106-116.

## Government-wide Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City's primary government, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$15,166 at the close of the most recent fiscal year, as compared to \$57,128, at the close of the fiscal year ended June 30, 2016.

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

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

	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 620,392	\$ 607,154	\$ 67,194	\$ 66,879	\$ 687,586	\$ 674,033
Noncurrent assets	500,491	483,920	182,827	178,216	683,318	662,136
Total assets	1,120,883	1,091,074	250,021	245,095	1,370,904	1,336,169
Deferred outflows of resources	137,077	22,821	11,372	5,775	148,449	28,596
Current and other liabilities	332,647	294,258	10,742	9,781	343,389	304,039
Noncurrent liabilities	952,851	819,138	187,141	184,350	1,139,992	1,003,488
Total liabilities	1,285,498	1,113,396	197,883	194,131	1,483,381	1,307,527
Deferred inflows of resources	19,920	22	886	88	20,806	110
Net position:						
Net investment in capital assets	346,504	322,566	64,202	57,182	410,706	379,748
Restricted	40,497	50,545	-	-	40,497	50,545
Unrestricted	(434,459)	(372,634)	(1,578)	(531)	(436,037)	(373,165)
Total net position	\$ (47,458)	\$ 477	\$ 62,624	\$ 56,651	\$ 15,166	\$ 57,128

The largest portion of the City's net position, \$410,706, 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, \$40,497, 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 \$436,037, 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 \$545,625, which is greater than this deficit. As the revenue recognition criteria for the future funding of this liability has not been met, no asset has been recorded to offset this liability.

Total net position of the City's primary government decreased \$41,962. Significant changes from 2015 to 2016 in the Statement of Net Position and reasons for such changes are:

- Current and other assets increased by \$13,553. The primary reason for the increase is an increase in cash and cash equivalents of \$31,401 related primarily to the timing of payments made by the City.
- Noncurrent assets increased by \$21,182. A significant portion of the increase was due to additions to infrastructure and buildings and building improvements in governmental activities and business-type activities.
- Deferred outflows of resources increased by \$119,853, due primarily to an increase in deferred outflows relating to pensions.
- Current and other liabilities increased \$39,350, due to \$44,996 increase in amounts owed to component units, offset by a decrease of \$5,632 in accounts payable and accrued liabilities and intergovernmental payables. These changes are primarily related to the timing of payments made by the City.
- Noncurrent liabilities increased by \$136,504, primarily due to a \$112,258 increase in the net pension liability, and a \$49,650 increase in other post-employment benefits ("OPEB") liabilities, offset by a net \$22,755 decrease in bonds payable.
- Deferred inflows of resources increased \$20,696, due primarily to an increase in deferred inflows relating to pensions.

Table 2, as presented below, shows the changes in net position for the years ended June 30, 2016 and June 30, 2015.

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

	Governmental Activities		Business-Type Activities		Total	
	Year Ended June 30,		Year Ended June 30,		Year Ended June 30,	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 28,340	\$ 27,927	\$ 70,276	\$ 70,491	\$ 98,616	\$ 98,418
Operating grants and contributions	32,188	40,789	-	-	32,188	40,789
Capital grants and contributions	23,821	32,998	-	-	23,821	32,998
General revenues:						
Property taxes	124,896	124,101	-	-	124,896	124,101
Other taxes	24,652	24,437	-	-	24,652	24,437
Intergovernmental	97,471	98,149	223	443	97,694	98,592
Grants and contributions	344	283	-	-	344	283
Investment earnings	3,262	1,610	111	157	3,373	1,767
State aid	168,311	167,725	-	-	168,311	167,725
Miscellaneous	7,971	27,928	-	-	7,971	27,928
Total revenues	<u>511,256</u>	<u>545,947</u>	<u>70,610</u>	<u>71,091</u>	<u>581,866</u>	<u>617,038</u>
Expenses:						
General government support	110,385	87,297	-	-	110,385	87,297
Public safety	274,293	302,214	-	-	274,293	302,214
Streets and sanitation	35,729	39,220	-	-	35,729	39,220
Economic assist. and opportunity	41,623	21,132	-	-	41,623	21,132
Culture and recreation	15,977	10,925	-	-	15,977	10,925
Health and community services	6,941	5,222	-	-	6,941	5,222
Education	70,323	70,323	-	-	70,323	70,323
Interest and fiscal charges	10,166	9,551	-	-	10,166	9,551
Solid Waste and Recycling	-	-	23,548	25,234	23,548	25,234
Parking	-	-	2,594	1,986	2,594	1,986
Water System	-	-	32,249	34,633	32,249	34,633
Total expenses	<u>565,437</u>	<u>545,884</u>	<u>58,391</u>	<u>61,853</u>	<u>623,828</u>	<u>607,737</u>
Excess (deficiency) of revenues over expenses	(54,181)	63	12,219	9,238	(41,962)	9,301
Transfers	<u>6,246</u>	<u>9,246</u>	<u>(6,246)</u>	<u>(9,246)</u>	<u>-</u>	<u>-</u>
Change in net position	(47,935)	9,309	5,973	(8)	(41,962)	9,301
Net position—beginning	<u>477</u>	<u>(8,832)</u>	<u>56,651</u>	<u>56,659</u>	<u>57,128</u>	<u>47,827</u>
Net position—ending	<u>\$ (47,458)</u>	<u>\$ 477</u>	<u>\$ 62,624</u>	<u>\$ 56,651</u>	<u>\$ 15,166</u>	<u>\$ 57,128</u>

**Governmental activities**—The largest funding sources for the City’s governmental activities, as a percent of total revenues, are state aid (32.9%), property taxes (24.4%) and intergovernmental (19.1%).

The largest expense categories for the City’s governmental activities are public safety (48.5%), general government support (19.5%) and education (12.4%). The education category represents the City allocation to the Board.

Significant changes from 2015 to 2016 in revenues and expenses for the City include the following:

- Total revenues decreased by \$35,172 in the current year as compared to last year, primarily due to prior year’s increase in miscellaneous revenues for a one-time transaction to record a refund of prior year expenses related to retroactive wages.
- Total expenses increased by \$16,091. While overall fund expenditures decreased due to a decrease in fringe benefits, general government support, economic assistance and opportunity, culture and recreation, health and community services government-wide expenses were higher than 2015 expenses by \$23,088, \$20,491, \$5,052, \$1,719 and \$615. These increases are a result in expenses that are allocable to the functions, including increases in the pension expense of approximately \$28,900.

**Business-type activities**—Business-type activities increased the City’s net position by \$5,973. Overall, revenues and expenses remained relatively consistent from 2015 to 2016. The overall increase in net position is due to the following:

- The Solid Waste and Recycling Fund recorded a decrease in net position of \$1,169 as a result of operating expenses and transfers out continuing to exceed operating revenues and transfers in.
- The net position of the Parking Fund increased \$1,944, which was a result of a decrease in transfers out of excess reserves to the General Fund.
- The Water System’s net position increased by \$5,198 as a result of a decrease in both operating expenses and interest expense.

### **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, 2016, the City’s governmental funds reported combined ending fund balances of \$216,820, a decrease of \$13,100 from the prior year. Approximately 19.3 percent of this amount, \$41,889, 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, \$27,817, (2) restricted for particular purposes, \$74,769, (3) committed to particular purposes, \$36,317, or (4) assigned for particular purposes, \$36,028.

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 \$27,817 consists of \$9,472 of real estate acquired for sale, \$16,754 to cover the deficit in the Solid Waste and Recycling Fund, \$1,561 for prepaid items and \$30 for Permanent Fund principal.

Restricted fund balance in the amount of \$74,769 are amounts constrained to specific purposes and consist of \$41,246 to finance specific capital projects, \$6,972 for future capital outlay, \$19,319 to pay debt service, \$5,181 for federal and state programs, \$710 for state mandated initiatives, \$1,230 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. \$36,317 of fund balance is committed for the City's Emergency Stabilization fund. Assigned fund balance in the amount of \$36,028 consists of \$10,031 to liquidate contracts and purchase orders, \$664 for motor vehicle self-insurance, \$10,676 for the subsequent year's budget, \$14,000 for judgments and claims, and \$657 in funds held by the BFSA. These assignments indicate management's intention to utilize these funds for the state purposes. Unassigned fund balance totals \$41,889.

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 \$41,889, while total fund balance decreased to \$149,478. 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 32.3 percent of that same amount. While the City had planned use of fund balance of \$15,000, as a result of recognized savings, particularly in fringe benefits and general government support, during the year the total fund balance of the City's General Fund decreased by \$1,747.

The Debt Service Fund has a total fund balance of \$11,743, which is restricted solely for the purpose of payment of debt service. The decrease in fund balance during the current year in the Debt Service Fund of \$7,950 is due primarily to unbudgeted transfers out to the BFSA Debt Service Fund.

The Capital Projects Fund accounts for the construction and reconstruction of general public improvements, excluding projects related to business-type activities, which are accounted for in the appropriate proprietary fund. At the end of the current fiscal year, Capital Projects Fund fund balance was \$41,323, of which \$41,246 is restricted for encumbrances and future projects. The remaining \$77 is considered to not be in spendable form for prepaid items. The decrease in fund balance of \$429 is related to capital outlay in excess of revenues and proceeds from the issuance of debt.

The BFSA Special Revenue Fund is used to account for the general fund of the BFSA and, therefore, is their chief operating fund. Total fund balance at the end of the current fiscal year was \$1,378. Of this amount, \$657 is restricted by enabling legislation for state aid received on behalf of the City, \$10 is nonspendable for prepaid items and \$711 represents BFSA's assigned fund balance for operations. The \$152 decrease in fund balance is attributable to transfers out made to the BFSA Debt Service Fund for operations.

Other nonmajor governmental funds consist of the Special Revenue Fund, the BFSA Debt Service Fund, and the Permanent Fund. The Special Revenue Fund is used to account for programs and projects primarily funded by grants from the federal and state governments. At the end of the current fiscal year, fund balance of the Special Revenue Fund was \$5,181. This balance is restricted for use in accordance with federal and state grant regulations. The fund balance of the Special Revenue Fund decreased by \$1,178 from the prior year, and is attributable expenditures in excess of revenues related to federal grant

funding. The BFSA Debt Service Fund has a total fund balance of \$7,576, which is restricted to pay debt service. The fund balance of the BFSA Debt Service Fund decreased by \$1,644 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 \$62,264. The balance includes a deficit balance of \$34,775 for the Solid Waste and Recycling Fund, \$42,853 for the Parking Fund, and \$54,546 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 \$114. This represents an increase of \$29, 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, 2016 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	\$ 478,211	\$ 478,211	\$ 462,811	\$ (15,400)
Expenditures and other financing uses	<u>493,211</u>	<u>497,328</u>	<u>474,273</u>	<u>23,055</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ (15,000)</u>	<u>\$ (19,117)</u>	<u>\$ (11,462)</u>	<u>\$ 7,655</u>

**Original budget compared to final budget**—During the year, the City amended appropriations for various purposes. The primary increases were \$3.0 million in public safety, police related to overtime wages, \$2.7 million in other related to payouts of judgments and claims, 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.

## Capital Assets and Debt Administration

**Capital assets**—The City’s capital assets for its governmental activities and business-type activities as of June 30, 2016 amounted to \$683,318 (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, 2016 and June 30, 2015 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,	
	2016	2015	2016	2015	2016	2015
Land	\$ 10,048	\$ 10,048	\$ 3,362	\$ 3,362	\$ 13,410	\$ 13,410
Buildings and improvements	181,860	180,305	121,538	117,299	303,398	297,604
Improvements other than buildings	25,072	23,620	93	117	25,165	23,737
Machinery and equipment	15,179	17,359	2,570	2,390	17,749	19,749
Infrastructure	263,603	247,308	53,849	53,395	317,452	300,703
Construction in progress	4,729	5,280	1,415	1,654	6,144	6,934
Total	<u>\$ 500,491</u>	<u>\$ 483,920</u>	<u>\$ 182,827</u>	<u>\$ 178,217</u>	<u>\$ 683,318</u>	<u>\$ 662,137</u>

Significant changes from 2015 to 2016 in capital assets include:

- Infrastructure increased \$16,749 largely due to the completion of various projects relating to streets and bridges and a significant investment in curbs and sidewalks.
- Buildings and improvements increased \$5,794 largely due to the completion of various buildings improvements related to a water pumping station and water filtration plant.

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 4 to the financial statements.

**Long-term debt**—At June 30, 2016, the City had total bonded debt outstanding for governmental activities of \$244,348, including bonds issued by BFSAs, as compared to \$267,479 in the prior year. During the year ended June 30, 2016, the City issued serial bonds of \$21,703 and refunding bonds of \$21,220 for governmental activities. BFSAs issued refunding bonds of \$14,170 during the year. The BFSAs’ total bonded debt outstanding at the end of the current fiscal year is \$34,925.

The bonds outstanding for business-type activities at June 30, 2016 consisted of \$10,896 in general obligation bonds issued by the City and \$130,835 of revenue bonds issued by the Water Authority reported within the Water System. During the year ended June 30, 2016, the City issued serial bonds of \$4,067 for business-type activities.

A summary of the City's long-term liabilities at June 30, 2016 and June 30, 2015 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,	
	2016	2015	2016	2015	2016	2015
Bonds payable, net of premiums and discounts	\$ 263,862	\$ 282,296	\$ 148,616	\$ 152,937	\$ 412,478	\$ 435,233
Notes payable	273	541	-	-	273	541
Capital leases	-	-	-	241	-	241
Compensated absences	25,878	29,269	1,190	1,347	27,068	30,616
Workers' compensation	7,584	8,147	2,685	2,744	10,269	10,891
Landfill post-closure monitoring	840	910	-	-	840	910
OPEB	518,248	470,166	27,377	25,809	545,625	495,975
Judgments and claims	14,000	11,900	-	-	14,000	11,900
Net pension liability	122,166	15,909	7,273	1,272	129,439	17,181
<b>Total</b>	<b>\$ 952,851</b>	<b>\$ 819,138</b>	<b>\$ 187,141</b>	<b>\$ 184,350</b>	<b>\$ 1,139,992</b>	<b>\$ 1,003,488</b>

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 \$651,453. The City had a debt-contracting margin of \$453,978 on July 1, 2016.

Additional information on the City's long-term debt can be found in Note 10 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 2017 budget. The total budgeted appropriations for the City's General Fund operations are \$395,762. This budget is an increase from the fiscal year 2016 total budgeted appropriations of \$1,240. This budget was approved by the BFSAs.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Buffalo, Office of the Comptroller, 1225 City Hall, Buffalo, New York 14202; Buffalo Board of Education, Finance, 708 City Hall, Buffalo, New York 14202; and Buffalo Urban Renewal Agency, 214 City Hall, Buffalo, New York 14202.

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# BASIC FINANCIAL STATEMENTS



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**CITY OF BUFFALO, NEW YORK**  
**Statement of Net Position**  
**June 30, 2016**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	BOE	BURA
<b>ASSETS</b>					
Cash and cash equivalents	\$ 320,251,741	\$ 19,703,626	\$ 339,955,367	\$ 262,501	\$ 334,689
Restricted cash and cash equivalents	128,476,627	25,872,996	154,349,623	38,727,401	333,179
Investments	40,536,499	25,036,844	65,573,343	-	-
Receivables (net of allowances)	20,598,222	9,286,486	29,884,708	1,224,589	1,127,064
Intergovernmental receivables	21,218,910	65,057	21,283,967	58,060,673	2,167,229
Due from component units/ primary government	65,506,438	-	65,506,438	279,359,379	149,740
Internal balances	12,770,681	(12,770,681)	-	-	-
Prepaid items and other assets	1,560,552	-	1,560,552	1,530,481	35,591
Real estate acquired for resale	9,472,256	-	9,472,256	-	3,862,882
Noncurrent net pension asset	-	-	-	173,277,759	-
Capital assets not being depreciated	14,776,798	4,777,701	19,554,499	16,184,688	-
Capital assets, net of accumulated depreciation	485,714,554	178,048,841	663,763,395	1,016,838,949	500,520
Total assets	<u>1,120,883,278</u>	<u>250,020,870</u>	<u>1,370,904,148</u>	<u>1,585,466,420</u>	<u>8,510,894</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred loss on refunding	3,448,371	4,316,521	7,764,892	14,483,343	-
Deferred outflows—relating to pensions	133,628,157	7,055,239	140,683,396	56,767,000	1,146,884
Total deferred outflows of resources	<u>137,076,528</u>	<u>11,371,760</u>	<u>148,448,288</u>	<u>71,250,343</u>	<u>1,146,884</u>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	43,145,070	10,047,239	53,192,309	74,302,113	2,451,771
Intergovernmental payables	9,782,742	519,797	10,302,539	39,397,896	260,846
Due to component units/primary government	279,509,119	-	279,509,119	65,376,000	130,438
Due to Agency Fund	804	-	804	-	-
Unearned revenue	209,305	175,308	384,613	-	-
Noncurrent liabilities:					
Due within one year	48,522,048	11,891,048	60,413,096	79,300,630	32,345
Due in more than one year	904,328,899	175,249,603	1,079,578,502	1,886,215,295	16,023,496
Total liabilities	<u>1,285,497,987</u>	<u>197,882,995</u>	<u>1,483,380,982</u>	<u>2,144,591,934</u>	<u>18,898,896</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred gain on refunding	-	23,329	23,329	-	-
Deferred inflows—relating to pensions	19,920,060	862,098	20,782,158	62,609,785	204,899
Total deferred inflows of resources	<u>19,920,060</u>	<u>885,427</u>	<u>20,805,487</u>	<u>62,609,785</u>	<u>204,899</u>
<b>NET POSITION</b>					
Net investment in capital assets	346,504,168	64,202,099	410,706,267	62,712,390	500,520
Restricted for:					
Capital outlay	6,971,947	-	6,971,947	203,069	-
Debt service	16,791,445	-	16,791,445	34,470,391	-
Grants	5,180,547	-	5,180,547	-	240,756
State mandated initiatives	710,319	-	710,319	-	-
Real estate held for sale	9,472,256	-	9,472,256	-	-
Judgments and claims	-	-	-	17,750,000	-
Unemployment insurance	-	-	-	3,156,044	-
Joint Schools Construction Board projects	-	-	-	128,010	-
Perpetual care:					
Expendable	110,801	-	110,801	502,739	-
Unexpendable	30,000	-	30,000	-	-
Other purposes	1,229,598	-	1,229,598	3,823,880	-
Unrestricted	(434,459,322)	(1,577,891)	(436,037,213)	(673,231,479)	(10,187,293)
Total net position	<u>\$ (47,458,241)</u>	<u>\$ 62,624,208</u>	<u>\$ 15,165,967</u>	<u>\$ (550,484,956)</u>	<u>\$ (9,446,017)</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, 2016**

