

CITY OF BATAVIA, NEW YORK
FINANCIAL STATEMENTS
MARCH 31, 2010

CITY OF BATAVIA, NEW YORK
TABLE OF CONTENTS

Page

SECTION A
FINANCIAL SECTION

Independent Auditor's Report	
Management Discussion and Analysis	1-24
Basic Financial Statements:	
Statement of Net Assets	A1
Statement of Activities	A2-A3
Balance Sheet - Governmental Funds	A4-A5
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	A6-A8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	A9
Statement of Net Assets - Enterprise Funds	A10-A11
Statement of Revenues, Expenses and Changes in Net Assets - Enterprise Funds	A12
Statement of Cash Flows - Enterprise Funds	A13-A14
Statement of Net Assets - Fiduciary Funds	A15
Statement of Changes in Net Assets - Fiduciary Fund	A16
Notes to Basic Financial Statements	A17-A44
Schedule of Funding Progress for Retiree Health Plan	A45
Budgetary Comparison Schedule for the General Fund	A46-A47

CITY OF BATAVIA, NEW YORK

Table of Contents
(Continued)

Page

SECTION B
SUPPLEMENTAL SCHEDULES

Combining Balance Sheet – Non-Major Governmental Funds	B1
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Governmental Funds	B2-B3

SECTION C
FEDERAL FINANCIAL ASSISTANCE

Schedule of Expenditures of Federal Awards	C1
Notes to Schedule of Expenditures of Federal Awards	C2

SECTION D
COMPLIANCE AND INTERNAL CONTROL

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	D1-D2
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	D3-D4
Schedule of Findings and Questioned Costs	D5-D6
Summary Schedule of Prior Year Findings and Questioned Costs	D7

CITY OF BATAVIA, NEW YORK

Table of Contents
(Continued)

Page

SECTION E
NYSDOT STATE SINGLE AUDIT PROGRAM

Independent Auditor's Report on Compliance and Internal Control Over State Transportation Assistance Expended Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	E1-E2
Schedule of State Transportation Assistance Expended	E3
Notes to Schedule of State Transportation Assistance Expended	E4
Schedule of Findings And Questioned Costs For State Transportation Assistance Expended	E5

SECTION A
FINANCIAL SECTION



Independent Auditor's Report

The President and Members of the Council of the City of Batavia
Batavia, New York

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Batavia, New York (the City) as of and for the year ended March 31, 2010, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of March 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 26, 2010, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, schedule of funding progress for retiree health plan and budgetary comparison schedules on pages 1 through 24, A45, and A46 through A47 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual non-major fund financial statements and other schedules, listed in the table of contents as supplemental schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and the accompanying schedule of state transportation assistance expended is presented for purposes of additional analysis as required by Draft Part 43 of NYCRR and both are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Freed Maxick & Battaglia, CPAs, PC

Batavia, New York
July 26, 2010



Management Discussion and Analysis
City of Batavia, New York
Fiscal Year ended March 31, 2010

This section of City of Batavia, New York's (the City) annual financial report presents its discussion and analysis of the City's financial performance during the fiscal year ended March 31, 2010. Please read it in conjunction with the City's financial statements, which immediately follow this section.

Preliminary Summary

In the fiscal year ending March 31, 2010, the City has continued to move forward cautiously yet effectively in a positive direction towards a more healthy and stable financial condition. This is the second year in a row the City has a positive undesignated fund balance; however, short and long-term challenges such as, police retroactive pay, skyrocketing retirement costs, open workers compensation claims, stagnant sales tax revenues and state mandates such as the property tax cap, if enacted, will be problematic.

In reviewing the attached financial statements, it is important to understand the critical points of achievement over the past year that have assisted the City with improving its financial stability. These points include:

- The City has maintained a general fund balance surplus
- The City has eliminated old inter-fund loan balances
- The City dissolved the ambulance fund
- The general, water, and sewer funds have had a year of healthy operations

These efforts along with continual expense monitoring and revenue improvements have assisted in regaining long term fiscal solvency, while building fund balance and investing in capital equipment, city facilities, and infrastructure.

Financial Highlights

- As shown on page A8, there was a general fund surplus before transfers in the amount of \$1,347,666 at March 31, 2010. This was largely a result of the City's continued efforts to exercise conservative budget methods including budgeting \$250,000 specifically for deficit elimination, the use of one-time revenues to build fund balance, consistent monitoring of expenses and cash flows, and future planning related to fiscal management.
- City Council voted to discontinue ambulance operations effective August 31, 2009. In the year ending March 31, 2009, the City established a designation in the general fund in the amount of \$1,100,000 to absorb liabilities associated with closing the ambulance fund. The actual liability amounted to approximately \$731,998.