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-type Activities	Total	BOE	BURA
<b>Primary government:</b>									
Governmental activities:									
General government support	\$ 110,385,119	\$ 8,995,021	\$ 1,564,110	\$ 2,089,665	\$ (97,736,323)	\$ -	\$ (97,736,323)	\$ -	\$ -
Public safety	274,292,721	12,426,640	4,507,975	-	(257,358,106)	-	(257,358,106)	-	-
Streets and sanitation	35,729,528	1,923,847	1,768,291	19,743,406	(12,293,984)	-	(12,293,984)	-	-
Economic assistance and opportunity	41,623,004	4,649,431	8,489,861	51,331	(28,432,381)	-	(28,432,381)	-	-
Culture and recreation	15,977,380	203,454	11,378	1,936,616	(13,825,932)	-	(13,825,932)	-	-
Health and community services	6,940,881	141,764	15,846,179	-	9,047,062	-	9,047,062	-	-
Education	70,322,757	-	-	-	(70,322,757)	-	(70,322,757)	-	-
Interest and fiscal charges	10,165,708	-	-	-	(10,165,708)	-	(10,165,708)	-	-
Total governmental activities	<u>565,437,098</u>	<u>28,340,157</u>	<u>32,187,794</u>	<u>23,821,018</u>	<u>(481,088,129)</u>	<u>-</u>	<u>(481,088,129)</u>	<u>-</u>	<u>-</u>
Business-type activities:									
Solid Waste and Recycling	23,547,840	19,135,188	-	-	-	(4,412,652)	(4,412,652)	-	-
Parking	2,593,706	8,062,840	-	-	-	5,469,134	5,469,134	-	-
Water System	32,249,422	43,078,346	-	-	-	10,828,924	10,828,924	-	-
Total business-type activities	<u>58,390,968</u>	<u>70,276,374</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,885,406</u>	<u>11,885,406</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 623,828,066</u>	<u>\$ 98,616,531</u>	<u>\$ 32,187,794</u>	<u>\$ 23,821,018</u>	<u>(481,088,129)</u>	<u>11,885,406</u>	<u>(469,202,723)</u>	<u>-</u>	<u>-</u>
<b>Component units:</b>									
BOE	\$ 1,018,065,689	\$ 2,570,266	\$ 137,348,758	\$ -	-	-	-	(878,146,665)	-
BURA	54,788,538	4,747,292	45,391,906	-	-	-	-	-	(4,649,340)
Total component units	<u>\$ 1,072,854,227</u>	<u>\$ 7,317,558</u>	<u>\$ 182,740,664</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(878,146,665)</u>	<u>(4,649,340)</u>
General revenues:									
Taxes:									
Property taxes					124,896,444	-	124,896,444	-	-
Interest and penalties					3,668,738	-	3,668,738	-	-
Mortgage taxes					3,246,996	-	3,246,996	-	-
Payments in lieu of taxes					7,171,157	-	7,171,157	-	-
Gross utility tax					10,564,641	-	10,564,641	-	-
Intergovernmental—unrestricted					97,470,527	222,552	97,693,079	42,362,699	-
Grants and contributions not restricted to specific programs					344,272	-	344,272	-	-
Investment earnings					3,262,292	110,455	3,372,747	153,529	461,098
Contribution from City of Buffalo					-	-	-	70,322,758	3,870,000
State aid—unrestricted					168,311,274	-	168,311,274	686,246,778	-
Miscellaneous					7,971,447	-	7,971,447	15,190,249	1,359,470
Transfers					6,245,633	(6,245,633)	-	-	-
Total general revenues and transfers					<u>433,153,421</u>	<u>(5,912,626)</u>	<u>427,240,795</u>	<u>814,276,013</u>	<u>5,690,568</u>
Change in net position					(47,934,708)	5,972,780	(41,961,928)	(63,870,652)	1,041,228
Net position—beginning					476,467	56,651,428	57,127,895	(486,614,304)	(10,487,245)
Net position—ending					<u>\$ (47,458,241)</u>	<u>\$ 62,624,208</u>	<u>\$ 15,165,967</u>	<u>\$ (550,484,956)</u>	<u>\$ (9,446,017)</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, 2016**

	<b>General</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>BFSA Special Revenue</b>	<b>Total Nonmajor Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 320,168,303	\$ -	\$ -	\$ -	\$ -	\$ 320,168,303
Restricted cash and cash equivalents	29,970,159	12,803,046	77,688,984	710,319	7,304,119	128,476,627
Investments	32,464,534	-	-	-	8,071,965	40,536,499
Receivables:						
Delinquent taxes and assessments	14,308,288	-	-	-	-	14,308,288
Accounts receivable	17,544,210	-	-	-	-	17,544,210
Other receivables	-	988	-	-	4,132	5,120
Due from other agencies	874,640	-	-	-	-	874,640
Intergovernmental receivables	2,958,374	-	3,506,324	13,272,436	104,362	19,841,496
Due from other funds	37,829,768	192,765	14,620	-	49,262	38,086,415
Due from component units	56,852	-	-	-	73,586	130,438
Allowances	(11,294,414)	-	-	-	-	(11,294,414)
Net receivables	62,277,718	193,753	3,520,944	13,272,436	231,342	79,496,193
Prepaid items	1,473,800	-	76,703	10,049	-	1,560,552
Real estate acquired for resale	9,472,256	-	-	-	-	9,472,256
Total assets	<u>\$ 455,826,770</u>	<u>\$ 12,996,799</u>	<u>\$ 81,286,631</u>	<u>\$ 13,992,804</u>	<u>\$ 15,607,426</u>	<u>\$ 579,710,430</u>
<b>LIABILITIES</b>						
Accounts payable	\$ 13,406,537	\$ -	\$ 6,017,714	\$ 10,591	\$ 494,060	\$ 19,928,902
Accrued liabilities	20,136,801	-	-	32,651	515,201	20,684,653
Intergovernmental payables	50,714	-	28,572	-	352,059	431,345
Due to other funds	50,315	1,253,349	15,025,558	7,787,808	1,198,913	25,315,943
Due to component units	255,683,680	-	18,891,553	4,784,146	149,740	279,509,119
Due to retirement systems	8,848,623	-	-	-	-	8,848,623
Unearned revenue	209,305	-	-	-	-	209,305
Total liabilities	<u>298,385,975</u>	<u>1,253,349</u>	<u>39,963,397</u>	<u>12,615,196</u>	<u>2,709,973</u>	<u>354,927,890</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenues - property taxes	7,962,778	-	-	-	-	7,962,778
Total deferred inflows of resources	<u>7,962,778</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,962,778</u>
<b>FUND BALANCES</b>						
Nonspendable	27,699,931	-	76,703	10,049	30,000	27,816,683
Restricted	8,201,545	11,743,450	41,246,531	710,319	12,867,453	74,769,298
Committed	36,316,959	-	-	-	-	36,316,959
Assigned	35,370,696	-	-	657,240	-	36,027,936
Unassigned	41,888,886	-	-	-	-	41,888,886
Total fund balances	<u>149,478,017</u>	<u>11,743,450</u>	<u>41,323,234</u>	<u>1,377,608</u>	<u>12,897,453</u>	<u>216,819,762</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 455,826,770</u>	<u>\$ 12,996,799</u>	<u>\$ 81,286,631</u>	<u>\$ 13,992,804</u>	<u>\$ 15,607,426</u>	<u>\$ 579,710,430</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, 2016**

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

Total fund balances—governmental funds (page 17)		\$ 216,819,762
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 \$950,191,584 and the accumulated depreciation is \$449,703,089.		500,488,495
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 \$70,377 and the accumulated depreciation is \$67,520.		2,857
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.		3,448,371
Property taxes are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the funds.		7,962,778
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	\$ 8,895,691	
Deferred outflows related to experience, changes of assumptions, investment earnings, and changes in proportion	124,732,466	
Deferred inflows related to pension plans	<u>(19,920,060)</u>	113,708,097
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.		114,456
Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.		65,376,000
Net accrued interest expense for serial bonds is not reported in the funds.		(2,528,110)
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	\$ (209,423,469)	
General obligations bonds—BFSA	(34,925,000)	
Unamortized bond premiums—City	(16,793,146)	
Unamortized bond premiums—BFSA	(2,720,315)	
Notes payable	(272,859)	
Compensated absences	(25,878,223)	
Workers' compensation	(7,584,114)	
Landfill post-closure monitoring costs	(840,000)	
Other post-employment benefits obligation—City	(517,613,000)	
Other post-employment benefits obligation—BFSA	(634,751)	
Judgments and claims	(14,000,000)	
Net pension liability—City	(121,862,828)	
Net pension liability—BFSA	<u>(303,242)</u>	<u>(952,850,947)</u>
Net position of governmental activities		<u>\$ (47,458,241)</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, 2016**

	General	Debt Service	Capital Projects	BFSA Special Revenue	Total Nonmajor Funds	Total Governmental Funds
<b>REVENUES</b>						
Property taxes, assessments, and other tax items	\$ 139,042,507	\$ -	\$ -	\$ -	\$ -	\$ 139,042,507
Utility and other nonproperty tax items	11,168,613	-	-	-	-	11,168,613
Intergovernmental	266,145,088	14,779,118	23,970,483	1,317,570	28,352,455	334,564,714
Investment interest	643,768	40,552	-	-	593,689	1,278,009
License, permit, rentals, fines, and other service charges	26,754,706	92,884	-	-	-	26,847,590
Miscellaneous	8,700,671	-	737,141	-	172,373	9,610,185
<b>Total revenues</b>	<b>452,455,353</b>	<b>14,912,554</b>	<b>24,707,624</b>	<b>1,317,570</b>	<b>29,118,517</b>	<b>522,511,618</b>
<b>EXPENDITURES</b>						
Current:						
General government support	53,466,062	-	-	503,897	4,292,626	58,262,585
Public safety	153,914,181	-	-	-	3,701,967	157,616,148
Streets and sanitation	12,159,579	-	-	-	1,457,660	13,617,239
Economic assistance and opportunity	1,717,612	-	-	-	18,039,706	19,757,318
Culture and recreation	7,153,219	-	-	-	107,878	7,261,097
Health and community services	2,485,003	-	-	-	2,150,683	4,635,686
Education	70,322,757	-	-	-	-	70,322,757
Fringe benefits	130,292,105	-	-	163,319	-	130,455,424
Other	3,937,698	-	-	-	-	3,937,698
Debt service:						
Principal	-	28,288,984	-	-	8,780,000	37,068,984
Interest and fiscal charges	355,287	9,517,386	136,008	-	2,588,263	12,596,944
Capital outlay:						
General government support	-	-	7,480,072	-	-	7,480,072
Public safety	-	-	1,811,728	-	-	1,811,728
Streets and sanitation	-	-	30,158,744	-	-	30,158,744
Economic assistance and opportunity	-	-	2,703,318	-	-	2,703,318
Culture and recreation	-	-	5,044,207	-	-	5,044,207
<b>Total expenditures</b>	<b>435,803,503</b>	<b>37,806,370</b>	<b>47,334,077</b>	<b>667,216</b>	<b>41,118,783</b>	<b>562,729,949</b>
Excess (deficiency) of revenues over expenditures	16,651,850	(22,893,816)	(22,626,453)	650,354	(12,000,266)	(40,218,331)
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	9,996,089	25,819,998	400,000	-	12,831,601	49,047,688
Transfers out	(28,394,665)	(11,981,895)	(1,622,772)	(802,723)	-	(42,802,055)
Serial bonds issued	-	-	21,703,468	-	-	21,703,468
Refunding bonds issued	-	21,220,000	-	-	14,170,000	35,390,000
Payment to refunded bond escrow agent	-	(26,030,948)	-	-	(19,360,000)	(45,390,948)
Premium on bonds	-	5,916,947	1,716,375	-	1,536,367	9,169,689
<b>Total other financing sources (uses)</b>	<b>(18,398,576)</b>	<b>14,944,102</b>	<b>22,197,071</b>	<b>(802,723)</b>	<b>9,177,968</b>	<b>27,117,842</b>
Net change in fund balances	(1,746,726)	(7,949,714)	(429,382)	(152,369)	(2,822,298)	(13,100,489)
Fund balances—beginning	151,224,743	19,693,164	41,752,616	1,529,977	15,719,751	229,920,251
Fund balances—ending	\$ 149,478,017	\$ 11,743,450	\$ 41,323,234	\$ 1,377,608	\$ 12,897,453	\$ 216,819,762

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, 2016**

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) \$ (13,100,489)

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.

Capital asset additions, net	\$ 50,462,205	
Depreciation expense	(33,507,324)	
Loss on disposition of assets	<u>(382,430)</u>	16,572,451

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. (1,492)

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. 2,015,705

Revenues reported in the statement of activities that do not provide current financial resources and, therefore, are not reported as revenues in the funds. (12,979,307)

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

Direct pension contributions	\$ 8,895,691	
Cost of benefits earned net of employee contributions	<u>(22,307,473)</u>	(13,411,782)

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. 28,945

In the statement of activities, interest expense is recognized as it accrues, regardless of when it is paid. 397,558

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:

Proceeds from general obligations bonds—City	\$ (21,703,468)	
Proceeds from refunding bonds—City	(21,220,000)	
Reduction of refunded bonds—City	23,795,000	
Proceeds from refunding bonds—BFSA	(14,170,000)	
Reduction of refunded bonds—BFSA	19,360,000	
Repayment of general obligations bonds—City	28,288,984	
Repayment of general obligations bonds—BFSA	8,780,000	
Premium on general obligations bonds—City	(4,277,435)	
Premium on refunding bonds—City	(3,355,887)	
Premium on refunding bonds—BFSA	(1,536,367)	
Amortization of bond premiums—City	2,489,184	
Amortization of bond premiums—BFSA	1,984,224	
Repayment of notes payable	267,509	
Change in compensated absences	3,391,177	
Change in workers' compensation	563,158	
Change in landfill post-closure monitoring costs	70,000	
Change in other post-employment benefits obligation—City	(48,016,000)	
Change in other post-employment benefits obligation—BFSA	(66,376)	
Change in judgments and claims	<u>(2,100,000)</u>	<u>(27,456,297)</u>

Change in net position of governmental activities \$ (47,934,708)

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, 2016**

	<b>Business-type Activities—Enterprise Funds</b>				<b>Internal Service Fund</b>
	<b>Solid Waste and Recycling</b>	<b>Parking</b>	<b>Water System</b>	<b>Total</b>	
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 371,642	\$ 3,374,523	\$ 15,957,461	\$ 19,703,626	\$ 83,438
Restricted cash and cash equivalents	175,308	-	25,697,688	25,872,996	-
Investments	-	-	25,036,844	25,036,844	-
Receivables:					
Accounts receivable	10,546,001	2,462,024	20,641,993	33,650,018	35,018
Other receivables	82,651	-	1,300,577	1,383,228	-
Due from other agencies	-	-	127,425	127,425	-
Intergovernmental receivables	-	-	65,057	65,057	-
Due from other funds	-	4,856,071	-	4,856,071	-
Allowances	(9,905,019)	-	(15,969,166)	(25,874,185)	-
Net receivables	<u>723,633</u>	<u>7,318,095</u>	<u>6,165,886</u>	<u>14,207,614</u>	<u>35,018</u>
Total current assets	<u>1,270,583</u>	<u>10,692,618</u>	<u>72,857,879</u>	<u>84,821,080</u>	<u>118,456</u>
Noncurrent assets:					
Capital assets not being depreciated:					
Land	1	3,217,093	145,116	3,362,210	-
Construction in progress	-	26,611	1,388,880	1,415,491	-
Total capital assets not being depreciated	<u>1</u>	<u>3,243,704</u>	<u>1,533,996</u>	<u>4,777,701</u>	<u>-</u>
Capital assets being depreciated:					
Buildings and infrastructure	4,088,220	71,678,839	211,957,389	287,724,448	-
Improvements other than buildings	175,071	61,758	252,393	489,222	-
Machinery and equipment	9,767,704	109,762	1,150,830	11,028,296	-
Accumulated depreciation	(10,322,580)	(31,210,205)	(79,660,340)	(121,193,125)	-
Total capital assets being depreciated	<u>3,708,415</u>	<u>40,640,154</u>	<u>133,700,272</u>	<u>178,048,841</u>	<u>-</u>
Total noncurrent assets	<u>3,708,416</u>	<u>43,883,858</u>	<u>135,234,268</u>	<u>182,826,542</u>	<u>-</u>
Total assets	<u>4,978,999</u>	<u>54,576,476</u>	<u>208,092,147</u>	<u>267,647,622</u>	<u>118,456</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred loss on refunding	-	295,998	4,020,523	4,316,521	-
Deferred outflows—relating to pensions	3,169,374	-	3,885,865	7,055,239	-
Total deferred outflows of resources	<u>3,169,374</u>	<u>295,998</u>	<u>7,906,388</u>	<u>11,371,760</u>	<u>-</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	938,261	2,527	2,153,817	3,094,605	3,405
Other accrued liabilities	2,610,969	25,679	4,315,986	6,952,634	-
Due to other funds	-	570,860	302,017	872,877	595
Unearned revenue	175,308	-	-	175,308	-
Due to retirement systems	232,659	1,882	285,256	519,797	-
Accrued compensated absences	42,124	-	44,850	86,974	-
Accrued workers' compensation	978,626	-	315,319	1,293,945	-
General obligation and revenue bonds payable within one year, net	-	1,958,455	8,551,674	10,510,129	-
Total current liabilities	<u>4,977,947</u>	<u>2,559,403</u>	<u>15,968,919</u>	<u>23,506,269</u>	<u>4,000</u>

(continued)

**CITY OF BUFFALO, NEW YORK**  
**Statement of Net Position—**  
**Proprietary Funds**  
**June 30, 2016**

	<u>Business-type Activities—Enterprise Funds</u>				<b>Internal Service Fund</b>
	<b>Solid Waste and Recycling</b>	<b>Parking</b>	<b>Water System</b>	<b>Total</b>	
Noncurrent liabilities:					
Due to other funds	16,753,875	-	-	16,753,875	-
Accrued compensated absences	520,625	-	582,456	1,103,081	-
Accrued workers' compensation	916,886	-	474,398	1,391,284	-
Accrued other post-employment benefits obligation	16,100,000	44,000	11,233,000	27,377,000	-
General obligation and revenue bonds payable, net	-	9,415,927	128,689,267	138,105,194	-
Net pension liability	3,267,216	-	4,005,828	7,273,044	-
Total noncurrent liabilities	<u>37,558,602</u>	<u>9,459,927</u>	<u>144,984,949</u>	<u>192,003,478</u>	-
Total liabilities	<u>42,536,549</u>	<u>12,019,330</u>	<u>160,953,868</u>	<u>215,509,747</u>	<u>4,000</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred gain on refunding	-	-	23,329	23,329	-
Deferred inflows—relating to pensions	387,274	-	474,824	862,098	-
Total deferred inflows of resources	<u>387,274</u>	<u>-</u>	<u>498,153</u>	<u>885,427</u>	<u>-</u>
<b>NET POSITION</b>					
Net investment in capital assets	3,708,416	32,805,474	27,688,209	64,202,099	-
Unrestricted	<u>(38,483,866)</u>	<u>10,047,670</u>	<u>26,858,305</u>	<u>(1,577,891)</u>	<u>114,456</u>
Total net position	<u>\$ (34,775,450)</u>	<u>\$ 42,853,144</u>	<u>\$ 54,546,514</u>	<u>\$ 62,624,208</u>	<u>\$ 114,456</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, 2016**

	<b>Business-type Activities—Enterprise Funds</b>				<b>Internal Service Fund</b>
	<b>Solid Waste and Recycling</b>	<b>Parking</b>	<b>Water System</b>	<b>Total</b>	
Operating revenues:					
Charges for services	\$ 18,876,527	\$ -	\$ 42,519,208	\$ 61,395,735	\$ 81,477
Rent	-	8,062,840	-	8,062,840	-
Other	258,661	-	559,138	817,799	-
Total operating revenues	<u>19,135,188</u>	<u>8,062,840</u>	<u>43,078,346</u>	<u>70,276,374</u>	<u>81,477</u>
Operating expenses:					
Services and supplies	15,325,167	46,372	15,585,284	30,956,823	52,532
Fringe benefits	7,354,556	25,571	5,742,177	13,122,304	-
Depreciation	867,261	1,655,716	5,300,617	7,823,594	-
Other	-	-	355,938	355,938	-
Total operating expenses	<u>23,546,984</u>	<u>1,727,659</u>	<u>26,984,016</u>	<u>52,258,659</u>	<u>52,532</u>
Operating income (loss)	<u>(4,411,796)</u>	<u>6,335,181</u>	<u>16,094,330</u>	<u>18,017,715</u>	<u>28,945</u>
Nonoperating revenues (expenses):					
Interest earnings	194	339	109,922	110,455	-
Interest expense	(856)	(866,047)	(5,265,406)	(6,132,309)	-
Other	-	-	222,552	222,552	-
Total nonoperating revenues (expenses)	<u>(662)</u>	<u>(865,708)</u>	<u>(4,932,932)</u>	<u>(5,799,302)</u>	<u>-</u>
Income (loss) before transfers	(4,412,458)	5,469,473	11,161,398	12,218,413	28,945
Transfers in	3,916,110	-	-	3,916,110	-
Transfers out	<u>(673,078)</u>	<u>(3,525,654)</u>	<u>(5,963,011)</u>	<u>(10,161,743)</u>	<u>-</u>
Change in net position	(1,169,426)	1,943,819	5,198,387	5,972,780	28,945
Total net position—beginning	<u>(33,606,024)</u>	<u>40,909,325</u>	<u>49,348,127</u>	<u>56,651,428</u>	<u>85,511</u>
Total net position—ending	<u>\$ (34,775,450)</u>	<u>\$ 42,853,144</u>	<u>\$ 54,546,514</u>	<u>\$ 62,624,208</u>	<u>\$ 114,456</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, 2016**