- The City created and funded a Health Insurance Reserve and an Employee Benefit Accrued Liability Reserve to better prepare for future expenses related to unanticipated health insurance claims and employee benefit payouts upon termination/retirement from employment. These reserves were funded with the remaining designation from the ambulance fund close out.
- Walnut Street Reconstruction and Ellicott Streetscape projects, continued this year and construction was completed by the end of the fiscal year. BAN's were issued in June and August of 2009 in the amount of \$2,000,000 and \$547,445 at interest rates of 1.8% and 1.72%, respectively, to finance the continuation of these projects.
- On March 31, 2010 the capital fund project cleanup process was completed in that the last of the projects were closed out and the Water Filtration Reserve has been moved from the capital fund to the water fund. The amounts are recorded as Due to Other Funds in these financial statements but were repaid soon after the fiscal year ended.
- New York State AIM (Aid and Incentives for Municipalities) decreased by 2%, or \$38,033, in the year ending March 31, 2010. Funding was also cut for the City of Batavia Youth Bureau by 12% in 2010 following a 16% cut in 2009. The Youth Bureau's funding level dropped from \$40,209 in 2008 to \$29,660 in 2010. The State also enacted a 2% or \$528 reduction in Assessment Parcel Reimbursement for 2010, and another 12.5% or \$3,298 reduction in 2011. In the upcoming fiscal year 2011/12 AIM will decrease an additional 3.1% or \$57,050. In total, the reduction in State aid from 2009 to 2011 will equal approximately \$109,458.
- The City Council adopted a Water & Sewer Capital Infrastructure Plan that prioritized infrastructure improvements and recommended water/sewer rates over the next five years. The plan is intended to fund approximately \$4.7 million of water and sewer improvements over the next five years while maintaining annual rate increases below 4%.
- All old inter-fund loans, which totaled as much as \$5.9 million in fiscal year ending March 31, 2007, have been completely repaid or absorbed by the general fund by the year ending March 31, 2010. Any new inter-fund loans are being repaid within a few months of initiation.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements.

- The governmental funds statements tell how basic services such as public safety and transportation were financed in the short term as well as what remains for future spending.
- Fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the City's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1

Organization of City of Batavia, New York's Annual Financial Report

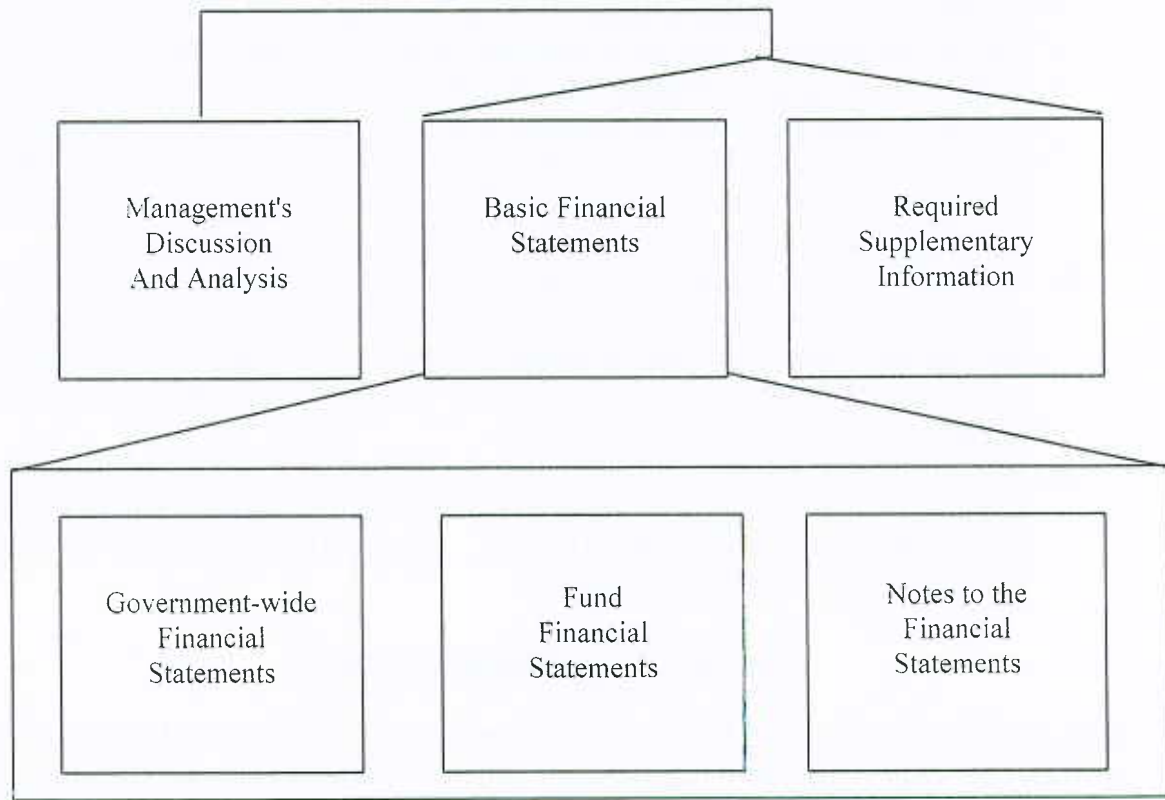


Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Financial Statements	
	Government-wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire government (except Fiduciary funds)	The activities of the City that are not proprietary or fiduciary, such as public safety and transportation	The activities of the City in which the City charges for services
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement Revenues, Expenses and changes in Net Assets • Statement of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; generally no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term
Type of inflow/outflow information	All revenues and expenditures during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenditures during year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The government-wide financial statements present the financial position of the City from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business type activities separately. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt).

The two government-wide statements report the City's net assets and how they have changed. Net assets - the difference between the City's assets and liabilities - is one way to measure the City's financial health or financial position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the City's overall health, one needs to consider additional non-financial factors such as changes in the City's property tax base and the condition of the City's infrastructure and other facilities.

In the Statement of Net Assets and the Statement of Activities and Changes in Net Assets, the City's activities are separated as follows:

Governmental activities - Most of the City's basic services are reported in this category, including the general government, police, fire, public safety, health, transportation, economic assistance, culture and recreation, home and community services, and refuse and recycling. Property and sales taxes, user fees, interest income, franchise fees, and state and federal grants finance these activities.

Business-type activities - The City charges a fee to customers to cover all or most of the cost of certain services it provides. The City's water, sewer and ambulance activities are reported in this category.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's funds, focusing on its most significant or "major" funds - not the City as a whole. Some funds are required to be established by State law. However, the City Council establishes other funds to control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants or other money.

The City has three kinds of funds:

- **Governmental Funds:** Most of the City's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.

- **Proprietary Funds:** These funds are generally used to account for services for which the City charges customers (both external and internal). These funds use accrual accounting, which is the same method used by the private sector. The City of Batavia has three enterprise funds. The City's enterprise funds are the water, sewer and ambulance funds. Enterprise funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The enterprise fund financial statements provide separate information for each of the enterprise funds, all of which are considered to be major funds of the City.
- **Fiduciary Funds:** The City is the trustee, or fiduciary, for assets that belong to others, such as deposits. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The City excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the City as a Whole

Over the past year efforts have turned towards proactive planning versus reactionary responses to budgetary challenges. Through multi-year financial planning efforts, the City is committing to and preparing for long-term financial stability. These plans include:

- **The Annual budget.** Over the past several years the City has reduced staffing levels while continuing to provide core services to the community. In reflecting on the City's multi-year financial plan, the City strives to maintain a responsible tax rate. However, if retroactive payments for salary and wages due to police union arbitration are significant, the City could experience devastating tax increases. The City continues to closely monitor expenses and conservatively budget revenue. In addition, the City will continue to eliminate/prevent fund deficits, increase fund reserves and continue repaying inter-fund loans between funds.
- **Continuing to improve cash flow and stop borrowing for operations.** Over the past three years the City has borrowed \$2 million, \$2.5 million and \$1.5 million in annual revenue anticipation notes (RAN) in order to cover current operations. Over the past several years the City has also limited expenses and increased revenues to better the City's cash position. The fiscal year 2009/10 budget provided \$250,000 for deficit elimination and the discontinuance of RAN borrowings to support operations. In addition, the City used one-time revenues such as Video Lottery Terminal aid (VLT) and property sales to further reduce the deficit. The City remains cautiously optimistic as major revenues sources, such as sales tax and State aid, have decreased significantly. In the meantime, improving cash flow will continue to be essential to the City in order to create a strong and healthy cash position.