	<b>Solid Waste and Recycling</b>	<b>Parking</b>	<b>Water System</b>	<b>Total</b>	<b>Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 19,051,198	\$ 7,264,054	\$ 43,375,053	\$ 69,690,305	\$ 81,477
Payments to suppliers for goods and services	(9,126,034)	(46,372)	(14,674,626)	(23,847,032)	(67,619)
Payments to employees for services	<u>(11,630,122)</u>	<u>(23,536)</u>	<u>(4,637,882)</u>	<u>(16,291,540)</u>	<u>-</u>
Net cash provided by (used for) operating activities	<u>(1,704,958)</u>	<u>7,194,146</u>	<u>24,062,545</u>	<u>29,551,733</u>	<u>13,858</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers from other funds	3,916,110	-	11,785,698	15,701,808	-
Transfers to other funds	(673,078)	(3,525,654)	(17,748,709)	(21,947,441)	-
Advances from other funds	34,827	240,470	7,798,893	8,074,190	595
Advances to other funds	<u>(596,336)</u>	<u>(3,855,998)</u>	<u>(8,541,781)</u>	<u>(12,994,115)</u>	<u>-</u>
Net cash provided by (used for) noncapital financing activities	<u>2,681,523</u>	<u>(7,141,182)</u>	<u>(6,705,899)</u>	<u>(11,165,558)</u>	<u>595</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Acquisition/construction of capital assets	(716,111)	(88,173)	(12,236,621)	(13,040,905)	-
Principal payments on bonds	(240,698)	(2,340,000)	(6,411,797)	(8,992,495)	-
Proceeds from issuance of debt and premium	-	4,867,986	-	4,867,986	-
Interest payments	<u>(856)</u>	<u>(189,918)</u>	<u>(5,353,580)</u>	<u>(5,544,354)</u>	<u>-</u>
Net cash provided by (used for) capital and related financing activities	<u>(957,665)</u>	<u>2,249,895</u>	<u>(24,001,998)</u>	<u>(22,709,768)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest received on short-term investments	<u>194</u>	<u>339</u>	<u>99,522</u>	<u>100,055</u>	<u>-</u>
Net cash provided by investing activities	<u>194</u>	<u>339</u>	<u>99,522</u>	<u>100,055</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	19,094	2,303,198	(6,545,830)	(4,223,538)	14,453
Cash and cash equivalents—beginning	<u>527,856</u>	<u>1,071,325</u>	<u>73,237,823</u>	<u>74,837,004</u>	<u>68,985</u>
Cash and cash equivalents—ending	<u>\$ 546,950</u>	<u>\$ 3,374,523</u>	<u>\$ 66,691,993</u>	<u>\$ 70,613,466</u>	<u>\$ 83,438</u>

(continued)

**CITY OF BUFFALO, NEW YORK**  
**Statement of Cash Flows—**  
**Proprietary Funds**  
**Year Ended June 30, 2016**

	<u>Business-type Activities—Enterprise Funds</u>				<b>Internal Service Fund</b>
	<b>Solid Waste and Recycling</b>	<b>Parking</b>	<b>Water System</b>	<b>Total</b>	
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>					
Operating income (loss)	\$ (4,411,796)	\$ 6,335,181	\$ 16,094,330	\$ 18,017,715	\$ 28,945
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	867,261	1,655,716	5,300,617	7,823,594	-
(Increase) decrease in receivables	(69,365)	(443,016)	1,249,360	736,979	(16,256)
(Increase) in deferred outflow—relating to pensions	(2,706,847)	-	(3,520,679)	(6,227,526)	-
Increase (decrease) in payables	(178,790)	(355,770)	466,515	(68,045)	1,169
Increase (decrease) in other accrued liabilities	784,273	(6,483)	371,938	1,149,728	-
Increase (decrease) in due to retirement systems	(103,276)	1,518	20,020	(81,738)	-
(Decrease) in unearned revenue	(14,625)	-	-	(14,625)	-
(Decrease) in accrued compensated absences	(19,206)	-	(138,104)	(157,310)	-
Increase (decrease) in workers' compensation	41,410	-	(100,143)	(58,733)	-
Increase in accrued other post-employment benefits obligation	1,162,000	7,000	399,000	1,568,000	-
Increase in net pension liability	2,556,729	-	3,444,867	6,001,596	-
Increase in deferred inflow—relating to pensions	387,274	-	474,824	862,098	-
Total adjustments	<u>2,706,838</u>	<u>858,965</u>	<u>7,968,215</u>	<u>11,534,018</u>	<u>(15,087)</u>
Net cash provided by (used for) operating activities	<u>\$ (1,704,958)</u>	<u>\$ 7,194,146</u>	<u>\$ 24,062,545</u>	<u>\$ 29,551,733</u>	<u>\$ 13,858</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, 2016**

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	<b>Private Purpose Trust</b>	<b>Agency</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 23,910	\$ 1,930,467
Investments	32,912	-
Due from other funds	-	180
Receivables	5,544	804
Total assets	62,366	1,931,451
<b>LIABILITIES</b>		
Accounts payable	-	182,889
Intergovernmental payables	-	23,175
Amounts held in custody for others	-	1,725,387
Total liabilities	-	\$ 1,931,451
<b>NET POSITION</b>		
Restricted	\$ 62,366	

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, 2016**

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	<b>Private Purpose Trust</b>
<b>ADDITIONS</b>	
Investment earnings:	
Interest	\$ 14
<b>DEDUCTIONS</b>	
Awards	-
Total deductions	-
Change in net position	14
Net position—beginning	62,352
Net position—ending	\$ 62,366

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, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

***Description of Government-wide Financial Statements***

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government 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 assets of the Water System and is responsible for generating sufficient revenues to meet the debt service requirements of the City and Authority related to the Water System.

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

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

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

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

### ***Measurement Focus and Basis of Accounting***

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

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

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

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

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

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

***Cash, Cash Equivalents and Investments***—The City’s cash, cash equivalents, and investments include cash on hand, demand deposits, time deposits and short-term, highly liquid investments with original maturities of three months or less from the date of acquisition. Permissible investments include obligations of the United States Treasury, United State Agencies, repurchase agreements, obligations of New York State or its localities, certificates of deposit and revenue anticipation notes. Investments are stated at 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 for amounts with constraints placed on their use by either external parties and/or statute and for unearned revenues.

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

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

***Capital Assets***—Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements, as well as within each individual proprietary fund. Capital assets are defined by the City as assets with an initial, individual cost of more than \$10,000, and an estimated useful life in excess of 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 \$5,000 and an estimated useful life exceeding five years. Assets are depreciated using the straight-line method over their useful lives, which range from 5 to 50 years.

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

***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, 2016, 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, 2016, 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 as well as within the individual proprietary funds.

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

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

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

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

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

The City 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, 2016, the City had a legal tax margin of approximately \$43.4 million.

***Unearned Revenue***—Certain revenues have not met the revenue recognition criteria for government-wide or fund financial purposes. At June 30, 2016, the City reported unearned revenues within the General Fund and Solid Waste and Recycling Fund in the amounts of \$209,305 and \$175,308, 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 6.

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

***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 BFSAs’ financial statement presentation to conform to the City’s reporting presentation. In the Board’s statement of net position, \$4,784,145 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 BFSAs’ statement of revenue, expenditures, and change in net position, \$284,519,722 in investment income and intergovernmental revenue offset other distributions relating to proceeds and interest payments on bonds issued by the BFSAs on behalf of the City.

***Adoption of New Accounting Pronouncements***—During the year ended June 30, 2016, the City implemented GASB Statements No. 72, *Fair Value Measurement and Application*, No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and No. 79, *Certain External Investment Pools and Pool Participants*. GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes as well as, guidance on applying fair value to certain investments and disclosures related to all fair value measurements. GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes.

***Future Impacts of Accounting Pronouncements***—The City has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*; No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*; No. 77, *Tax Abatement Disclosures*; No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Plans*; and No. 80, *Blending Requirements for Certain Component Units - an Amendment of GASB Statement No. 14*, effective for the fiscal year ending June 30, 2017, and No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; No. 81, *Irrevocable Split-Interest Agreements*; and No. 82, *Pension Issues; an Amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for the fiscal year ending June 30, 2018. The City is, therefore, unable to disclose the impact that adopting GASB Statements No. 73, 74, 75, 77, 78, 80, 81 and 82 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, 2016, the Solid Waste and Recycling Fund had a total net position deficit of \$34,775,450. This net deficit includes accrued post-employment benefits obligation of \$16,100,000. In addition, the Solid Waste and Recycling Fund reports a long-term interfund payable to the General Fund in the amount of \$16,753,875. 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 \$550,484,956 at June 30, 2016, 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 \$9,446,017 at June 30, 2016, which is caused primarily by the recognition of long-term liabilities including other post-employment benefits.

### ***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. 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, 2016, of which the bank carrying balance at June 30, 2016, was \$500,631,590.

Cash, cash equivalents and investments at June 30, 2016 are shown below.

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Petty cash (uncollateralized)	\$ 8,700	\$ -	\$ -	\$ 8,700
Deposits	448,719,668	45,576,622	1,954,377	496,250,667
Investments	40,536,499	25,036,844	32,912	65,606,255
Total	<u>\$ 489,264,867</u>	<u>\$ 70,613,466</u>	<u>\$ 1,987,289</u>	<u>\$ 561,865,622</u>

Cash and cash equivalents consisted of:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Cash and cash equivalents	\$ 320,251,741	\$ 19,703,626	\$ -	\$ 339,955,367
Restricted cash and cash equivalents	128,476,627	25,872,996	-	154,349,623
Cash held in fiduciary funds	-	-	1,954,377	1,954,377
Total	<u>\$ 448,728,368</u>	<u>\$ 45,576,622</u>	<u>\$ 1,954,377</u>	<u>\$ 496,259,367</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, 2016, total investments of \$65,606,255 consisted of investments held by the City of \$57,562,850, held by the BFSA of \$8,010,493, and maintained in fiduciary funds of \$32,912. Investments at June 30, 2016, consisted of the following:

	Cost	Fair Value
Certificates of deposit	\$ 57,595,762	\$ 57,595,762
U.S. Treasury SLGs	1,948,470	1,948,470
Federal National Mortgage Association discount notes	2,141,991	2,185,392
Federal Home Loan Mortgage Corp. Med. Term note	1,724,177	1,753,388
Federal Home Loan Banks	1,614,106	1,629,411
Federal Farms Credit Banks	486,148	493,832
Total	<u>\$ 65,510,654</u>	<u>\$ 65,606,255</u>

Investments in the City consist of certificates of deposit issued with thirteen week maturities. Investments in fiduciary funds consist solely of certificates of deposit at June 30, 2016. 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 commercial paper due within 45 days.

**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 \$3,823,880 represent monies set aside as part of the funding requirements of the State for the settlement of a dispute between the Board and the Buffalo Teachers Federation. The initial settlement was bonded and such restricted cash is being used to pay the debt service requirements. Additionally, \$17,735,429 in restricted cash in the General Fund represents additional cash held in a bank custodial account. The Debt Service Fund restricted assets of \$12,803,046 are held by a trustee for future debt service payments. Restricted cash of \$77,688,984 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 \$8,201,545, \$710,319, \$7,132,308, \$96,614, and \$75,197 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. Finally, the City reports \$209,305 of restricted cash related to unearned revenues within the General Fund.

***Business-Type Activities Restricted Cash and Cash Equivalents***—Business-type restricted cash within the Water System represents monies raised from the issuance of debt to fund additions to enterprise plant assets and may only be used for this purpose. The Solid Waste Fund reports restricted cash of \$175,308 related to unearned revenues.

The restricted cash consists primarily of Treasury notes, Treasury bills, and certificates of deposit with a commercial bank. At June 30, 2016, \$720,953 of the Water System’s restricted cash consisted of U.S. government securities recorded in the Water System’s name and held in a bank custodial account. The Water System also maintains restricted money market accounts with fair values totaling \$24,976,735 at June 30, 2016.

### **Board of Education**

At June 30, 2016, cash in banks was \$262,501, and were fully covered by FDIC insurance or collateral.

***Restricted Cash and Cash Equivalents***—The Board has restricted cash of \$38,727,401 at June 30, 2016, for various purposes as follows:

- \$552,017 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.
- \$21,835,664 is restricted for the local share contribution held in trust which can only be disbursed in accordance with the Indenture Trust Agreement, and represents an amount of the Series 2008, 2009, 2011 and 2013 bond proceeds to be deposited and maintained by a trustee. Such cash is held with a fiscal agent.
- \$12,634,727 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.
- \$3,516,340 represents endowment funds and can be used in accordance with the respective endowment document.
- \$188,653 is restricted to support obligations related to workers’ compensation claims.

### **Buffalo Urban Renewal Agency**

***Restricted Cash and Cash Equivalents***—Restricted cash reported in BURA’s General Fund for funds held in escrow and also in its special revenue funds as grant funds held prior to disbursement of approved expenditures. At June 30, 2016, BURA reported \$333,179 of restricted cash. 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, 2016, BURA’s deposits were either FDIC insured or collateralized with securities held by the pledging bank’s agent in BURA’s name.

### 3. RECEIVABLES

Receivables at June 30, 2016, for the City's individual funds and related allowances for estimated uncollectible amounts are as follows:

<b>Receivables:</b>	Gross Receivable	Allowance	Net Receivable
<b>Governmental funds:</b>			
General Fund:			
Taxes	\$ 14,308,288	\$ (5,007,684)	\$ 9,300,604
Accounts receivable	17,544,210	(6,286,730)	11,257,480
Due from other agencies	874,640	-	874,640
Intergovernmental receivables	2,958,374	-	2,958,374
Due from other funds	37,829,768	-	37,829,768
Due from component units	56,852	-	56,852
Total	<u>\$ 73,572,132</u>	<u>\$ (11,294,414)</u>	<u>\$ 62,277,718</u>
Debt Service Fund:			
Other receivables	\$ 988	\$ -	\$ 988
Due from other funds	192,765	-	192,765
Total	<u>\$ 193,753</u>	<u>\$ -</u>	<u>\$ 193,753</u>
Capital Projects Fund:			
Intergovernmental receivables	\$ 3,506,324	\$ -	\$ 3,506,324
Due from other funds	14,620	-	14,620
Total	<u>\$ 3,520,944</u>	<u>\$ -</u>	<u>\$ 3,520,944</u>
BFSA Special Revenue Fund:			
Intergovernmental receivables	\$ 13,272,436	\$ -	\$ 13,272,436
Nonmajor governmental funds:			
Other receivables	\$ 4,132	\$ -	\$ 4,132
Intergovernmental receivables	104,362	-	104,362
Due from other funds	49,262	-	49,262
Due from component units	73,586	-	73,586
Total	<u>\$ 231,342</u>	<u>\$ -</u>	<u>\$ 231,342</u>
Total governmental funds	<u>\$ 90,790,607</u>	<u>\$ (11,294,414)</u>	<u>\$ 79,496,193</u>

<b>Receivables:</b>	Gross Receivable	Allowance	Net Receivable
<b>Proprietary funds:</b>			
Solid Waste and Recycling Fund:			
Accounts receivable	\$ 10,546,001	\$ (9,845,466)	\$ 700,535
Other receivables	82,651	(59,553)	23,098
Total	<u>\$ 10,628,652</u>	<u>\$ (9,905,019)</u>	<u>\$ 723,633</u>
Parking Fund:			
Accounts receivable	\$ 2,462,024	\$ -	\$ 2,462,024
Due from other funds	4,856,071	-	4,856,071
Total	<u>\$ 7,318,095</u>	<u>\$ -</u>	<u>\$ 7,318,095</u>
Water System:			
Accounts receivable	\$ 20,641,993	\$ (15,969,166)	\$ 4,672,827
Other receivables	1,300,577	-	1,300,577
Due from other agencies	127,425	-	127,425
Intergovernmental receivables	65,057	-	65,057
Total	<u>\$ 22,135,052</u>	<u>\$ (15,969,166)</u>	<u>\$ 6,165,886</u>
Internal Service Fund:			
Accounts receivable	\$ 35,018	\$ -	\$ 35,018
Total proprietary funds	<u>\$ 40,116,817</u>	<u>\$ (25,874,185)</u>	<u>\$ 14,242,632</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, 2016 are shown below:

**Intergovernmental receivables:**

**Governmental funds:**

General Fund:

Due from Erie County	\$ 122,793
Due from New York State	2,751,808
Due from federal government	83,773
Total	<u>\$ 2,958,374</u>

Capital Projects Fund:

Due from Erie County	\$ 47,837
Due from New York State	3,347,759
Due from Buffalo Sewer Authority	110,728
Total	<u>\$ 3,506,324</u>

BFSA Special Revenue Fund:

Due from New York State	<u>\$ 13,272,436</u>
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Nonmajor governmental funds:

Special Revenue Fund:

Due from Erie County	\$ 3,551
Due from federal government	100,811
Total	<u>\$ 104,362</u>

Total governmental funds	<u>\$ 19,841,496</u>
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**Board of Education**

Significant revenues accrued by the Board include the following:

Receivables at June 30, 2016, consisted of the following:

General Fund:	
Tuition billing	\$ 394,049
Health Services	568,353
Miscellaneous revenues	62,636
Special Aid Fund	55,835
Nonmajor governmental funds	<u>143,716</u>
Total	<u>\$ 1,224,589</u>

Intergovernmental receivables at June 30, 2016, consisted of the following:

General Fund:	
State aid - basic	\$ 14,407,818
State aid - excess	15,922,858
State and federal aid - Medicaid	2,432,875
Special Aid Fund: Federal and State aid*	23,296,379
School Lunch Fund: Federal and state reimbursements	<u>2,000,743</u>
Total	<u>\$ 58,060,673</u>

\*Amount reported net of unearned revenue

In addition, the Board reports amounts owed from the City of \$279,359,379 as due from primary government at June 30, 2016.

**Buffalo Urban Renewal Agency**

Major revenues accrued by BURA at June 30, 2016 consisted of the following:

	General	Community Development Block Grant	HOME Program	Total Nonmajor Funds	Total
Program loans receivable	\$ -	\$ 24,988,027	\$ 57,709,975	\$ 530,878	\$ 83,228,880
Notes receivable	2,712,949	-	-	-	2,712,949
Allowance for uncollectibles	<u>(1,585,885)</u>	<u>(24,988,027)</u>	<u>(57,709,975)</u>	<u>(530,878)</u>	<u>(84,814,765)</u>
Total receivables	<u>\$ 1,127,064</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,127,064</u>

**Program Loans Receivable**—Represents amounts due to BURA of \$83,228,880, 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 \$2,712,949 which are allowed for in the amount of \$1,585,885.