- Repay inter-fund loans. Prior to last year, the City had borrowed from the general fund for water, sewer and ambulance expenses and from the water and general fund for sewer expenses. The general fund and sewer fund had also borrowed from the capital fund. The fiscal year 2008/09 was the first year the City actively budgeted and pursued repaying inter-fund loans. These internal borrowings (also known as “due to’s” and “due from’s”) were completely eliminated in the year ending March 31, 2010. Repaying these inter-fund loans was a major objective that helped re-establish a sound cash position in each fund.
- Invest in and maintain City vehicles, equipment, infrastructure and facilities and establish a sound replacement program. For the first time in over five years, the City budgeted for the replacement of vehicles and equipment. Our fleet is in poor shape and infrastructure and facilities, including the police station, have been neglected and need to be maintained with the necessary improvements. As mentioned above a Water & Sewer Capital Infrastructure Plan was developed and adopted by City Council to better plan and budget for future water and sewer infrastructure expenses. Continued planning and investment is needed for long-term stable operations, otherwise one-time equipment purchases and emergency facility repair and infrastructure replacement will force the City to increase tax rates and debt service levels.
- Consolidation and Shared Services. The City of Batavia and the Town of Batavia embarked on a history-setting initiative by studying and preparing a consolidation plan to merge the two entities into one. Initiated by the desire to stabilize tax burden on residents, spark economic development, eliminate duplication of services and improve levels of services, both elected bodies applied for and received a Shared Municipal Services Incentive Grant to conduct a consolidation plan. In July 2009 a report was issued supporting a consolidation of the Town and City, to form one City of Batavia. The City and Town are currently awaiting receipt of another grant to help finance the development of a new City Charter. If this consolidation is successful, future planning and operations of the current administration will take on a whole new level of initiatives.

In addition to the poor economic climate in Western New York, the recent adoption of the NYS Budget will cause several negative impacts and challenges for the City in future budgets. The City continues to closely monitor these affects in order to be proactive in making the necessary changes to counter act any negative impact to the City’s bottom line. Some of these impacts include:

- The City’s sales tax revenue, which traditional accounts for approximately 30%-33% of the City’s general fund revenue, has decreased each quarter in the fiscal year ending March 31, 2010 when compared to prior years. Sales tax revenue for the year ending March 31, 2010 decreased 9.1% or \$449,609 compared to the prior year. This decrease has brought sales tax revenues down to 2006/07 levels and it is anticipated that it will remain stagnant in the future.

- New York State adopted a mid-year cut in AIM (Aid and Incentives for Municipalities) for some communities across the state. The impact of this cut on the City of Batavia amounted to a 2% decrease, or \$38,033, in 2009/10 AIM funding. The State has since passed additional decreases in AIM funding, decreasing the City of Batavia aid by another 3.1%, or \$57,050 for the 2010/11 State budget. Accompanied with prior decreases in Assessment Parcel Reimbursement and Youth Bureau aid, the City will have experienced a decrease of approximately \$109,458 in State aid over a two year period.
- With the adoption of the State budget, the Senate has passed a property tax cap proposed by Governor Paterson which would limit annual increases in property taxes for local governments and school districts to 4% or 120% of the CPI, whichever is lower. The Assembly continues to oppose the proposal. Unless the tax cap is accompanied by significant mandate relief (e.g. retirement costs, health insurance and the collective bargaining process) which are the true cause of high property taxes, the City may be faced with significant service level decreases.

Capital Projects

The Walnut Street Reconstruction project was completed and the project will be closed out in the City's next fiscal year along with the Ellicott Streetscape project. The City's next large capital projects are getting underway as our fiscal year came to a close, namely the Bank Street Water and Sewer Infrastructure Improvement project and the Cedar Street Reconstruction project which is in the beginning stages of the design phase.

Exhibit 3

Condensed Statement of Net Assets
(in thousands of dollars)

	Governmental Activities		Total Percentage Change	Business-Type Activities		Total Percentage Change
	2010	2009		2010	2009	
Current and other assets	\$ 11,042	\$ 13,718	-19.51%	\$ 7,134	\$ 4,072	75.20%
Capital assets, net	17,814	13,676	30.26%	29,429	30,750	-4.30%
Total assets	<u>\$ 28,856</u>	<u>\$ 27,394</u>	<u>5.34%</u>	<u>\$ 36,563</u>	<u>\$ 34,822</u>	<u>5.00%</u>
Long-term liabilities	\$ 13,047	\$ 12,867	1.40%	\$ 3,298	\$ 3,500	-5.77%
Other liabilities	6,290	8,054	-21.90%	484	817	-40.76%
Total liabilities	19,337	20,921	-7.57%	3,782	4,317	-12.39%
Invested in capital assets net of related debt	9,479	4,179	126.82%	27,871	28,059	-0.67%
Restricted for:						
Capital projects	520	381	36.48%	3,329	1,182	181.64%
Insurance	677	613	10.44%	-	-	0.00%
Employee benefit accrued liability	268	-	100.00%	-	-	0.00%
Unrestricted	(1,425)	1,300	209.62%	1,581	1,264	-25.08%
Total net assets	<u>9,519</u>	<u>6,473</u>	<u>47.06%</u>	<u>32,781</u>	<u>30,505</u>	<u>7.46%</u>
Total liabilities and and net assets	<u>\$ 28,856</u>	<u>\$ 27,394</u>	<u>5.34%</u>	<u>\$ 36,563</u>	<u>\$ 34,822</u>	<u>5.00%</u>

Governmental Activities

Governmental activities increased the City's net assets by \$3,045,970, accounting for 57.2% of the total growth in the net assets. Key elements of this increase are as follows:

- The main element of this increase is Construction in Progress, namely the Walnut Street Reconstruction project, which increased our capital assets by \$4.6 million.
- The City did not issue another Revenue Anticipation Note (RAN) in the fiscal year ending March 31, 2010. In the prior year the City had borrowed a \$1.5 million RAN.

Business-Type Activities

Business-type activities increased the City's net assets by \$2,275,629 accounting for 42.8% of the total growth of the City's net assets. Key elements of this increase are as follows:

- The increase in the City's net assets is related to the Water Filtration Reserve, in the amount of \$2.1 million, that was owed to the water fund from the capital fund and recorded as a receivable at year end. The receivable was paid in full soon after the close of the fiscal year.

Exhibit 4

Changes in Net Assets from Operating Results
(in thousands of dollars)

	Governmental Activities		Total Percentage Change	Business-Type Activities		Total Percentage Change
	2010	2009		2010	2009	
Program Revenues:						
Charges for services	\$ 717	\$ 615	16.59%	\$ 5,687	\$ 7,353	-22.66%
Operating grants and contributions	802	485	65.36%	2,175	2,574	-15.50%
Capital grants and contributions	4,686	1,540	204.29%	-	-	0.00%
General Revenues:						
Property taxes, special assessments and property tax items	5,300	5,059	4.76%	-	-	0.00%
Non-property taxes	5,891	6,400	-7.95%	-	-	0.00%
Interest earnings	83	112	-25.89%	16	77	-79.22%
State and federal sources	1,902	1,737	9.50%	-	-	0.00%
Miscellaneous	452	1,172	-61.43%	-	-	0.00%
Total revenues	19,833	17,120	15.85%	7,878	10,004	-21.25%
Program Expenses:						
General government	2,087	2,225	-6.20%	-	-	0.00%
Police	3,675	3,425	7.30%	-	-	0.00%
Fire	3,611	3,464	4.24%	-	-	0.00%
Public safety	441	622	-29.10%	-	-	0.00%
Health	32	24	33.33%	-	-	0.00%
Transportation	1,965	1,924	2.13%	-	-	0.00%
Economic assistance	275	228	20.61%	-	-	0.00%
Culture and recreation	1,041	999	4.20%	-	-	0.00%
Home and community service	249	352	-29.26%	7,617	8,568	-11.10%
Refuse and recycling	990	980	1.02%	-	-	0.00%
Interest on debt	406	452	-10.18%	-	-	0.00%
Total expenses	14,772	14,695	0.52%	7,617	8,568	-11.10%
Increase in net assets before transfers	5,061	2,425	108.70%	261	1,436	-81.82%
Transfers	(2,015)	(360)	-459.72%	2,015	360	459.72%
Increase in net assets	3,046	2,065	47.51%	2,276	1,796	26.73%
Net assets beginning of year	6,473	4,336	49.29%	30,505	28,781	5.99%
Prior period adjustment	-	72	100.00%	-	(72)	-100.00%
Net assets-beginning of year, as restated	6,473	4,408	46.85%	30,505	28,709	6.26%
Net assets-end of year	\$ 9,519	\$ 6,473	47.06%	\$ 32,781	\$ 30,505	7.46%