**Intergovernmental Receivables**— Represent amounts due from other units of government, such as federal or City government. Intergovernmental receivables at June 30, 2016 consisted of the following:

	General	Community Development Block Grant	HOME Program	Total Nonmajor Funds	Total
Due from federal government	\$ -	\$ 618,413	\$ 1,508,321	\$ 40,495	\$ 2,167,229
Due from City of Buffalo	48,927	80,359	20,454	-	149,740
Total	<u>\$ 48,927</u>	<u>\$ 698,772</u>	<u>\$ 1,528,775</u>	<u>\$ 40,495</u>	<u>\$ 2,316,969</u>

#### 4. CAPITAL ASSETS

**Governmental Activities**—Capital asset activity for the primary government's governmental activities, for the fiscal year ended June 30, 2016, was as follows:

	Balance 7/1/2015	Increases	Decreases	Balance 6/30/2016
Capital assets, not being depreciated:				
Land	\$ 10,048,121	\$ -	\$ -	\$ 10,048,121
Construction in progress	5,280,464	4,728,677	5,280,464	4,728,677
Total capital assets, not being depreciated	<u>15,328,585</u>	<u>4,728,677</u>	<u>5,280,464</u>	<u>14,776,798</u>
Capital assets, being depreciated:				
Buildings and building improvements	298,655,394	8,846,182	672,023	306,829,553
Improvements other than buildings	56,559,122	3,982,673	11,142	60,530,653
Machinery and equipment	65,713,989	3,115,988	2,819,854	66,010,123
Infrastructure	467,044,685	35,070,149	-	502,114,834
Total capital assets, being depreciated	<u>887,973,190</u>	<u>51,014,992</u>	<u>3,503,019</u>	<u>935,485,163</u>
Less accumulated depreciation for:				
Buildings and building improvements	118,349,961	6,919,645	300,678	124,968,928
Improvements other than buildings	32,939,421	2,530,210	11,142	35,458,489
Machinery and equipment	48,355,550	5,284,579	2,808,769	50,831,360
Infrastructure	219,736,450	18,775,382	-	238,511,832
Total accumulated depreciation	<u>419,381,382</u>	<u>33,509,816</u>	<u>3,120,589</u>	<u>449,770,609</u>
Total capital assets, being depreciated, net	<u>468,591,808</u>	<u>17,505,176</u>	<u>382,430</u>	<u>485,714,554</u>
Governmental activities capital assets, net	<u>\$ 483,920,393</u>	<u>\$ 22,233,853</u>	<u>\$ 5,662,894</u>	<u>\$ 500,491,352</u>

**Business-type Activities**—Capital asset activity for the primary government’s business-type activities, for the fiscal year ended June 30, 2016, was as follows:

	Balance 7/1/2015	Increases	Decreases	Balance 6/30/2016
Capital assets, not being depreciated:				
Land	\$ 3,362,210	\$ -	\$ -	\$ 3,362,210
Construction in progress	<u>1,654,302</u>	<u>5,610,124</u>	<u>5,848,935</u>	<u>1,415,491</u>
Total capital assets, not being depreciated	<u>5,016,512</u>	<u>5,610,124</u>	<u>5,848,935</u>	<u>4,777,701</u>
Capital assets, being depreciated:				
Buildings and building improvements	176,893,485	9,094,359	3,271,038	182,716,806
Improvements other than buildings	504,581	-	15,359	489,222
Machinery and equipment	9,999,295	1,179,405	150,404	11,028,296
Infrastructure	<u>102,001,690</u>	<u>3,005,952</u>	<u>-</u>	<u>105,007,642</u>
Total capital assets, being depreciated	<u>289,399,051</u>	<u>13,279,716</u>	<u>3,436,801</u>	<u>299,241,966</u>
Less accumulated depreciation for:				
Buildings and building improvements	59,594,705	4,273,385	2,688,830	61,179,260
Improvements other than buildings	387,449	24,041	15,359	396,131
Machinery and equipment	7,609,796	973,715	125,343	8,458,168
Infrastructure	<u>48,607,113</u>	<u>2,552,453</u>	<u>-</u>	<u>51,159,566</u>
Total accumulated depreciation	<u>116,199,063</u>	<u>7,823,594</u>	<u>2,829,532</u>	<u>121,193,125</u>
Total capital assets, being depreciated, net	<u>173,199,988</u>	<u>5,456,122</u>	<u>607,269</u>	<u>178,048,841</u>
Business-type activities capital assets, net	<u>\$ 178,216,500</u>	<u>\$ 11,066,246</u>	<u>\$ 6,456,204</u>	<u>\$ 182,826,542</u>

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

Governmental activities:	
General government support	\$ 3,756,506
Public safety	6,602,167
Streets and sanitation	18,055,579
Economic assistance and opportunity	28,179
Culture and recreation	4,649,180
Health and community services	<u>418,205</u>
Total governmental activities depreciation expense	<u>\$ 33,509,816</u>
Business-type activities:	
Solid waste and recycling	\$ 867,261
Parking	1,655,716
Water system	<u>5,300,617</u>
Total business-type activities depreciation expense	<u>\$ 7,823,594</u>

## Board of Education

Capital asset activity for the Board, for the fiscal year ended June 30, 2016, was as follows:

	Balance 7/1/2015	Increases	Decreases	Balance 6/30/2016
Capital assets, not being depreciated:				
Land	\$ 3,006,700	\$ -	\$ -	\$ 3,006,700
Construction in progress	14,804,802	8,440,237	10,067,051	13,177,988
Total capital assets, not being depreciated	<u>17,811,502</u>	<u>8,440,237</u>	<u>10,067,051</u>	<u>16,184,688</u>
Capital assets, being depreciated:				
Land improvements	5,542,686	-	-	5,542,686
Buildings and building improvement	1,717,596,660	16,825,439	279,219	1,734,142,880
Equipment	24,735,468	777,329	633,184	24,879,613
Total capital assets, being depreciated	<u>1,747,874,814</u>	<u>17,602,768</u>	<u>912,403</u>	<u>1,764,565,179</u>
Less accumulated depreciation for:				
Land improvements	4,297,005	92,964	-	4,389,969
Buildings and building improvement	647,730,433	76,435,912	279,219	723,887,126
Equipment	17,989,256	2,076,260	616,381	19,449,135
Total accumulated depreciation	<u>670,016,694</u>	<u>78,605,136</u>	<u>895,600</u>	<u>747,726,230</u>
Total capital assets being depreciated, net	<u>1,077,858,120</u>	<u>(61,002,368)</u>	<u>16,803</u>	<u>1,016,838,949</u>
Board capital assets, net	<u>\$ 1,095,669,622</u>	<u>\$ (52,562,131)</u>	<u>\$ 10,083,854</u>	<u>\$ 1,033,023,637</u>

## Buffalo Urban Renewal Agency

Capital asset activity for BURA, for the fiscal year ended June 30, 2016, was as follows:

	Balance 7/1/2015	Increases	Decreases	Balance 6/30/2016
Capital assets, being depreciated:				
Buildings	\$ 2,392,330	\$ -	\$ 1,620,276	\$ 772,054
Equipment	623,896	-	591,661	32,235
Vehicles	105,558	-	105,558	-
Total capital assets, being depreciated	<u>3,121,784</u>	<u>-</u>	<u>2,317,495</u>	<u>804,289</u>
Less accumulated depreciation for:				
Buildings	1,613,980	27,830	1,370,276	271,534
Equipment	617,676	1,165	586,606	32,235
Vehicles	105,558	-	105,558	-
Total accumulated depreciation	<u>2,337,214</u>	<u>28,995</u>	<u>2,062,440</u>	<u>303,769</u>
BURA capital assets, net	<u>\$ 784,570</u>	<u>\$ (28,995)</u>	<u>\$ 255,055</u>	<u>\$ 500,520</u>

During the year ended June 30, 2016, BURA performed an inventory which resulted in the adjustment of transferred and obsolete items.

## 5. ACCRUED LIABILITIES

Accrued liabilities reported by governmental funds at June 30, 2016, were as follows:

	General Fund	BFSA Special Revenue Fund	Nonmajor Funds	Total Governmental Funds
Salary and employee benefits	\$ 20,136,801	\$ 32,651	\$ -	\$ 20,169,452
Other accruals	-	-	515,201	515,201
Total accrued liabilities	<u>\$ 20,136,801</u>	<u>\$ 32,651</u>	<u>\$ 515,201</u>	<u>\$ 20,684,653</u>

## 6. 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 requirements based on the New York State Retirement and Social Security Law (“NYSRSSL”).

### *Plan Descriptions and Benefits Provided*

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

The systems are noncontributory, except for employees who joined the ERS after July 27, 1976 who contribute three percent (3%) of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 (ERS) or January 9, 2010 (PFRS), who generally contribute three percent (3%) to three and one half percent (3.5%) of their salary for their entire length of service. In addition, employee contribution rates under ERS Tier VI vary based on a sliding salary scale. The Comptroller annually certifies the actuarially determined rates expressly used in computing the employers’ contributions based on salaries paid during the System’s fiscal year ending March 31.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Inflows of Resources Related to Pensions***—At June 30, 2016, 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, 2016. The total pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of April 1, 2015, 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.

	Governmental activities		Business-type activities
	PFRS	ERS	ERS
	March 31, 2016	March 31, 2016	March 31, 2016
Measurement date	March 31, 2016	March 31, 2016	March 31, 2016
Net pension liability	\$ 94,187,680	\$ 27,675,148	\$ 7,273,044
City's portion of the Plan's total net pension liability	3.1811703%	0.1724299%	0.0453121%

For the year ended June 30, 2016, the City’s governmental activities recognized pension expenses of \$35,520,192 and \$10,154,640 for PFRS and ERS, respectively. Business-type activities recognized pension expense of \$2,668,640 for ERS. At June 30, 2016, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources			Deferred Inflows of Resources		
	Governmental activities		Business-type activities	Governmental activities		Business-type activities
	PFRS	ERS	ERS	PFRS	ERS	ERS
Differences between expected and actual experiences	\$ 844,780	\$ 139,850	\$ 36,752	\$ 14,240,046	\$ 3,280,427	\$ 862,098
Changes of assumptions	40,603,999	7,380,130	1,939,499	-	-	-
Net difference between projected and actual earnings on pension plan investments	52,784,580	16,418,423	4,314,762	-	-	-
Changes in proportion and differences between the City's contributions and proportionate share of contributions	5,360,154	937,226	246,302	2,335,254	-	-
City contributions subsequent to the measurement date	6,911,485	1,970,748	517,924	-	-	-
Total	<u>\$ 106,504,998</u>	<u>\$ 26,846,377</u>	<u>\$ 7,055,239</u>	<u>\$ 16,575,300</u>	<u>\$ 3,280,427</u>	<u>\$ 862,098</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, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as shown on the following page.

Year Ending June 30,	Governmental activities		Business-type activities
	PFRS	ERS	ERS
2017	\$ 19,736,858	\$ 5,507,226	\$ 1,447,220
2018	19,736,858	5,507,226	1,447,220
2019	19,736,858	5,507,226	1,447,220
2020	19,001,898	5,073,524	1,333,557
2021	4,805,741	-	-

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

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

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

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

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

Measurement date	Target Allocation	Long-Term Expected Real Rate of Return
	PFRS and ERS	
	March 31, 2016	
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 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Employer's proportionate share of the net pension liability—PFRS	\$ 210,378,093	\$ 94,187,680	\$ (3,205,065)
Employer's proportionate share of the net pension liability—ERS	78,805,634	34,948,192	(2,109,473)

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

	(Dollars in Thousands)		
	PFRS	ERS	Total
Valuation date	April 1, 2015	April 1, 2015	
Employers' total pension liability	\$ 30,347,727	\$ 172,303,544	\$ 202,651,271
Plan fiduciary net position	<u>27,386,940</u>	<u>156,253,265</u>	<u>183,640,205</u>
Employers' net pension liability	<u>\$ 2,960,787</u>	<u>\$ 16,050,279</u>	<u>\$ 19,011,066</u>
System fiduciary net position as a percentage of total pension liability	90.24%	90.68%	90.62%

**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, 2016 represent the projected employer contribution for the period of April 1, 2016 through June 30, 2016 based on paid System wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2016 amounted to \$6,911,485 and \$2,456,935 for PFRS and ERS, respectively.

#### **Buffalo Fiscal Stability Authority**

The BFSFA also participates in the ERS.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Inflows of Resources Related to Pensions**—At June 30, 2016, the BFSFA reported a liability of \$303,242 for its proportionate share of the net pension liability. At the March 31, 2016 measurement date, the BFSFA's proportion was 0.0018893%.

For the year ended June 30, 2016, BFSFA recognized pension expense of \$100,111. At June 30, 2016, the BFSFA 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	\$ 1,532	\$ 35,944
Changes of assumptions	80,866	
Net difference between projected and actual earnings on pension plan investments	179,900	-
Changes in proportion and differences between BFSFA's contributions and proportionate share of contributions	1,035	28,389
BFSFA contributions subsequent to the measurement date	<u>13,449</u>	<u>-</u>
Total	<u>\$ 276,782</u>	<u>\$ 64,333</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, 2017. 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>
2017	\$ 49,106
2018	49,106
2019	49,106
2020	51,682

***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 7.0%, 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 (6.0%) or one percentage-point higher (8.0%) than the current assumption.

<u>ERS</u>	<u>1% Decrease (6.0%)</u>	<u>Current Assumption (7.0%)</u>	<u>1% Increase (8.0%)</u>
Employer’s proportionate share of the net pension liability	\$ 683,789	\$ 303,242	\$ (18,304)

***Payables to the Pension Plan***—Accrued retirement contributions as of June 30, 2016 amounted to \$13,449.

### **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 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](http://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, 2016, 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, 2016 for ERS and June 30, 2015 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.

	<u>TRS</u>	<u>ERS</u>
Measurement date	June 30, 2015	March 31, 2016
Net pension (asset)/liability	\$ (173,277,759)	\$ 22,702,665
Board's portion of the Plan's total net pension (asset)/liability	1.668248%	0.141447%

For the year ended June 30, 2016, the Board recognized an actuarial increase of \$11,403,250 for the TRS and pension expense of \$8,092,646 for ERS. At June 30, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>TRS</u>	<u>ERS</u>	<u>TRS</u>	<u>ERS</u>
Differences between expected and actual experiences	\$ -	\$ 114,722	\$ 4,802,267	\$ 2,691,022
Changes of assumptions	-	6,054,116	-	-
Net difference between projected and actual earnings on pension plan investments	-	13,468,467	54,774,001	-
Changes in proportion and differences between the Board's contributions and proportionate share of contributions	854,035	837,312	320,047	22,448
Board's contributions subsequent to the measurement date	<u>33,792,412</u>	<u>1,645,936</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 34,646,447</u>	<u>\$ 22,120,553</u>	<u>\$ 59,896,315</u>	<u>\$ 2,713,470</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, 2017. Other amounts reported as deferred inflows of resources and deferred outflows of resources related to pensions will be recognized in pension expense as shown below:

Year Ending June 30,	TRS	ERS
2017	\$ (22,036,148)	\$ 4,521,725
2018	(22,036,148)	4,521,725
2019	(22,036,148)	4,521,725
2020	9,165,512	4,195,972
2021	(542,233)	-
Thereafter	(1,557,115)	-

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

	TRS	ERS
Measurement date	June 30, 2015	March 31, 2016
Actuarial valuation date	June 30, 2014	April 1, 2015
Interest rate	8.00%	7.00%
Salary scale	4.01-10.91%	3.80%
Decrement tables	July 1, 2005- June 30, 2010	April 1, 2010- March 31, 2015
Inflation rate	3.0%	2.5%

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, 2014 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 weighing the expected future real rates of return by each the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation are summarized on the following page.

Measurement date	Target Allocation		Long-Term Expected Real Rate of Return	
	TRS	ERS	TRS	ERS
			June 30, 2016	March 31, 2016
Asset class:				
Domestic equities	37.0 %	38.0 %	6.5 %	7.3 %
International equities	18.0	13.0	7.7	8.6
Private equity	0.0	10.0	0.0	11.0
Real estate	10.0	8.0	4.6	8.3
Alternative investments	7.0	0.0	9.9	0.0
Absolute return strategies	20.0	3.0	1.9	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 7.0% 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 below presents the Board’s proportionate share of the net pension liabilities calculated using the discount rate of 7.0% 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 (6.0% for ERS and 7.0% for TRS) or one percentage-point higher (8.0% for ERS and 9.0% for TRS) than the current assumption.

TRS	1% Decrease (7.0%)	Current Assumption (8.0%)	1% Increase (9.0%)
Employer's proportionate share of the net pension (asset)/liability	\$ 11,819,777	\$ (173,277,759)	\$ (331,127,089)
ERS	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Employer's proportionate share of the net pension (asset)/liability	\$ 51,192,861	\$ 22,702,665	\$ (1,370,333)

**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)		
	TRS	ERS	Total
Measurement date	June 30, 2015	March 31, 2016	
Employers' total pension (asset)/liability	\$ 99,332,104	\$ 172,303,544	\$ 271,635,648
Plan fiduciary net position	<u>109,718,917</u>	<u>156,253,265</u>	<u>265,972,182</u>
Employers' net pension (asset)/liability	<u>\$ (10,386,813)</u>	<u>\$ 16,050,279</u>	<u>\$ 5,663,466</u>
System fiduciary net position as a percentage of total pension liability	110.46%	90.68%	97.92%

**Payables to the Pension Plan**—For TRS, employer and employee contributions for the fiscal year ended June 30, 2016 are paid to the System in September, October and November 2016 through a state aid intercept. Accrued retirement contributions as of June 30, 2016 represent employee and employer contributions for the fiscal year ended June 30, 2016 based on paid TRS wages multiplied by the employer’s contribution rate, by tier, and employee contributions for the fiscal year as reported to the TRS System. Accrued retirement contributions for TRS as of June 30, 2016 amounted to \$36,318,979. For ERS, accrued retirement contributions as of June 30, 2016 amounted to \$1,645,936.

**Buffalo Urban Renewal Agency**

BURA also participates in the ERS. Accrued retirement contributions as of June 30, 2016 represent the projected employer contribution for the period of April 1, 2016 through June 30, 2016 based on paid ERS wages multiplied by the employer’s contribution rate, by tier.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Inflows of Resources Related to Pensions**—At June 30, 2016, BURA reported a liability of \$1,196,017 for its proportionate share of the net pension liability. At the March 31, 2016 measurement date, BURA’s proportion was 0.0074517%.

For the year ended June 30, 2015, BURA recognized pension expense of \$411,776. At June 30, 2016, BURA reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources shown on the following page.

	ERS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experiences	\$ 6,044	\$ 141,768
Changes of assumptions	318,942	-
Net difference between projected and actual earnings on pension plan investments	709,543	-
Changes in proportion and differences between BURA's contributions and proportionate share of contributions	17,885	63,131
BURA contributions subsequent to the measurement date	94,470	-
Total	<u>\$ 1,146,884</u>	<u>\$ 204,899</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
2017	\$ 210,929
2018	210,929
2019	210,929
2020	214,728

***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 7.0%, 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 (6.0%) or one percentage-point higher (8.0%) than the current assumption.

ERS	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Employer's proportionate share of the net pension liability	\$ 2,696,932	\$ 1,196,017	\$ (72,192)

**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	April 1, 2015
Employers' total pension liability	\$ 172,303,544
Plan fiduciary net position	<u>156,253,265</u>
Employers' net pension liability	<u>\$ 16,050,279</u>
System fiduciary net position as a percentage of total pension liability	90.68%

**Payables to the Pension Plan**—Accrued retirement contributions as of June 30, 2016 amounted to \$94,470.

## 7. 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 146 firefighters that receive such compensation.

There have been no significant changes in the number of employees covered. The number of participants as of July 1, 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, 2016, the City's annual OPEB cost (expense) is \$99,178,000 while the Annual Required Contribution ("ARC") is \$98,672,000. Considering the annual expense, as well as payment for current health insurance premiums which totaled approximately \$49,594,000 for retirees and their beneficiaries, the result was an increase in the net OPEB obligation of approximately \$49,584,000 for the year ended June 30, 2016.