Exhibit 5

***Revenues for Governmental Activities
Fiscal Year 2010***

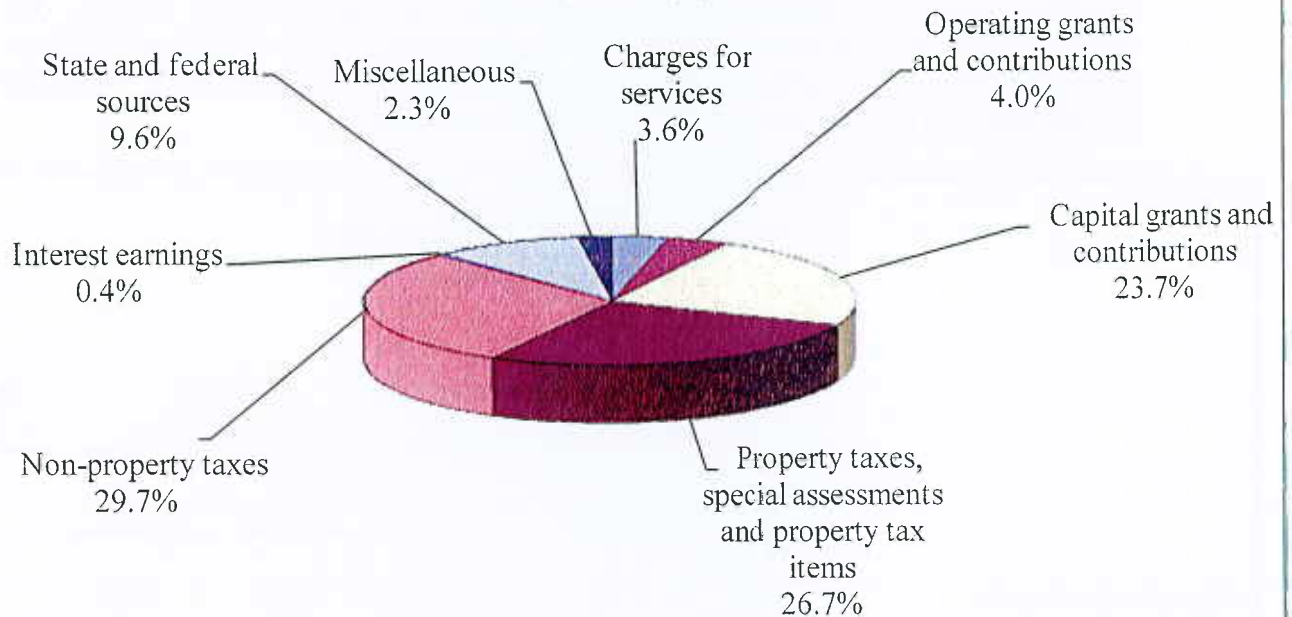
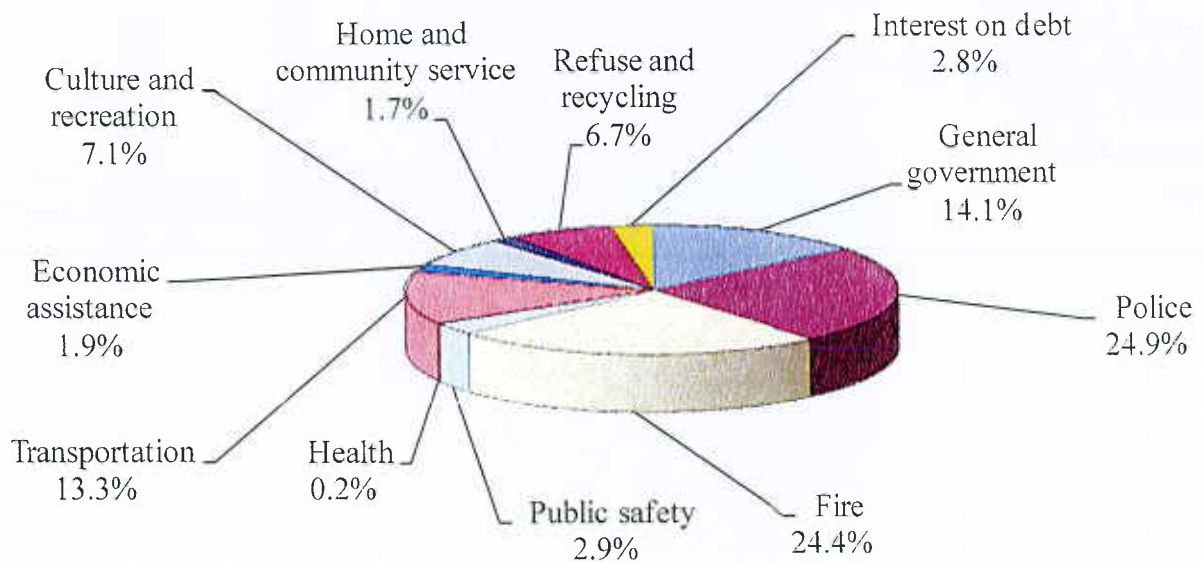


Exhibit 6

***Expenses for Governmental Activities
Fiscal Year 2010***



Governmental Activities

The following table presents the cost of eleven major City activities: general government, police, fire, public safety, health, transportation, economic assistance, culture and recreation, home and community service, refuse and recycling and interest on debt. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the City's taxpayers by each of these functions.