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)			
<b>Annual OPEB Cost and Net OPEB Obligation</b>				
Actuarial accrued liability ("AAL")	\$ 1,339,493	\$ 70,991	\$ 68,384	\$ 1,478,868
Unfunded actuarial accrued liability ("UAAL")	\$ 1,339,493	\$ 70,991	\$ 68,384	\$ 1,478,868
Normal cost — beginning of the year	\$ 36,985	\$ 1,383	\$ 1,858	\$ 40,226
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	743.1%	2554.6%	487.6%	750.5%
<b>Level Dollar Amortization</b>				
<b>Calculation of ARC Under Projected Unit Credit Method</b>				
ARC normal cost with interest — end of year	\$ 36,985	\$ 1,383	\$ 1,858	\$ 40,226
UAAL over 30 years with interest — end of year	51,185	2,713	2,613	56,511
Interest	1,764	82	89	1,935
Annual required contribution ("ARC")	89,934	4,178	4,560	98,672
Interest on net OPEB obligation	15,416	3,367	1,032	19,815
Adjustment to ARC	(15,022)	(3,281)	(1,006)	(19,309)
Annual OPEB cost (expense)	90,328	4,264	4,586	99,178
Contributions for the year ended June 30, 2016	(41,265)	(5,311)	(3,018)	(49,594)
Increase in net OPEB obligation	49,063	(1,047)	1,568	49,584
Net OPEB obligation — June 30, 2015	385,411	84,186	25,809	495,406
Net OPEB obligation — June 30, 2016	\$ 434,474	\$ 83,139	\$ 27,377	\$ 544,990
Percent of annual OPEB cost contributed	46%	125%	66%	50%

**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. Based on an interim valuation the City estimates the unfunded accrued liability to be \$1,478,868,000 at June 30, 2016. The covered payroll (annual payroll of active employees covered by the Plan) was \$197,060,000 and the ratio of the unfunded actuarial accrued liability ("UAAL") to the covered payroll was 750.5%.

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)				
2016	\$ 99,178	\$ 49,594	50.0%	\$ 544,990
2015	95,584	45,987	48.1%	495,406
2014	107,857	46,490	43.1%	445,808

**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, 2016 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, 2016.

<b>Annual OPEB Cost and Net OPEB Obligation</b>		(000's omitted)
Normal cost		\$ 89
Amortization of UAAL		<u>12</u>
Annual required contribution ("ARC")		101
Interest on net OPEB obligation		23
Adjustment to ARC		<u>(57)</u>
Annual OPEB cost		67
Contributions for the year ended June 30, 2015		<u>-</u>
Increase in net OPEB obligation		67
Net OPEB obligation—beginning		<u>568</u>
Net OPEB obligation—ending		<u><u>\$ 635</u></u>

The BFSFA’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)			
2016	\$ 67	0.0%	\$ 635
2015	96	0.0%	568
2014	44	0.0%	472

As of June 30, 2016, the most recent alternative measurement method date, the actuarial accrued liability for future benefits was \$568,375, all of which is unfunded. The annual payroll of employees eligible to be covered by the Plan was \$681,151, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 149%.

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 BFSAs 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 BFSAs 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 BFSAs 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 BFSAs'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, 2016, are shown below:

<b>Annual OPEB Cost and Net OPEB Obligation</b>	(000's omitted)
Annual required contribution (ARC)	\$ 194,698
Interest on net OPEB obligation	30,813
Adjustment to ARC	<u>(44,548)</u>
Annual OPEB cost (expense)	180,963
Contributions for the year ended June 30, 2014	<u>(61,387)</u>
Increase in net OPEB obligation	119,576
Net OPEB obligation—beginning	<u>770,325</u>
Net OPEB obligation—ending	<u>\$ 889,901</u>
Percent of annual OPEB cost contributed	33.9%

**Funding Status and Funding Progress**—As of June 30, 2016, the most recent interim actuarial valuation performed, the actuarial accrued liability for benefits was \$2,121,315,000, all of which was unfunded.

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)				
2016	\$ 180,963	\$ 61,387	33.9%	\$ 889,901
2015	151,369	61,575	40.7%	770,325
2014	158,587	62,414	39.4%	680,531

**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, 2016 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 9.0% and decreases to a 5.0% long-term trend rate after seven years. For all post-65 healthcare benefits this rate initially is at 7.5% 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.

<b>Annual OPEB Cost and Net OPEB Obligation</b>		(000's omitted)
Annual required contribution ("ARC")	\$	1,374
Interest on net OPEB obligation		324
Adjustment to ARC		-
Annual OPEB cost (expense)		1,698
Contributions made		(645)
Increase in net OPEB obligation		1,053
Net OPEB obligation—beginning		12,939
Net OPEB obligation—ending	\$	<u>13,992</u>

**Funding Status and Funding Progress**— As of June 30, 2014, the most recent actuarial valuation date, the plan was not funded. Since there were no assets, the unfunded actuarial accrued liability for benefits for governmental activities was \$16,499,280.

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)				
2016	\$ 1,698	\$ 645	38.0%	\$ 13,992
2015	1,374	449	32.7%	12,939
2014	1,347	794	58.9%	12,014

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, 2016 was twenty-three years.

## 8. 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, 2014, 2015, and 2016, the City incurred expenditures of \$4,098,492, \$3,542,084 and \$3,696,098, respectively, for property damage and personal injury claims. For the fiscal years ended June 30, 2014, 2015, and 2016, the City expensed \$7,291,697, \$6,809,060, and \$7,136,661 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, 2016, the City estimated the following general liabilities:

	Governmental Activities	Business-type Activities
Workers' compensation — fire and police medical	\$ 3,063,889	\$ -
Workers' compensation — other employees	<u>4,520,225</u>	<u>2,685,229</u>
	<u>\$ 7,584,114</u>	<u>\$ 2,685,229</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, 2014, are shown below:

	Governmental Activities	Business-type Activities
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	8,147,272	2,743,962
Claims incurred	5,396,347	1,118,423
Payments 2015-2016	<u>(5,959,505)</u>	<u>(1,177,156)</u>
Estimated claims — June 30, 2016	<u>\$ 7,584,114</u>	<u>\$ 2,685,229</u>

The City has estimated claims arising during the ordinary course of its operation which are probable of a future loss to total \$14,000,000 and has been included within the City's liabilities. Additionally, management has identified claims judged to be reasonably possible of a negative impact which are not included within the City's liabilities. Such claims have been estimated to range from \$8,200,000 to \$11,600,000.

## 9. LEASE OBLIGATIONS

**Capital Leases**—The City has entered into a lease agreement as a lessee for financing the acquisition of recycling totes. This lease has been recorded in the Solid Waste and Recycling Fund. The City's capital lease has been paid off in full in the year ended June 30, 2016.

The assets acquired through the capital lease are as follows:

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

**Operating Leases**—Operating lease obligations are primarily for rental of space and equipment. Lease expenditures/expenses for the year were approximately \$203,340. The future minimum rental payments required by the primary government for noncancelable operating leases are as follows:

<u>Fiscal Year Ending June 30,</u>	
2017	\$ 169,345
2018	122,510
2019	109,190
2020	<u>109,190</u>
Total	<u>\$ 510,235</u>

### **Buffalo Fiscal Stability Authority**

The BFSFA has an operating lease agreement for office space. Rental expense totaled \$38,865 for the year ended June 30, 2016. Future minimum annual rental payments required under the lease are:

<u>Fiscal Year Ending June 30,</u>	
2017	\$ 42,640
2018	43,615
2019	43,940
2020	43,940
2021	<u>10,985</u>
Total	<u>\$ 185,120</u>

## Board of Education

Operating lease obligations are primarily for rental of space and equipment. Lease expenses for the year were approximately \$3,447,305. The future minimum rental payments required for noncancelable leases are shown below:

Fiscal Year Ending June 30,	
2017	\$ 3,617,377
2018	3,761,214
2019	3,352,635
2020	3,430,367
2021	3,523,938
2022-2026	15,629,399
2027-2028	<u>5,682,019</u>
Total	<u>\$ 38,996,949</u>

## 10. 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, judgments and claims, and net pension liability.

A summary of changes in the City's long-term debt at June 30, 2016 is presented on the following page.

	Balance 7/1/2015	Additions	Reductions	Balance 6/30/2016	Due Within One Year
<b>Governmental activities:</b>					
Bonds payable:					
General obligations bonds, net - City	\$ 218,583,985	\$ 42,923,468	\$ 52,083,984	\$ 209,423,469	\$ 28,042,270
General obligations bonds, net - BFSA	48,895,000	14,170,000	28,140,000	34,925,000	7,150,000
Premiums on bonds - City	11,649,008	7,633,322	2,489,184	16,793,146	3,134,495
Premiums on bonds - BFSA	3,168,172	1,536,367	1,984,224	2,720,315	485,523
Total bonds payable	<u>282,296,165</u>	<u>66,263,157</u>	<u>84,697,392</u>	<u>263,861,930</u>	<u>38,812,288</u>
Notes payable	540,368	-	267,509	272,859	272,859
Compensated absences	29,269,400	18,923,062	22,314,239	25,878,223	1,468,086
Workers' compensation	8,147,272	5,396,347	5,959,505	7,584,114	4,688,815
Landfill post-closure monitoring costs	910,000	-	70,000	840,000	70,000
OPEB obligation - City	469,597,000	94,592,000	46,576,000	517,613,000	-
OPEB obligation - BFSA	568,375	66,376	-	634,751	-
Judgments and claims	11,900,000	5,321,643	3,221,643	14,000,000	3,210,000
Net pension liability - City*	15,847,118	106,015,710	-	121,862,828	-
Net pension liability - BFSA*	62,198	241,044	-	303,242	-
Total governmental activities	<u>\$ 819,137,896</u>	<u>\$ 296,819,339</u>	<u>\$ 163,106,288</u>	<u>\$ 952,850,947</u>	<u>\$ 48,522,048</u>
<b>Business-type activities:</b>					
Bonds payable:					
General obligations bonds - Parking	\$ 8,850,000	\$ 4,066,532	\$ 2,340,000	\$ 10,576,532	\$ 1,892,730
General obligations bonds - Water	651,416	-	331,797	319,619	152,152
Water System revenue bonds	136,915,000	-	6,080,000	130,835,000	8,000,000
Premiums on bonds	6,759,521	801,454	449,407	7,111,568	476,122
Discounts on bonds	(238,510)	-	(11,114)	(227,396)	(10,875)
Total bonds payable	<u>152,937,427</u>	<u>4,867,986</u>	<u>9,190,090</u>	<u>148,615,323</u>	<u>10,510,129</u>
Capital leases	240,698	-	240,698	-	-
Compensated absences	1,347,365	1,190,055	1,347,365	1,190,055	86,974
Workers' compensation	2,743,962	1,118,423	1,177,156	2,685,229	1,293,945
OPEB obligation	25,809,000	4,586,000	3,018,000	27,377,000	-
Net pension liability*	1,271,448	6,001,596	-	7,273,044	-
Total business-type activities	<u>\$ 184,349,900</u>	<u>\$ 17,764,060</u>	<u>\$ 14,973,309</u>	<u>\$ 187,140,651</u>	<u>\$ 11,891,048</u>

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

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

On April 14, 2016, the City issued \$25,770,000 in Series 2016A general improvement serial bonds of which \$21,703,468 were for governmental activities and \$4,066,532 for business-type activities. The serial bonds were issued at a premium of \$5,078,889 and at an interest rate of 2.0%-5.0%. Principal payments on the bonds begin April 1, 2017 and mature on April 1, 2028.

On April 14, 2016, the City issued \$21,220,000 in Series 2016B general obligation refunding funds, which partially refunded the previously issued 2008A and 2009A general improvement serial bonds and 2004C, 2008B and 2009B school serial bonds. The Series 2016B refunding bonds were issued at a premium of \$3,355,887 and included issuance costs of \$99,354. The interest on the refunding bond ranges from 2.0 percent to 4.0 percent. The City deposited \$26,030,948 with an escrow agent and as a result, the bonds, as described above, are considered refunded and the liability of these bonds, \$23,795,000 has been removed from the financial statements. The difference between the reacquisition price and the amount refunded, less premium on refunded bonds, is reported as a deferred outflow of resources and is amortized over the life of the refunding issuance. The refunding bonds will produce a net present value debt service savings of approximately \$2,000,817. Principal payments on the bonds begin on November 15, 2016 and mature on November 15, 2023.

In December 2015, BFSA issued \$14,710,000 in sales tax and State aid and secured bonds with a net interest cost of 1.50% to advance refund \$7,200,000 and \$12,160,000, respectively, of outstanding Series 2005A and Series 2006A serial bonds with interest rates ranging from 4.6% to 5.0%. Proceeds of \$20,543,653 (including a premium of \$1,536,367 and additional BFSA and City contributions of \$4,837,286) were used to purchase U.S. Government Securities of \$20,062,352 and to fund estimated costs of issuance. The securities were placed in an irrevocable trust with an escrow agent to pay for all future debt service payments of the original bonds until their call dates of January 20, 2016 and September 1, 2016. As a result, the original bonds are considered to be defeased and the liability has been removed from the financial statements. The amount outstanding on the original bonds at June 30, 2016 was \$12,160,000. The refunding, which includes the additional contributions by BFSA and the City, decreased the total debt service payment for the next 10 years by \$6,349,756; after eliminating the impact from the contributions, the total estimated net economic impact is \$1,348,694 at net present value.

A summary of additions and payments for the year ended June 30, 2016 is shown below:

Year of Issuance	Original Issue	Interest Rate (%)	Year of Maturity	Balance 7/1/2015	Additions	Payments	Balance 6/30/2016	Due Within One Year
<b>Governmental activities general obligations bonds issued by City of Buffalo:</b>								
2004	\$ 15,245,000	2-4.2	2016	\$ 1,655,000	\$ -	\$ 1,655,000	\$ -	\$ -
2005	26,167,250	5.0	2025	7,114,440	-	1,137,672	5,976,768	1,090,520
2005	34,346,833	5.0	2019	3,191,223	-	1,525,842	1,665,381	707,848
2006	25,275,917	5.0	2022	11,072,000	-	4,487,185	6,584,815	1,555,366
2007	22,226,126	5.0	2023	13,255,205	-	1,388,740	11,866,465	1,457,077
2008	22,000,000	3.0-5.3	2023	13,385,000	-	10,335,000	3,050,000	1,485,000
2009	21,500,000	1.4-6.0	2024	14,240,000	-	9,975,000	4,265,000	1,365,000
2010	21,985,000	2.0-5.0	2025	16,060,000	-	1,295,000	14,765,000	1,360,000
2011	12,825,000	3.0-5.0	2021	2,870,000	-	1,320,000	1,550,000	515,000
2012	22,265,000	2.0-4.0	2026	17,210,000	-	1,300,000	15,910,000	1,355,000
2012	3,480,000	3.0-4.0	2022	3,480,000	-	1,255,000	2,225,000	1,295,000
2012	21,640,000	2.0-5.0	2023	16,450,000	-	1,805,000	14,645,000	1,860,000
2012	4,255,000	2.0-4.0	2024	1,355,000	-	295,000	1,060,000	265,000
2013	7,540,000	0.8-3.5	2025	6,360,000	-	575,000	5,785,000	585,000
2014	25,639,769	4.0-5.0	2023	22,905,000	-	2,725,000	20,180,000	2,745,000
2015	29,088,985	2.0-5.0	2026	29,088,985	-	2,848,985	26,240,000	2,815,000
2016	21,703,468	2.0-5.0	2028	-	21,703,468	-	21,703,468	1,482,270
2016	15,375,000	3.0-4.0	2024	-	15,375,000	-	15,375,000	-
Total				<u>179,691,853</u>	<u>37,078,468</u>	<u>43,923,424</u>	<u>172,846,897</u>	<u>21,938,081</u>
<b>Governmental activities general obligations bonds issued by the City of Buffalo on behalf of discretely presented component unit – Board of Education:</b>								
2004	\$ 2,700,000	2.0-4.9	2022	\$ 1,335,000	\$ -	\$ 1,335,000	\$ -	\$ -
2005	7,258,477	5.0	2016	817,361	-	817,361	-	-
2006	2,483,000	5.0	2020	1,088,000	-	197,000	891,000	207,000
2007	5,889,000	5.0	2019	2,363,000	-	548,000	1,815,000	576,000
2008	8,920,000	3.0-5.3	2023	5,430,000	-	4,200,000	1,230,000	600,000
2009	3,530,000	2.5-5.0	2024	2,335,000	-	1,630,000	705,000	225,000
2010	4,900,000	2.5-4.0	2025	3,485,000	-	300,000	3,185,000	310,000
2011	21,825,000	3.0-4.0	2021	11,775,000	-	3,635,000	8,140,000	6,035,000
2012	4,900,000	3.0-4.0	2026	3,790,000	-	290,000	3,500,000	300,000
2012	15,355,000	2.0-5.0	2021	12,750,000	-	2,250,000	10,500,000	135,000
2012	5,000,000	2.0-3.3	2027	4,125,000	-	300,000	3,825,000	305,000
2012	6,720,000	2.0-4.0	2025	4,275,000	-	365,000	3,910,000	380,000
2012	11,230,000	1.0-4.0	2023	8,640,000	-	875,000	7,765,000	890,000
2012	20,515,000	1.0-5.0	2024	15,585,000	-	1,520,000	14,065,000	1,570,000
2016	5,845,000	2.0-4.0	2023	-	5,845,000	-	5,845,000	165,000
Total				<u>77,793,361</u>	<u>5,845,000</u>	<u>18,262,361</u>	<u>65,376,000</u>	<u>11,698,000</u>
Less bonds issued by City to BFSAs:								
2005A	\$ 26,167,250	4.0-5.0	2025	\$ (7,114,440)	\$ -	\$ (1,137,672)	\$ (5,976,768)	\$ (1,090,520)
2005BC	41,605,310	5.0	2019	(4,008,584)	-	(2,343,203)	(1,665,381)	(707,848)
2006A	27,758,917	4.0-5.0	2020	(12,160,001)	-	(4,684,186)	(7,475,815)	(1,762,366)
2007A	28,115,126	4.0-5.0	2023	(15,618,204)	-	(1,936,740)	(13,681,464)	(2,033,077)
Total mirror bonds				<u>(38,901,229)</u>	<u>-</u>	<u>(10,101,801)</u>	<u>(28,799,428)</u>	<u>(5,593,811)</u>
Net governmental activities general obligation bonds issued by the City of Buffalo				<u>218,583,985</u>	<u>42,923,468</u>	<u>52,083,984</u>	<u>209,423,469</u>	<u>28,042,270</u>

(continued)

Year of Issuance	Original Issue	Interest Rate (%)	Year of Maturity	Balance 7/1/2015	Additions	Payments	Balance 6/30/2016	Due Within One Year
<b>Governmental activities general obligations bonds issued by Buffalo Fiscal Stability Authority:</b>								
2005A	\$ 28,030,000	4.0-5.0	2025	\$ 9,340,000	\$ -	\$ 9,340,000	\$ -	\$ -
2005BC	47,065,000	5.0	2019	7,290,000	-	2,630,000	4,660,000	2,675,000
2006A	27,270,000	4.0-5.0	2020	14,255,000	-	14,255,000	-	-
2007A	28,470,000	4.0-5.0	2023	18,010,000	-	1,915,000	16,095,000	2,010,000
2015A	14,170,000	3.0-5.0	2025	-	14,170,000	-	14,170,000	2,465,000
Total				<u>48,895,000</u>	<u>14,170,000</u>	<u>28,140,000</u>	<u>34,925,000</u>	<u>7,150,000</u>
Total governmental activities bonds				<u>267,478,985</u>	<u>57,093,468</u>	<u>80,223,984</u>	<u>244,348,469</u>	<u>35,192,270</u>
Unamortized premium - City				11,649,008	7,633,322	2,489,184	16,793,146	3,134,495
Unamortized premium - BFSA				3,168,172	1,536,367	1,984,224	2,720,315	485,523
Total governmental activities bonds, net				<u>\$ 282,296,165</u>	<u>\$ 66,263,157</u>	<u>\$ 84,697,392</u>	<u>\$ 263,861,930</u>	<u>\$ 38,812,288</u>
<b>Business-type activities — general obligation bonds:</b>								
Parking:								
2012	\$ 8,415,000	2.0-5.0	2022	\$ 8,090,000	\$ -	\$ 1,580,000	\$ 6,510,000	\$ 1,615,000
2012	2,250,000	2.0-4.0	2024	760,000	-	760,000	-	-
2016	4,066,532	2.0-5.0	2028	-	4,066,532	-	4,066,532	277,730
Subtotal — Parking				<u>8,850,000</u>	<u>4,066,532</u>	<u>2,340,000</u>	<u>10,576,532</u>	<u>1,892,730</u>
Water System:								
2005	6,552,147	5.0	2018	651,416	-	331,797	319,619	152,152
Total				<u>9,501,416</u>	<u>4,066,532</u>	<u>2,671,797</u>	<u>10,896,151</u>	<u>2,044,882</u>
<b>Business-type activities — Water System Revenue Bonds:</b>								
2002	\$ 11,785,000	2.5-4.8	2018	\$ 990,000	\$ -	\$ 315,000	\$ 675,000	\$ 330,000
2003	3,901,741	5.6-6.3	2031	125,000	-	125,000	-	-
2006	19,917,236	3.6-4.8	2028	13,140,000	-	835,000	12,305,000	860,000
2007	13,010,000	3.6-4.4	2038	11,220,000	-	300,000	10,920,000	310,000
2007	29,220,000	5	2027	21,850,000	-	3,395,000	18,455,000	3,565,000
2010	23,975,000	2.0-6.9	2041	22,075,000	-	505,000	21,570,000	520,000
2011	2,720,000	1.5-5.1	2022	1,835,000	-	235,000	1,600,000	245,000
2012	17,150,000	1.8-4.0	2043	16,450,000	-	370,000	16,080,000	380,000
2012	2,575,000	5.6-6.3	2031	2,575,000	-	-	2,575,000	130,000
2015	46,655,000	2.0-5.0	2036	46,655,000	-	-	46,655,000	1,660,000
Total				<u>136,915,000</u>	<u>-</u>	<u>6,080,000</u>	<u>130,835,000</u>	<u>8,000,000</u>
Total business-type activities bonds				<u>146,416,416</u>	<u>4,066,532</u>	<u>8,751,797</u>	<u>141,731,151</u>	<u>10,044,882</u>
Unamortized premium				6,759,521	801,454	449,407	7,111,568	476,122
Unamortized discount				(238,510)	-	(11,114)	(227,396)	(10,875)
Total business-type activities bonds, net				<u>\$ 152,937,427</u>	<u>\$ 4,867,986</u>	<u>\$ 9,190,090</u>	<u>\$ 148,615,323</u>	<u>\$ 10,510,129</u>

(concluded)

**Amortization of Bond Premiums and Discounts**—As noted above, on April 14, 2016, the City issued general improvement serial bonds Series 2016A totaling \$25,770,000 and received a bond premium of \$5,078,889. The premium is being amortized on a straight-line annual basis over the life of the bonds, which mature on April 1, 2028. In addition, on April 14, 2016 the City issued \$21,220,000 in Series 2016B refunding bonds and received a premium of \$3,355,887. The premium is being amortized on a straight-line annual basis over the life of the bonds, which mature on April 1, 2024. In December 2015, the BFA issued bonds totaling \$14,170,000 and received a bond premium of \$1,536,367. The total remaining unamortized premiums on bonds at June 30, 2016 are \$19,513,461 and \$7,111,568 reported in governmental activities and business-type activities, respectively. Additionally, unamortized discounts on bonds of \$227,396 are reported in business-type activities at June 30, 2016.

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
2017	\$ 21,938,081	\$ 8,617,053	\$ 30,555,134
2018	20,879,841	7,771,182	28,651,023
2019	20,594,464	6,399,168	26,993,632
2020	20,722,592	4,904,394	25,626,986
2021	18,523,389	3,890,288	22,413,677
2022-2026	65,665,919	8,234,824	73,900,743
2027-2028	4,522,609	341,932	4,864,541
Total	<u>\$ 172,846,895</u>	<u>\$ 40,158,841</u>	<u>\$ 213,005,736</u>

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 11,698,000	\$ 2,422,191	\$ 14,120,191
2018	8,716,000	2,008,467	10,724,467
2019	8,973,000	1,688,220	10,661,220
2020	8,624,000	1,135,044	9,759,044
2021	8,695,000	809,800	9,504,800
2022-2026	18,265,000	1,311,281	19,576,281
2027	405,000	13,163	418,163
Total	<u>\$ 65,376,000</u>	<u>\$ 9,388,166</u>	<u>\$ 74,764,166</u>

**Governmental Activities — Buffalo Fiscal Stability Authority**

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 7,150,000	\$ 1,724,250	\$ 8,874,250
2018	5,520,000	1,140,900	6,660,900
2019	5,685,000	879,063	6,564,063
2020	5,440,000	612,262	6,052,262
2021	4,690,000	373,575	5,063,575
2022-2026	6,440,000	444,450	6,884,450
Total	<u>\$ 34,925,000</u>	<u>\$ 5,174,500</u>	<u>\$ 40,099,500</u>

**Business-Type Activities**

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 10,044,882	\$ 6,597,713	\$ 16,642,595
2018	9,611,518	6,216,664	15,828,182
2019	9,640,097	5,777,381	15,417,478
2020	9,663,511	5,336,969	15,000,480
2021	7,188,501	4,954,476	12,142,977
2022-2026	34,950,251	19,888,966	54,839,217
2027-2031	32,777,391	10,974,933	43,752,324
2032-2036	14,270,000	5,476,005	19,746,005
2037-2041	11,765,000	1,967,552	13,732,552
2042 and thereafter	1,820,000	73,600	1,893,600
Total	<u>\$ 141,731,151</u>	<u>\$ 67,264,259</u>	<u>\$ 208,995,410</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, 2016 of \$272,859 is scheduled to be paid in full in the next fiscal year.

**Capital Leases**—During the year ended June 30, 2012, JP Morgan Chase Bank, N.A. provided a \$2,800,000 lease-purchase agreement at 1.7% for 4 years to the City’s Solid Waste and Recycling Fund for the purchase of recycling totes. The remaining balance was paid off in full during the year ended June 30, 2016. Refer to Note 9 for additional information related to the City’s capital leases.

**Compensated Absences**—As described in Note 1, the liability for compensated absences, which totals \$25,878,223 for governmental activities and \$1,190,055 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 \$1,468,086 and \$86,974 for governmental activities and business-type activities, respectively, will be paid in the next fiscal year.

**Workers' Compensation**—Accrued workers' compensation, which totals \$7,584,114 and \$2,685,229 for governmental activities and business-type activities, respectively, represents the City's estimate of both asserted and unasserted workers' compensation losses. The payments related to these liabilities are dependent upon many factors and, therefore, timing of future payments are not readily determinable. The City has estimated that \$4,688,815 and \$1,293,945 for governmental activities and business-type activities, respectively, will be paid in the next fiscal year. Refer to Note 8 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 12 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, 2016 was \$840,000.

**OPEB Obligation**—As explained in Note 7, 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 \$518,247,951 and \$27,377,000 in the governmental activities and business-type activities, respectively.

**Judgments and Claims**—As explained in Note 8, the City records a liability for general liability claims in the government-wide financial statements. The City's judgments and claims liability, which totals \$14,000,000 at June 30, 2016, 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 \$3,210,000 of the aforementioned claims will be paid in the next fiscal year.

**Net Pension Liability**—The City reports a liability for its proportionate share of the net pension liability for the Employee Retirement System and Police and Fire Retirement System. The net pension liability is estimated to be \$122,166,070 and \$7,273,044 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 6 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, 2016, was approximately \$651.4 million. The effective borrowing capacity is \$436.0 million.

The list of the City's authorized and unissued bonds at June 30, 2016, is as follows:

Project	Total Authorized and Unissued
General Improvement Bonds—City of Buffalo	<u>\$ 17,931,141</u>

## Board of Education

A summary of changes in the Board's long-term liabilities for the year ended June 30, 2016, is as follows:

	Balance 7/1/2015	Additions	Reductions	Balance 6/30/2016	Due Within One Year
Governmental activities:					
Due to other governments	\$ 10,980,000	\$ -	\$ 713,334	\$ 10,266,666	\$ 713,334
Revenue bonds payable	12,730,000	-	590,000	12,140,000	610,000
JSCB bonds payable	908,360,000	-	41,995,000	866,365,000	52,640,000
Premium on bonds	104,629,850	879,020	8,537,955	96,970,915	8,543,209
Compensated absences	20,914,123	7,802,607	8,387,043	20,329,687	8,152,584
Pension deferral	3,192,902	-	239,711	2,953,191	248,725
Workers' compensation	43,112,284	9,627,834	8,853,317	43,886,801	8,392,778
OPEB obligation	770,325,000	180,963,000	61,387,000	889,901,000	-
Net pension liability*	4,813,758	17,888,907	-	22,702,665	-
Total	<u>\$ 1,879,057,917</u>	<u>\$ 217,161,368</u>	<u>\$ 130,703,360</u>	<u>\$ 1,965,515,925</u>	<u>\$ 79,300,630</u>

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

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

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

Fiscal Year Ending June 30,	Principal
2017	\$ 713,334
2018	713,334
2019	713,332
2020	713,334
2021	713,334
2022-2026	3,566,666
2027-2031	2,899,999
2032-2036	233,333
	<u>\$ 10,266,666</u>

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

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

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 610,000	\$ 472,141	\$ 1,082,141
2018	630,000	453,641	1,083,641
2019	645,000	40,891	685,891
2020	665,000	421,141	1,086,141
2021	695,000	390,466	1,085,466
2022-2026	4,025,000	1,390,131	5,415,131
2027-2031	4,870,000	545,766	5,415,766
Total	<u>\$ 12,140,000</u>	<u>\$ 3,714,177</u>	<u>\$ 15,854,177</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 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. \$268,240,000 of these bonds defeased in the prior years is outstanding at June 30, 2016.

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

Fiscal Year Ending June 30,	Principal	Interest	Total
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	70,915,000	32,270,913	103,185,913
2022-2026	362,690,000	105,535,338	468,225,338
2027-2031	199,175,000	27,559,900	226,734,900
2032	6,305,000	331,013	6,636,013
Total	<u>\$ 866,365,000</u>	<u>\$ 323,858,866</u>	<u>\$ 1,190,223,866</u>

**Pension Deferral**—As explained in Note 6, 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 \$239,711 under this program and deferred payment of the remaining \$2,953,191.

**Compensated Absences**—Compensated absences, which totaled \$20,329,687 at June 30, 2016, 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 \$8,152,584 will be paid in the next fiscal year.

**Workers’ Compensation**—Workers’ compensation obligations total \$43,886,801 at June 30, 2016, representing estimated amounts due for various outstanding claims.

**OPEB Obligation**—Refer to Note 7.

**Net Pension Liability**—The Board reported a liability, \$22,702,665, for its proportionate share of the net pension liability of the Employees’ Retirement System. Refer to Note 6 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, 2016 follows:

	Balance 7/1/2015	Additions	Reductions	Balance 6/30/2015	Due Within One Year
Governmental activities:					
Section 108 debt	\$ 3,870,000	\$ -	\$ 3,870,000	\$ -	\$ -
Compensated absences*	229,600	-	7,640	221,960	11,098
OPEB obligation	12,939,511	1,697,531	645,031	13,992,011	-
Long-term retirement liability	164,972	-	21,893	143,079	21,247
Net pension liability*	272,042	923,975	-	1,196,017	-
Long-term due to other governments	-	502,774	-	502,774	-
<b>Total</b>	<b>\$ 17,476,125</b>	<b>\$ 3,124,280</b>	<b>\$ 4,544,564</b>	<b>\$ 16,055,841</b>	<b>\$ 32,345</b>

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

**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 12<sup>th</sup> 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 the Buffalo Economic Renaissance Corporation (“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, 2016, BERC sold property for which the Section 108 debt was issued. A portion of the proceeds of this sale, \$2,260,000, was given by BERC to the City to repay the Section 108 debt. In addition to this, the City contributed the remaining \$1,610,000 of the total outstanding principal balance of the \$3,870,000 to BURA for principal reduction of the debt which is recorded in the Section 108 Loan Program Fund. As such, the Section 108 debt has been paid off as of June 30, 2016.

**Compensated Absences**—BURA records the value of compensated absences. The annual budgets of the operating funds provide funding for these benefits as they become payable. The value recorded in the government-wide financial statements at June 30, 2016, for governmental activities is \$221,960. Management estimates that \$11,098 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 7, 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 \$13,992,011 as of June 30, 2016.

**Long-Term Retirement Liability**—As explained in Note 6, BURA participates in the New York and Local Employees’ Retirement System (“ERS”). BURA elected to amortize certain payments relating to ERS during 2011 and 2013 over ten years in accordance with Chapter 260 of the Laws of 2004 of the State of New York. Accordingly, at June 30, 2016, BURA has recorded a liability in the amount of \$143,079, of which \$21,247 is considered due within one year.

**Net Pension Liability**—BURA reported a liability, \$1,196,017, for its proportionate share of the net pension liability of the Employees’ Retirement System. Refer to Note 6 for additional information related to BURA’s net pension liability.

**Long-Term Due to Other Governments**—BURA reports a long-term liability, \$502,774, which is owed to the City to be used to pay HUD for claims related to prior years’ activity. Repayment is based on the future sale of property and availability of funds. The City has recorded an intergovernmental payable for \$502,774 and a corresponding intergovernmental receivable on its statement of net position.

## 11. NET POSITION AND FUND BALANCE

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

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

Governmental activities:

Capital assets, net of accumulated depreciation		\$ 500,491,352
Related debt:		
Serial bonds issued for capital assets	\$ (178,972,469)	
Unspent debt proceeds	<u>41,323,234</u>	
Bonds payable issued for capital assets		(137,649,235)
Deferred loss on refunding		3,448,371
Unamortized premiums		(19,513,461)
Notes payable		<u>(272,859)</u>
Net investment in capital assets—governmental activities		<u>\$ 346,504,168</u>

Business-type activities:

Capital assets, net of accumulated depreciation		\$ 182,826,542
Related debt:		
Serial bonds issued for capital assets	(141,731,151)	
Unspent debt proceeds	<u>25,697,688</u>	
Bonds payable issued for capital assets		(116,033,463)
Deferred gain on refunding		(23,329)
Deferred loss on refunding		4,316,521
Unamortized premium		(7,111,568)
Unamortized discount		<u>227,396</u>
Net investment in capital assets—business-type activities		<u>\$ 64,202,099</u>

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

**Nonspendable Fund Balance**—In the fund financial statements, nonspendable amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balances maintained by the City at June 30, 2016 include:

Real estate acquired for sale	\$ 9,472,256
Long-term due from other funds	16,753,875
Prepaid items	1,560,552
Permanent Fund - corpus	<u>30,000</u>
Total	<u>\$ 27,816,683</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.

**Restricted Fund Balance**—In the fund financial statements, restricted fund balances are amounts constrained to specific purposes (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation. Restricted fund balances of the City at June 30, 2016 are shown below:

	General Fund	Debt Service Fund	Capital Projects Fund	BFSA Special Revenue Fund	Nonmajor Governmental Funds	Total
Capital projects	\$ -	\$ -	\$ 41,246,531	\$ -	\$ -	\$ 41,246,531
Capital outlay	6,971,947	-	-	-	-	6,971,947
Debt service	-	11,743,450	-	-	7,576,105	19,319,555
Grants	-	-	-	-	5,180,547	5,180,547
State mandated initiatives	-	-	-	710,319	-	710,319
Emergency medical services	1,229,598	-	-	-	-	1,229,598
Permanent fund - interest	-	-	-	-	110,801	110,801
Total	<u>\$ 8,201,545</u>	<u>\$ 11,743,450</u>	<u>\$ 41,246,531</u>	<u>\$ 710,319</u>	<u>\$ 12,867,453</u>	<u>\$ 74,769,298</u>

- **Restricted for Capital Projects**—Represents funds that have been reserved to fund future capital projects and the purchase of capital assets. This amount includes commitments for the expenditures of monies within the Capital Projects Fund.
- **Restricted for Capital Outlay**—This category represents amounts set aside for future departmental capital expenditures.
- **Restricted for Debt Service**—Represents resources that have been legally restricted for principal and interest payments that will be made in future periods.
- **Restricted for Grants**—This category includes federal and state monies that have been restricted as they can only be used for specific purposes as authorized by grantor agencies.

This amount includes \$5,180,547 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 BFSA on behalf of the City. At June 30, 2016, \$710,319 of fund balance was restricted for state aid that did not meet the BFSA 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.

**Committed Fund Balance**—In the fund financial statements, commitments are amounts that are subject to a purpose constraint imposed by a formal action of the City’s highest level of decision-making authority. The City’s policy requires commitments to be adopted through formal action (adoption of an ordinance) of the Common Council. As of June 30, 2016, 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, 2016, the City reported \$36,316,959 within its Emergency Stabilization fund.

**Assigned Fund Balance**—In the fund financial statements, assignments are not legally required segregations but are segregated for a specific purpose by the City. For example, the amount appropriated to reduce the tax levy as determined through the budget process and finalized when the tax rates are established would be considered assigned fund balance. The Common Council authorizes the Comptroller to make a determination of the assigned amounts of fund balance. At June 30, 2016 assigned fund balance includes:

	General Fund	BFSA Special Revenue Fund	Total
Encumbrances	\$ 10,030,276	\$ -	\$ 10,030,276
Motor vehicle self-insurance	664,128	-	664,128
Subsequent year's expenditures	10,676,292	-	10,676,292
Judgments and claims	14,000,000	-	14,000,000
Specific use	-	657,240	657,240
Total	<u>\$ 35,370,696</u>	<u>\$ 657,240</u>	<u>\$ 36,027,936</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 2016-2017 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.

## 12. 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, 2016 is as follows:

Fund	Interfund	
	Receivable	Payable
Governmental funds:		
General Fund	\$ 38,189,768	\$ 50,315
Debt Service Fund	192,765	1,250,349
Capital Projects Fund	14,620	15,025,558
BFSA Special Revenue Fund	-	7,787,808
Nonmajor governmental funds	49,262	1,198,913
Total governmental funds	<u>38,446,415</u>	<u>25,312,943</u>
Proprietary funds:		
Solid Waste and Recycling Fund	-	16,753,875
Parking Fund	4,856,071	930,860
Water System	-	302,017
Internal Service Fund	-	595
Total proprietary funds	<u>4,856,071</u>	<u>17,987,347</u>
Agency Fund	<u>804</u>	<u>-</u>
Total	<u>\$ 43,303,290</u>	<u>\$ 43,300,290</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 \$38,189,768 is a portion in the amount of \$16,753,875, 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, 2016:

Transfers out:	Transfers in:					Total
	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Solid Waste & Recycling Fund	
General Fund	\$ -	\$ 24,766,618	\$ 400,000	\$ 28,047	\$ 3,200,000	\$ 28,394,665
Debt Service Fund	-	-	-	11,981,895	-	11,981,895
Capital Projects Fund	-	887,726	-	18,936	716,110	1,622,772
BFSA Special Revenue Fund	-	-	-	802,723	-	802,723
Solid Waste & Recycling Fund	673,078	-	-	-	-	673,078
Parking Fund	3,720,000	165,654	-	-	-	3,885,654
Water System	5,963,011	-	-	-	-	5,963,011
<b>Total</b>	<b>\$ 10,356,089</b>	<b>\$ 25,819,998</b>	<b>\$ 400,000</b>	<b>\$ 12,831,601</b>	<b>\$ 3,916,110</b>	<b>\$ 53,323,798</b>

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.