Exhibit 7

Net Cost of Governmental Activities (in thousands of dollars)

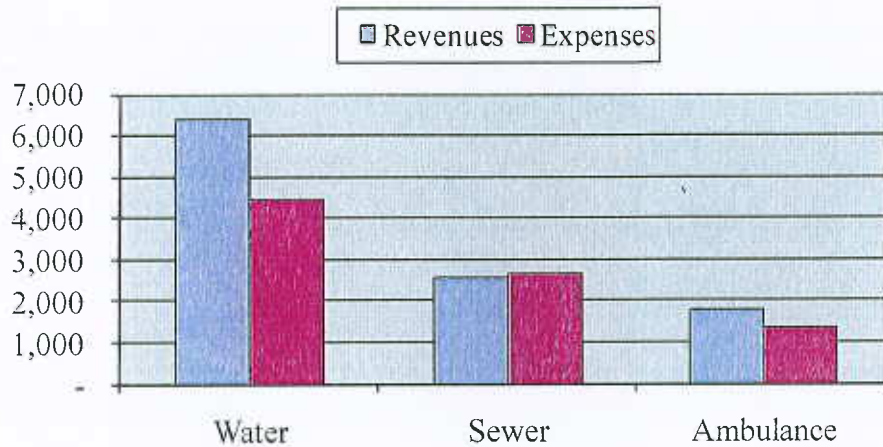
	Total Cost of Services		Total Percentage Change	Net Cost of Services		Total Percentage Change
	2010	2009		2010	2009	
General government	\$ 2,087	\$ 2,225	-6.20%	\$ 1,951	\$ 2,113	-7.67%
Police	3,675	3,425	7.30%	3,113	3,196	-2.60%
Fire	3,611	3,464	4.24%	3,611	3,464	4.24%
Public safety	441	622	-29.10%	329	564	-41.67%
Health	32	24	33.33%	(9)	(17)	47.06%
Transportation	1,965	1,924	2.13%	(2,995)	23	-13121.74%
Economic assistance	275	228	20.61%	121	55	120.00%
Culture & recreation	1,041	999	4.20%	949	927	2.37%
Home & community service	249	352	-29.26%	101	298	-66.11%
Refuse & recycling	990	980	1.02%	990	980	1.02%
Interest on debt	406	452	-10.18%	406	452	-10.18%
Total	<u>\$ 14,772</u>	<u>\$ 14,695</u>	<u>0.52%</u>	<u>\$ 8,567</u>	<u>\$ 12,055</u>	<u>-28.93%</u>

Business-Type Activities

2010

Exhibit 8

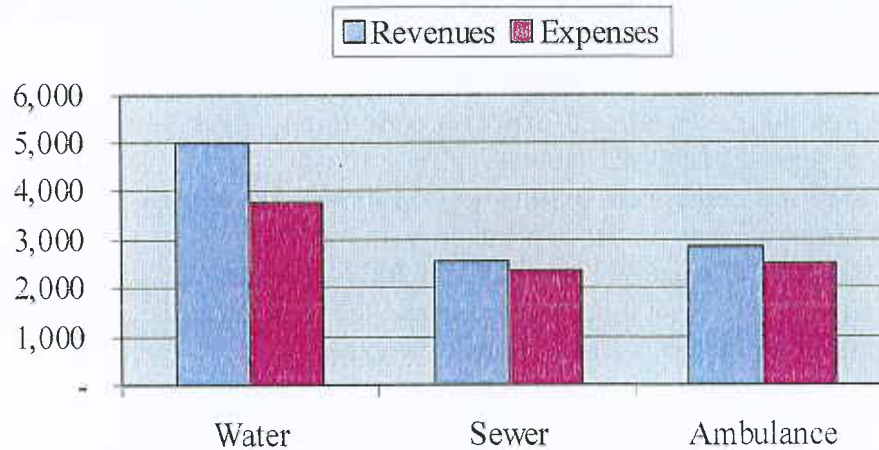
Business-type Activities - Revenues and Expenses (in thousands of dollars)



2009

Exhibit 8

Business-type Activities - Revenues and Expenses (in thousands of dollars)



Financial Analysis of the City's Funds

The fiscal year ending March 31, 2010 concluded with an undesignated fund balance of \$206,216 exclusive of reserves for encumbrances, insurance, employee benefits accrued liability and capital reserves. This is the second year in a row since 2005 the City has maintained a positive fund balance.