### 13. LABOR RELATIONS

Approximately 2,512 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
Blue Collar	6/30/11
Building Inspectors	6/30/12
Operating Engineers	6/30/13
Crossing Guards	8/31/15
Pipe Caulkers	6/30/16
Firefighters	6/30/17
White Collar	6/30/19
Police	6/30/19

### 14. 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 \$56,113,944 encumbrances outstanding at June 30, 2016. In the General Fund, encumbrances of \$10,030,276 are supported by assigned fund balance. The Capital Projects Fund and Special Revenue Fund have \$32,308,858 and \$13,774,810 of outstanding encumbrances, respectively. As of June 30, 2016, the City had the following significant encumbrances:

Description	Capital Projects Fund	Special Revenue Fund
Buildings	\$ -	\$ 3,000,000
Building Rehabilitation	-	1,500,000
General improvements	1,055,385	-
Parks	839,392	-
Bridges	1,238,432	-
Streets	16,387,612	-
Equipment	1,931,354	-

#### **Board of Education**

**Encumbrances**—At June 30, 2016, the amount of encumbrances expected to be honored upon performance by the vendor in the next year were \$4,350,389 in the Board’s general fund.

**Construction Commitment**—As of June 30, 2016, the Board has approximately \$4,943,000 committed to various renovations.

### **15. 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 10, the City is responsible to perform specified operation and maintenance functions at a landfill site for a period of thirty years. At June 30, 2016, the liability is \$840,000. 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, 2016 are subject to potential revision.

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

### **Buffalo Urban Renewal Agency**

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

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

## **16. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through November 1, 2016, which is the date the financial statements are available for issuance, and have determined there are no subsequent events, except for the item listed below, that require disclosure under generally accepted accounting principles.

- On October 17, 2016, the Board of Education and Buffalo Teachers Federation ratified their contract.

\* \* \* \* \*

## REQUIRED SUPPLEMENTARY INFORMATION



**CITY OF BUFFALO, NEW YORK**  
**Schedule of Funding Progress—Other Post-Employment Benefits Plan**  
**Year Ended June 30, 2016**  
**(Amounts expressed in thousands)**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability ("AAL")</b>	<b>Unfunded AAL ("UAAL")</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
<b>City of Buffalo:</b>						
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%
<b>Buffalo Fiscal Stability Authority:</b>						
As of June 30, 2016	\$ -	\$ 568	\$ 568	0.0%	\$ 381	149.1%
As of June 30, 2015	-	338	338	0.0%	361	93.6%
As of June 30, 2012	-	116	116	0.0%	319	36.4%
<b>Board of Education:</b>						
As of June 30, 2015	\$ -	\$ 2,121,315	\$ 2,121,315	0.0%	\$ 299,214	709.0%
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%
<b>Buffalo Urban Renewal Agency:</b>						
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 Three Fiscal Years\***

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

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

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

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	Year Ended June 30,		
	2016	2015	2014
<b>Board of Education ("BOE"):</b>			
Contractually required contribution	\$ 33,792,412	\$ 43,929,324	\$ 40,700,597
Contributions in relation to the contractually required contribution	<u>(33,792,412)</u>	<u>(43,929,324)</u>	<u>(40,700,597)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
BOE's covered-employee payroll	\$ 264,357,397	\$ 259,159,687	\$ 258,505,177
Contributions as a percentage of covered-employee payroll	12.8%	17.0%	15.7%

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

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

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	<u>Year Ended June 30,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>City of Buffalo ("City"):</b>			
Measurement date	March 31, 2016	March 31, 2015	March 31, 2014
City's proportion of the net pension liability	3.1811703%	3.5779889%	3.5779889%
City's proportionate share of the net pension liability	<u>\$ 94,187,680</u>	<u>\$ 9,848,756</u>	<u>\$ 14,895,509</u>
City's covered-employee payroll	\$ 131,011,466	\$ 117,701,459	\$ 130,718,240
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	71.9%	8.4%	11.4%
Plan fiduciary net position as a percentage of the total pension liability	90.2%	99.0%	98.5%

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

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

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	<b>Year Ended June 30,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>City of Buffalo ("City"):</b>			
Contractually required contribution	\$ 23,005,037	\$ 40,418,943	\$ 30,767,293
Contributions in relation to the contractually required contribution	<u>(23,005,037)</u>	<u>(40,418,943)</u>	<u>(30,767,293)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 131,011,466	\$ 117,701,459	\$ 130,718,240
Contributions as a percentage of covered-employee payroll	17.6%	34.3%	23.5%

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

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

	<b>Year Ended June 30,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Measurement date	March 31, 2016	March 31, 2015	March 31, 2014
Plan fiduciary net position as a percentage of the total pension liability	90.7%	97.9%	97.2%
<b>City of Buffalo ("City"):</b>			
City's proportion of the net pension liability	0.2177420%	0.2151949%	0.2151949%
City's proportionate share of the net pension liability	<u>\$ 34,948,192</u>	<u>\$ 7,269,810</u>	<u>\$ 9,724,354</u>
City's covered-employee payroll	\$ 65,878,875	\$ 58,216,351	\$ 57,291,143
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	53.0%	12.5%	17.0%
<b>Buffalo Fiscal Stability Authority ("BFSA"):</b>			
BFSA's proportion of the net pension liability	0.0018893%	0.0018411%	0.0018411%
BFSA's proportionate share of the net pension liability	<u>\$ 303,242</u>	<u>\$ 62,198</u>	<u>\$ 67,581</u>
BFSA's covered-employee payroll	\$ 354,794	\$ 334,762	\$ 348,621
BFSA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	85.5%	18.6%	19.4%
<b>Board of Education ("BOE"):</b>			
BOE's proportion of the net pension liability	0.141447%	0.142493%	0.142493%
BOE's proportionate share of the net pension liability	<u>\$ 22,702,665</u>	<u>\$ 4,813,758</u>	<u>\$ 6,439,054</u>
BOE's covered-employee payroll	\$ 39,110,981	\$ 39,579,898	\$ 40,651,043
BOE's proportionate share of the net pension liability as a percentage of its covered-employee payroll	58.0%	12.2%	15.8%
<b>Buffalo Urban Renewal Agency ("BURA"):</b>			
BURA's proportion of the net pension liability	0.0074517%	0.0080528%	0.0080528%
BURA's proportionate share of the net pension liability	<u>\$ 1,196,017</u>	<u>\$ 272,042</u>	<u>\$ 363,893</u>
BURA's covered-employee payroll	\$ 2,320,379	\$ 2,083,059	\$ 2,336,983
BURA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	51.5%	13.1%	15.6%

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

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

	Year Ended June 30,		
	2016	2015	2014
<b>City of Buffalo ("City"):</b>			
Contractually required contributions	\$ 10,243,551	\$ 11,374,650	\$ 11,646,194
Contributions in relation to the contractually required contribution	<u>(10,243,551)</u>	<u>(11,374,650)</u>	<u>(11,646,194)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 65,878,875	\$ 58,216,351	\$ 57,291,143
Contributions as a percentage of covered-employee payroll	15.5%	19.5%	20.3%
<b>Buffalo Fiscal Stability Authority ("BFSA"):</b>			
Contractually required contributions	\$ 67,365	\$ 62,469	\$ 75,625
Contributions in relation to the contractually required contribution	<u>(67,365)</u>	<u>(62,469)</u>	<u>(75,625)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
BFSA's covered-employee payroll	\$ 354,794	\$ 334,762	\$ 348,621
Contributions as a percentage of covered-employee payroll	19.0%	18.7%	21.7%
<b>Board of Education ("BOE"):</b>			
Contractually required contributions	\$ 6,923,385	\$ 7,335,763	\$ 8,494,573
Contributions in relation to the contractually required contribution	<u>(7,283,149)</u>	<u>(7,695,528)</u>	<u>(5,070,646)</u>
Contribution deficiency (excess)	<u>\$ (359,764)</u>	<u>\$ (359,765)</u>	<u>\$ 3,423,927</u>
BOE's covered-employee payroll	\$ 39,110,981	\$ 39,579,898	\$ 40,651,043
Contributions as a percentage of covered-employee payroll	18.6%	19.4%	12.5%
<b>Buffalo Urban Renewal Agency ("BURA"):</b>			
Contractually required contributions	\$ 346,327	\$ 393,546	\$ 466,649
Contributions in relation to the contractually required contribution	<u>(346,327)</u>	<u>(393,546)</u>	<u>(466,649)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
BURA's covered-employee payroll	\$ 2,320,379	\$ 2,083,059	\$ 2,336,983
Contributions as a percentage of covered-employee payroll	14.9%	18.9%	20.0%

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

**CITY OF BUFFALO, NEW YORK**  
**Schedule of Revenues, Expenditures, and Changes in Fund**  
**Balances—Budget and Actual (Non-GAAP Budgetary Basis)—General Fund**  
**Year Ended June 30, 2016**

	<u>Budgeted Amounts</u>		<u>Budgetary Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Adopted</u>	<u>Final</u>		
<b>REVENUES</b>				
Property taxes, assessments, and other tax items	\$ 135,137,419	\$ 135,137,419	\$ 139,042,507	\$ 3,905,088
Utility and other nonproperty tax items	13,135,000	13,135,000	11,168,613	(1,966,387)
Federal aid	1,433,600	1,433,600	861,991	(571,609)
State aid	183,829,380	183,829,380	184,131,726	302,346
Local sources and other	84,890,278	84,890,278	81,151,371	(3,738,907)
Investment interest	800,000	800,000	643,768	(156,232)
Charges for services	14,211,926	14,211,926	13,320,549	(891,377)
Licenses and permits	4,721,060	4,721,060	4,505,586	(215,474)
Fines	12,300,600	12,300,600	8,928,571	(3,372,029)
Miscellaneous	14,615,673	14,615,673	8,700,671	(5,915,002)
Total revenues	<u>465,074,936</u>	<u>465,074,936</u>	<u>452,455,353</u>	<u>(12,619,583)</u>
<b>EXPENDITURES</b>				
Current:				
General government support:				
Legislative	4,640,652	4,680,011	4,499,172	180,839
Executive	2,136,325	2,528,878	2,166,999	361,879
Audit and control	3,335,430	3,416,858	2,809,736	607,122
Law	4,027,873	3,703,789	3,465,713	238,076
Assessment	3,950,892	4,100,057	3,747,251	352,806
Public works, parks and streets	6,452,630	7,538,034	7,275,683	262,351
Management information systems	4,388,865	4,558,585	3,806,671	751,914
Administration and finance	11,517,713	11,566,702	8,650,765	2,915,937
Human resources	5,472,707	6,105,090	5,093,009	1,012,081
Other	19,316,500	18,607,780	16,915,967	1,691,813
Public safety:				
Administration and finance	2,133,657	2,175,781	1,846,718	329,063
Police	80,322,158	83,297,665	86,321,499	(3,023,834)
Fire	59,033,960	59,678,288	60,468,505	(790,217)
Public works, parks and streets	1,820,287	1,821,487	1,480,009	341,478
Permit and inspection services	5,611,828	5,617,224	5,411,639	205,585
Streets and sanitation:				
Public works, parks and streets	12,997,323	14,508,895	13,635,247	873,648
Economic assistance and opportunity:				
Executive	1,798,026	1,801,026	1,588,652	212,374
Community services	230,906	230,906	101,159	129,747
Culture and recreation:				
Public works, parks and streets	5,463,649	5,646,868	5,461,516	185,352
Community services	2,594,497	2,630,615	2,187,894	442,721
Other	795,000	645,000	394,000	251,000
Health and community services:				
Public works, parks and streets	1,183,578	1,189,839	1,106,033	83,806
Community services	1,261,484	1,259,398	1,053,360	206,038
Other	-	250,000	250,000	-
Education	70,322,758	70,322,758	70,322,757	1
Fringe benefits	151,223,959	145,289,493	130,515,532	14,773,961
Other	2,700,000	5,399,911	4,947,476	452,435
Debt service	112,000	390,316	355,287	35,029
Total expenditures	<u>464,844,657</u>	<u>468,961,254</u>	<u>445,878,249</u>	<u>23,083,005</u>
Excess (deficiency) of revenues over expenditures	<u>230,279</u>	<u>(3,886,318)</u>	<u>6,577,104</u>	<u>10,463,422</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	13,136,088	13,136,088	10,356,089	(2,779,999)
Transfers out	(28,366,617)	(28,366,617)	(28,394,665)	(28,048)
Total other financing sources (uses)	<u>(15,230,529)</u>	<u>(15,230,529)</u>	<u>(18,038,576)</u>	<u>(2,808,047)</u>
Net change in fund balances *	<u>(15,000,250)</u>	<u>(19,116,847)</u>	<u>(11,461,472)</u>	<u>7,655,375</u>
Fund balances—beginning	151,224,743	151,224,743	151,224,743	-
Fund balances—ending	<u>\$ 136,224,493</u>	<u>\$ 132,107,896</u>	<u>\$ 139,763,271</u>	<u>\$ 7,655,375</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, 2016**

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**1. BUDGETARY INFORMATION**

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

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

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

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

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

Excess of expenditures and other financing uses over revenues and other financing sources—GAAP basis	\$ (1,431,196)
Less: encumbrances	<u>(10,030,276)</u>
Excess of revenues and other financing sources over expenditures and other financing uses—non-GAAP budgetary basis	<u>\$ (11,461,472)</u>

***Excess of Expenditures Over Appropriations***—For the year ended June 30, 2016, an unfavorable variance within public safety of \$3,023,834 pertaining to police was caused by the effects of unanticipated overtime and wages in addition to the purchase of vehicles. Similarly, unfavorable variances within public safety of \$790,217 relating to fire were due to unanticipated overtime and wages in addition to the purchase of fire clothing and equipment. Additionally, transfers out exceeded the final budget by \$28,048 as a result of unbudgeted transfers to the Special Revenue Fund.

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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, 2016**

	Budgeted Amounts		Budgetary Actual Amounts	Variance with Final Budget
	Adopted	Final		
<b>REVENUES</b>				
Intergovernmental charges	\$ 14,779,120	\$ 14,779,120	\$ 14,779,118	\$ (2)
Investment interest	108,506	108,506	40,552	(67,954)
License, permit, rentals, fines, and other service charges	58,276	58,276	92,884	34,608
Miscellaneous	717	717	-	(717)
Total revenues	14,946,619	14,946,619	14,912,554	(34,065)
<b>EXPENDITURES</b>				
Debt service:				
Principal	35,809,900	35,809,900	28,288,984	7,520,916
Interest and fiscal charges	10,692,278	10,692,278	9,517,386	1,174,892
Total expenditures	46,502,178	46,502,178	37,806,370	8,695,808
Excess (deficiency) of revenues over expenditures	(31,555,559)	(31,555,559)	(22,893,816)	8,661,743
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	24,932,271	24,932,271	25,819,998	887,727
Transfers out	-	-	(11,981,895)	(11,981,895)
Issuance of refunding bonds	362,696	362,696	21,220,000	20,857,304
Payment to refunded bond escrow agent	-	-	(26,030,948)	(26,030,948)
Premium on bonds	2,330,817	2,330,817	5,916,947	3,586,130
Total other financing sources (uses)	27,625,784	27,625,784	14,944,102	(12,681,682)
Net change in fund balances *	(3,929,775)	(3,929,775)	(7,949,714)	(4,019,939)
Fund balances—beginning	19,693,164	19,693,164	19,693,164	-
Fund balances—ending	\$ 15,763,389	\$ 15,763,389	\$ 11,743,450	\$ (4,019,939)

\* 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, 2016**

	<u>Special Revenue</u>	<u>BFSA Debt Service</u>	<u>Permanent</u>	<u>Total Nonmajor Funds</u>
<b>ASSETS</b>				
Restricted cash and cash equivalents	\$ 7,132,308	\$ 96,614	\$ 75,197	\$ 7,304,119
Investments	-	8,010,493	61,472	8,071,965
Receivables:				
Other receivables	-	-	4,132	4,132
Intergovernmental receivables	104,362	-	-	104,362
Due from other funds	49,262	-	-	49,262
Due from component units	73,586	-	-	73,586
Total assets	<u>\$ 7,359,518</u>	<u>\$ 8,107,107</u>	<u>\$ 140,801</u>	<u>\$ 15,607,426</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 494,060	\$ -	\$ -	\$ 494,060
Due to other governments	352,059	-	-	352,059
Accrued liabilities	-	515,201	-	515,201
Due to other funds	1,183,112	15,801	-	1,198,913
Due to component units	149,740	-	-	149,740
Total liabilities	<u>2,178,971</u>	<u>531,002</u>	<u>-</u>	<u>2,709,973</u>
<b>FUND BALANCES</b>				
Nonspendable	-	-	30,000	30,000
Restricted	5,180,547	7,576,105	110,801	12,867,453
Total fund balances	<u>5,180,547</u>	<u>7,576,105</u>	<u>140,801</u>	<u>12,897,453</u>
Total liabilities and fund balances	<u>\$ 7,359,518</u>	<u>\$ 8,107,107</u>	<u>\$ 140,801</u>	<u>\$ 15,607,426</u>

**CITY OF BUFFALO, NEW YORK**  
**Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances—**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2016**

	<u>Special Revenue</u>	<u>BFSA Debt Service</u>	<u>Permanent</u>	<u>Total Nonmajor Funds</u>
<b>REVENUES</b>				
Intergovernmental	\$ 28,352,455	\$ -	\$ -	\$ 28,352,455
Investment interest	475	593,195	19	593,689
Miscellaneous	172,373	-	-	172,373
Total revenues	<u>28,525,303</u>	<u>593,195</u>	<u>19</u>	<u>29,118,517</u>
<b>EXPENDITURES</b>				
Current:				
General government support	4,292,626	-	-	4,292,626
Public safety	3,701,967	-	-	3,701,967
Streets and sanitation	1,457,660	-	-	1,457,660
Economic assistance and opportunity	18,039,706	-	-	18,039,706
Culture and recreation	107,878	-	-	107,878
Health and community services	2,150,683	-	-	2,150,683
Debt service:				
Principal	-	8,780,000	-	8,780,000
Interest and fiscal charges	-	2,588,263	-	2,588,263
Total expenditures	<u>29,750,520</u>	<u>11,368,263</u>	<u>-</u>	<u>41,118,783</u>
Excess (deficiency) of revenues over expenditures	<u>(1,225,217)</u>	<u>(10,775,068)</u>	<u>19</u>	<u>(12,000,266)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	46,982	12,784,619	-	12,831,601
Refunding bonds issued	-	14,170,000	-	14,170,000
Payment to refunded bond escrow agent	-	(19,360,000)	-	(19,360,000)
Premium on refunding bonds	-	1,536,367	-	1,536,367
Total other financing sources (uses)	<u>46,982</u>	<u>9,130,986</u>	<u>-</u>	<u>9,177,968</u>
Net change in fund balances	(1,178,235)	(1,644,082)	19	(2,822,298)
Fund balances—beginning	<u>6,358,782</u>	<u>9,220,187</u>	<u>140,782</u>	<u>15,719,751</u>
Fund balances—ending	<u>\$ 5,180,547</u>	<u>\$ 7,576,105</u>	<u>\$ 140,801</u>	<u>\$ 12,897,453</u>

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## WATER SYSTEM

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



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**CITY OF BUFFALO, NEW YORK**  
**Combining Schedule of Net Position—Water System**  
**June 30, 2016**

	<u>Water Board</u>	<u>Water Authority</u>	<u>Water Enterprise</u>	<u>Eliminations</u>	<u>Total Water System</u>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 15,480,263	\$ 296,283	\$ 180,915	\$ -	\$ 15,957,461
Restricted cash and cash equivalents	-	25,697,688	-	-	25,697,688
Investments	25,036,844	-	-	-	25,036,844
Receivables:					
Accounts receivable	20,639,565	-	2,428	-	20,641,993
Other receivables	1,300,577	-	-	-	1,300,577
Due from other agencies	127,425	-	-	-	127,425
Intergovernmental receivables	65,057	-	-	-	65,057
Due from other funds	913,829	109,872,323	15,564,920	(126,351,072)	-
Allowances	(15,969,166)	-	-	-	(15,969,166)
Net receivables	<u>7,077,287</u>	<u>109,872,323</u>	<u>15,567,348</u>	<u>(126,351,072)</u>	<u>6,165,886</u>
Total current assets	<u>47,594,394</u>	<u>135,866,294</u>	<u>15,748,263</u>	<u>(126,351,072)</u>	<u>72,857,879</u>
Noncurrent assets:					
Capital assets not being depreciated:					
Land	145,116	-	-	-	145,116
Construction in progress	1,388,880	-	-	-	1,388,880
Total capital assets not being depreciated	<u>1,533,996</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,533,996</u>
Capital assets being depreciated:					
Buildings and infrastructure	211,957,389	-	-	-	211,957,389
Improvements other than buildings	252,393	-	-	-	252,393
Machinery and equipment	1,150,830	-	-	-	1,150,830
Accumulated depreciation	(79,660,340)	-	-	-	(79,660,340)
Total capital assets being depreciated	<u>133,700,272</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>133,700,272</u>
Total noncurrent assets	<u>135,234,268</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>135,234,268</u>
Total assets	<u>182,828,662</u>	<u>135,866,294</u>	<u>15,748,263</u>	<u>(126,351,072)</u>	<u>208,092,147</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred loss on refunding	-	4,020,523	-	-	4,020,523
Deferred outflows—relating to pensions	3,885,865	-	3,885,865	(3,885,865)	3,885,865
Total deferred outflows of resources	<u>3,885,865</u>	<u>4,020,523</u>	<u>3,885,865</u>	<u>(3,885,865)</u>	<u>7,906,388</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	1,736,063	1,625	416,129	-	2,153,817
Other accrued liabilities	-	2,965,961	1,350,025	-	4,315,986
Due to other funds	130,551,913	-	107,004	(130,356,900)	302,017
Due to retirement systems	-	-	285,256	-	285,256
Accrued compensated absences	-	-	44,850	-	44,850
Accrued workers' compensation	-	-	315,319	-	315,319
General obligation and revenue bonds payable within one year	-	8,398,133	153,541	-	8,551,674
Total current liabilities	<u>132,287,976</u>	<u>11,365,719</u>	<u>2,672,124</u>	<u>(130,356,900)</u>	<u>15,968,919</u>

(continued)

**CITY OF BUFFALO, NEW YORK**  
**Combining Schedule of Net Position—Water System**  
**June 30, 2016**

	<b>Water Board</b>	<b>Water Authority</b>	<b>Water Enterprise</b>	<b>Eliminations</b>	<b>Total Water System</b>
<b>Noncurrent liabilities:</b>					
Accrued compensated absences	-	-	582,456	-	582,456
Accrued workers' compensation	-	-	474,398	-	474,398
Accrued other post-employment benefits plan	-	-	11,233,000	-	11,233,000
General obligation and revenue bonds payable	-	128,521,098	168,169	-	128,689,267
Net pension liability	-	-	4,005,828	-	4,005,828
Total noncurrent liabilities	<u>-</u>	<u>128,521,098</u>	<u>16,463,851</u>	<u>-</u>	<u>144,984,949</u>
Total liabilities	<u>132,287,976</u>	<u>139,886,817</u>	<u>19,135,975</u>	<u>(130,356,900)</u>	<u>160,953,868</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred gain on refunding	-	-	23,329	-	23,329
Deferred inflows—relating to pensions	<u>474,824</u>	<u>-</u>	<u>474,824</u>	<u>(474,824)</u>	<u>474,824</u>
Total deferred inflows of resources	<u>474,824</u>	<u>-</u>	<u>498,153</u>	<u>(474,824)</u>	<u>498,153</u>
<b>NET POSITION</b>					
Net investment in capital assets	1,855,863	-	-	25,832,346	27,688,209
Unrestricted	<u>52,095,864</u>	<u>-</u>	<u>-</u>	<u>(25,237,559)</u>	<u>26,858,305</u>
Total net position	<u>\$ 53,951,727</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 594,787</u>	<u>\$ 54,546,514</u>

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**CITY OF BUFFALO, NEW YORK**  
**Combining Schedule of Revenues, Expenses, and Changes in Net Position—**  
**Water System**  
**Year Ended June 30, 2016**

	<b>Water Board</b>	<b>Water Authority</b>	<b>Water Enterprise</b>	<b>Eliminations</b>	<b>Total Water System</b>
Operating revenues:					
Charges for services	\$ 42,519,208	\$ -	\$ -	\$ -	\$ 42,519,208
Other	559,138	-	-	-	559,138
Total operating revenues	<u>43,078,346</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,078,346</u>
Operating expenses:					
Services and supplies	9,531,363	82,630	5,971,291	-	15,585,284
Fringe benefits	-	-	5,742,177	-	5,742,177
Depreciation	5,300,617	-	-	-	5,300,617
Other	389,764	-	-	(33,826)	355,938
Total operating expenses	<u>15,221,744</u>	<u>82,630</u>	<u>11,713,468</u>	<u>(33,826)</u>	<u>26,984,016</u>
Operating income (loss)	<u>27,856,602</u>	<u>(82,630)</u>	<u>(11,713,468)</u>	<u>33,826</u>	<u>16,094,330</u>
Nonoperating revenues (expenses):					
Interest earnings	99,522	-	10,400	-	109,922
Interest expense	(5,265,406)	-	-	-	(5,265,406)
Other	222,552	-	-	-	222,552
Total nonoperating revenues (expenses)	<u>(4,943,332)</u>	<u>-</u>	<u>10,400</u>	<u>-</u>	<u>(4,932,932)</u>
Income (loss) before transfers	22,913,270	(82,630)	(11,703,068)	33,826	11,161,398
Transfers in	-	82,630	11,703,068	(11,785,698)	-
Transfers out	<u>(17,748,709)</u>	<u>-</u>	<u>-</u>	<u>11,785,698</u>	<u>(5,963,011)</u>
Change in net position	5,164,561	-	-	33,826	5,198,387
Total net position—beginning	48,787,166	-	-	560,961	49,348,127
Total net position—ending	<u>\$ 53,951,727</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 594,787</u>	<u>\$ 54,546,514</u>

**CITY OF BUFFALO, NEW YORK**  
**Combining Schedule of Cash Flows—**  
**Water System**  
**Year Ended June 30, 2016**

	<u>Board</u>	<u>Authority</u>	<u>Enterprise</u>	<u>Eliminations</u>	<u>System</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 43,375,053	\$ -	\$ -	\$ -	\$ 43,375,053
Payments to suppliers for goods and services	(9,118,070)	417,163	(5,973,719)	-	(14,674,626)
Payments to employees for services	-	-	(4,637,882)	-	(4,637,882)
Net cash provided by (used for) operating activities	<u>34,256,983</u>	<u>417,163</u>	<u>(10,611,601)</u>	<u>-</u>	<u>24,062,545</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers from other funds	-	82,630	11,703,068	-	11,785,698
Transfers to other funds	(17,748,709)	-	-	-	(17,748,709)
Advances from other funds	3,911,581	3,833,986	53,326	-	7,798,893
Advances to other funds	(7,798,890)	-	(742,891)	-	(8,541,781)
Net cash provided by (used for) noncapital financing activities	<u>(21,636,018)</u>	<u>3,916,616</u>	<u>11,013,503</u>	<u>-</u>	<u>(6,705,899)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Acquisition/construction of capital assets	(12,236,621)	-	-	-	(12,236,621)
Principal payments on bonds	-	(6,080,000)	(331,797)	-	(6,411,797)
Interest payments	(5,398,792)	77,783	(32,571)	-	(5,353,580)
Net cash used for capital and related financing activities	<u>(17,635,413)</u>	<u>(6,002,217)</u>	<u>(364,368)</u>	<u>-</u>	<u>(24,001,998)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest received on short-term investments	99,522	-	-	-	99,522
Net cash provided by investing activities	<u>99,522</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>99,522</u>
Net increase (decrease) in cash and cash equivalents	(4,914,926)	(1,668,438)	37,534	-	(6,545,830)
Cash and cash equivalents—beginning	45,432,033	27,662,409	143,381	-	73,237,823
Cash and cash equivalents—ending	<u>\$ 40,517,107</u>	<u>\$ 25,993,971</u>	<u>\$ 180,915</u>	<u>\$ -</u>	<u>\$ 66,691,993</u>

(continued)

**CITY OF BUFFALO, NEW YORK**  
**Combining Schedule of Cash Flows—**  
**Water System**  
**Year Ended June 30, 2016**

	<u>Water Board</u>	<u>Water Authority</u>	<u>Water Enterprise</u>	<u>Eliminations</u>	<u>Total Water System</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) by operating activities:</b>					
Operating income (loss)	\$ 27,856,602	\$ (82,630)	\$ (11,713,468)	\$ 33,826	\$ 16,094,330
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation expense	5,300,617	-	-	-	5,300,617
(Increase) decrease in receivables	652,645	599,143	(2,428)	-	1,249,360
(Increase) in deferred outflow—relating to pensions	(3,885,865)	-	(3,520,679)	3,885,865	(3,520,679)
Increase (decrease) decrease in payables	413,293	(99,350)	152,572	-	466,515
Increase in accrued liabilities	-	-	371,938	-	371,938
Increase in retirement systems	-	-	20,020	-	20,020
(Decrease) in compensated absences	-	-	(138,104)	-	(138,104)
(Decrease) in workers' compensation	-	-	(100,143)	-	(100,143)
Increase in accrued other post-employment benefits obligation	-	-	399,000	-	399,000
Increase in net pension liability	3,444,867	-	3,444,867	(3,444,867)	3,444,867
Increase in deferred inflow—relating to pensions	474,824	-	474,824	(474,824)	474,824
Total adjustments	<u>6,400,381</u>	<u>499,793</u>	<u>1,101,867</u>	<u>(33,826)</u>	<u>7,968,215</u>
Net cash provided by (used for) operating activities	<u>\$ 34,256,983</u>	<u>\$ 417,163</u>	<u>\$ (10,611,601)</u>	<u>\$ -</u>	<u>\$ 24,062,545</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**  
**Schedule of Changes in Assets and Liabilities**  
**Agency Fund**  
**Year Ended June 30, 2016**

	<b>Balance</b>			<b>Balance</b>
	<b>July 1, 2015</b>	<b>Increases</b>	<b>Decreases</b>	<b>June 30, 2016</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,533,868	\$ 12,964,424	\$ 12,567,825	\$ 1,930,467
Due from other funds	-	11,291,279	11,291,099	180
Receivables	804	-	-	804
Total assets	<u>\$ 1,534,672</u>	<u>\$ 24,255,703</u>	<u>\$ 23,858,924</u>	<u>\$ 1,931,451</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 110,575	\$ 22,527,529	\$ 22,455,215	\$ 182,889
Intergovernmental payables	23,182	38,706	38,713	23,175
Amounts held in custody for others:				
Surety bonds and deposits	22,751	-	-	22,751
Prisoner property	1,129,410	512,805	186,571	1,455,644
Fire insurance proceeds	228,569	50,000	50,000	228,569
Medical reimbursements	9,222	85,655	86,319	8,558
Miscellaneous - other	10,963	12,364,854	12,365,952	9,865
Total amounts held in custody for others	<u>1,400,915</u>	<u>13,013,314</u>	<u>12,688,842</u>	<u>1,725,387</u>
Total liabilities	<u>\$ 1,534,672</u>	<u>\$ 35,579,549</u>	<u>\$ 35,182,770</u>	<u>\$ 1,931,451</u>

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# FEDERAL AWARDS INFORMATION



**CITY OF BUFFALO, NEW YORK**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2016**

<u>Federal Grantor/Pass-through Grantor/Program Title (1a)</u>	<u>Federal CFDA Number (1b)</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed through to Subrecipients</u>	<u>Total Federal Expenditures (1c)</u>
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>				
<i>Direct program:</i>				
Local Food Promotion Program	10.172	N/A	\$ -	\$ 6,000
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<u>-</u>	<u>6,000</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>				
<i>Direct programs:</i>				
Community Development Block Grants/Entitlement Grants	14.218	N/A	8,880,848	14,552,553
Emergency Solutions Grant Program	14.231	N/A	665,633	869,846
HOME Investment Partnerships Program	14.239	N/A	6,054,192	6,054,192
Housing Opportunities for Persons with AIDS	14.241	N/A	445,415	450,568
<b>TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			<u>16,046,088</u>	<u>21,927,159</u>
<b>U.S. DEPARTMENT OF JUSTICE:</b>				
<i>Passed through New York State Division of Criminal Justice Services:</i>				
Juvenile Accountability Block Grants	16.523	T612203	-	53
Juvenile Accountability Block Grants	16.523	1012240	-	3,091
Total Juvenile Accountability Block Grants			<u>-</u>	<u>3,144</u>
<i>Direct programs:</i>				
Public Safety Partnership and Community Policing Grants	16.710	N/A	-	84,673
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	126,938	365,304
Byrne Criminal Justice Innovation Program	16.817	N/A	-	123,555
<b>TOTAL U.S. DEPARTMENT OF JUSTICE</b>			<u>126,938</u>	<u>576,676</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION:</b>				
<i>Passed through New York State Department of Transportation:</i>				
Highway Planning and Construction	20.205	See note 4	-	10,517,971
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	D033949	-	31,462
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	D033967	-	12,145
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	D034003	-	3,537,543
Total Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research			<u>-</u>	<u>3,581,150</u>
State and Community Highway Safety	20.600	HSG201400411	8,000	8,000
<b>TOTAL U.S. DEPARTMENT OF TRANSPORTATION</b>			<u>8,000</u>	<u>14,107,121</u>

(continued)

**CITY OF BUFFALO, NEW YORK**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2016**

(concluded)

<u>Federal Grantor/Pass-through Grantor/Program Title (1a)</u>	<u>Federal CFDA Number (1b)</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed through to Subrecipients</u>	<u>Total Federal Expenditures (1c)</u>
<b>NATIONAL ENDOWMENT FOR THE ARTS:</b>				
<i>Direct programs:</i>				
Promotion of the Arts - Grants to Organizations and Individuals	45.024	N/A	11,090	11,090
<b>TOTAL NATIONAL ENDOWMENT FOR THE ARTS</b>			<u>11,090</u>	<u>11,090</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY:</b>				
<i>Passed through Erie County:</i>				
Homeland Security Preparedness Technical Assistance Program	97.067	C173629	-	11,761
Homeland Security Preparedness Technical Assistance Program	97.067	C183629	-	12,366
<i>Passed through New York State Division of Homeland Security/Emergency Services:</i>				
Homeland Security Preparedness Technical Assistance Program	97.067	C152330	84,927	272,534
Homeland Security Preparedness Technical Assistance Program	97.067	C152340	28,378	45,607
Homeland Security Preparedness Technical Assistance Program	97.067	C191939	-	30,894
Homeland Security Preparedness Technical Assistance Program	97.067	C191949	-	77,701
Homeland Security Preparedness Technical Assistance Program	97.067	C198259	-	2,015
Homeland Security Preparedness Technical Assistance Program	97.067	C834215	-	921
Total Homeland Security Preparedness Technical Assistance Program			<u>113,305</u>	<u>453,799</u>
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4204DRNY	-	740,104
<b>TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY</b>			<u>113,305</u>	<u>1,193,903</u>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE (1d)</b>			<u>\$ 16,305,421</u>	<u>\$ 37,821,949</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, 2016**

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**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, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. The City has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**3. AMOUNTS PROVIDED TO SUBRECIPIENTS**

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

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

Detail of highway administration expenditures for the year ended June 30, 2016 with their corresponding pass-through grantor numbers are as follows:

	<b>Expenditures Year Ended June 30, 2016</b>	<b>CFDA No.</b>	<b>Pass-through Grantor Number</b>
West Ferry Street Bridge over Black Rock Canal	\$ 3,536,920	20.205	D017626
Bailey Avenue Bridge over Cazenovia Creek	395,381	20.205	D017846
North Buffalo-Rails to Trails	1,001,545	20.205	D022061
Kenmore Avenue Reconstruction - Starin to Main Street	2,120,624	20.205	D030039
Niagara Street Gateway	1,149,560	20.205	D030444
Restoration of Vehicle Traffic on Main Street - 600 Block	211,316	20.205	D032531
Ohio Street Reconstruction Project	1,060,744	20.205	D034228
Buffalo-Niagara Medical Campus - Phase 3	259,618	20.205	D034267
Niagara Street - Porter Avenue to Ontario Street	521,849	20.205	D034866
South Ogden Street Bridge Over Buffalo River	55,139	20.205	D034896
Safety Improvement Project - Parkside/Florence	53,977	20.205	D034899
Cars on Main - Lower Main	151,298	20.205	D035251
Total	<u>\$ 10,517,971</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, 2016, 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 1, 2016. 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 28, 2016.

**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 2016-001, 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 1, 2016

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Certified Public Accountants

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

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of Buffalo, New York's (the "City") compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2016. 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 \$97,517,907 and \$121,799,582, respectively, in federal awards which are not included in the City's Schedule of Expenditures of Federal Awards for the year ended June 30, 2016. Our compliance audit, described below, did not include the operations of the Board or the Agency. Our audit did not include the operations of the Board since other auditors were engagement to perform such audit in accordance with the Uniform Guidance. Our audit did not include the operations of the Agency since its compliance is reported separately in our report dated September 28, 2016 based on our audit of the operations of the Agency in accordance with the Uniform Guidance.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

### ***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

### **Report on Internal Control Over Compliance**

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

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

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

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



November 1, 2016

**CITY OF BUFFALO, NEW YORK**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

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

**Financial Statements:**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified\*  
 \*(which report includes a reference to other auditors)

Internal control over financial reporting:

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

**Federal Awards:**

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____ Yes	_____ <input checked="" type="checkbox"/> No
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The City's major programs were:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.231	Emergency Solutions Grant Program
14.239	Home Investments Partnerships Program
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research

Dollar threshold used to distinguish between Type A and Type B programs?	<u>\$ 1,134,478</u>
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Auditee qualified as low-risk auditee?	_____ <input checked="" type="checkbox"/> Yes	_____ No
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## **Section II. FINANCIAL STATEMENT FINDINGS SECTION**

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

### **Finding 2016-001—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, 2016, the General Fund has advanced \$16,753,875 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 six years, the Solid Waste and Recycling Fund has reported operating losses. Since 2011, the operating expenses, on average, have increased about 1.2% per year while operating revenues over the same period, on average, have decreased by 0.3% per year.

*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, 2016, the Solid Waste and Recycling Fund's operating loss was \$4,411,796.

*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*—After reducing current year operating expenses, 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.

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

No findings noted.

**CITY OF BUFFALO, NEW YORK**  
**Summary Schedule of Prior Audit Findings and Corrective Action Plan**  
**Year Ended June 30, 2016**  
**(Follow up on June 30, 2015 Findings)**

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**Finding 2015-001—Solid Waste and Recycling Fund Deficit**

See Finding 2016-001 within the Schedule of Findings and Questioned Costs for current status.