The General Fund

The general fund's cash position improved compared to last year. This is primarily due to the repayment of inter-fund loans. As a result, the City has been able to eliminate all prior inter-fund loans, slowly rebuild fund balance, and designate additional funding for reserves in the next fiscal year.

Revenues for the general fund increased compared to last year by \$556,661. This improvement, is largely the result of one-time revenues which are sporadic and non-reoccurring in future years. Some changes in revenues include:

- Budgeted property taxes increased \$166,861 or 2.59% over the prior year.
- Federal and State sources of revenue increased \$427,800 over the prior year. This included:
 - VLT Aid \$314,849
 - Dispatch consolidation grant \$255,393
 - Public safety grants \$65,409
 - Planning study grant \$61,800
 - Code Enforcement grant \$20,000
 - Federal grant for the police department \$16,286

Expenses for the general fund increased \$919,717 compared to the prior year. Areas that experienced increases included:

- Increased police department expenses were due to an arbitration award in June 2009 of approximately \$236,000.
- Increased fire department expenses by \$180,542 due to the transfer of personnel from the ambulance service settlement.
- The purchase of a Snow Plow/Tandom Axle Truck for approximately \$186,000. The City used \$130,000 from reserves and the remaining \$56,000 was funded via the operations budget. This is a one-time expenditure.

Water Fund

The water fund, including depreciation, has a current year change in net assets of \$1,916,245, compared to last year's change of \$1,236,142. From a cash standpoint the water fund's net cash position increased \$655,649 over 2009. A majority of this increase is related to non-operating revenues from the transfer of a Water Filtration Reserve that had previously been accounted for in the capital fund in the amount of \$2,035,679. A majority of the Due to other Funds on the water fund's balance sheet are funds owed to the capital fund for the expenses involved in the water portion of the Walnut Street Reconstruction Project. In addition, the water fund benefited from only transferring \$200,000 to the general fund from the water fund out of the \$420,000 budgeted. The full transfer was not necessary due to one-time revenues received in the general fund. With the development of the Water & Sewer Capital Infrastructure Plan, the transfer to the general fund is expected to decrease by \$50,000 a year in order to fund water infrastructure and facility projects.

Sewer Fund

The sewer fund, including depreciation, has a current year change in net assets of (\$85,312), compared to last year's surplus of \$194,544. From a cash standpoint the sewer fund's net cash position increased by \$205,453. The negative change in net assets is mainly attributed to depreciation expense that increased \$309,497 over the prior year. The more significant change in this year's financial position for the sewer fund is the elimination of the remaining inter-fund loan of \$670,341. This is a major accomplishment considering in March 31, 2007 the sewer fund debt to other funds exceeded \$1,800,000.

Ambulance Fund

On January 26, 2009, City Council voted to discontinue the ambulance service effective August 31, 2009. In preparation for the financial dissolution of the ambulance fund, the City established a designation of \$1.1 million in the fiscal year ending March 31, 2009, to absorb the inter-fund loans the ambulance fund owed to the general fund along with any remaining ambulance fund liabilities. The result of all closing adjustments left a balance of \$368,002, which was then re-designated by City Council to fund two new reserve accounts: Employee Benefits Accrued Liability and Health Insurance.

Any future payments received from old ambulance receivables will be recorded as revenue in the general fund.

Workers Comp. Fund

This year's workers compensation fund ended with a deficit of \$84,069, which was primarily due to the unexpected payout of two open worker compensation claims, as well as premium payments to New York State Insurance Fund as the City shifted from a self insured plan to a fully insured plan as of February 2009. Over the next fiscal year the City will closely monitor the workers comp fund for any future unexpected payments. As stated in the financial statements, there is approximately \$285,000 of recorded liabilities from open claims. Should prior open claim expenses continue, the City will have to consider increasing budget appropriations and reserve contributions to cover these liabilities.

Capital Fund

The corrective plan identified by the City in the year ending March 31, 2008, was completed this year and the Water Plant Filtration reserve cash was transferred to the water fund. All new capital projects have and will be entered into the City's accounting system, KVS, using best practices advised by both the City's auditors and NYS Office of State Comptroller. Both the Walnut Street Reconstruction project and the Ellicott Streetscape project are expected to be closed by March 31, 2011.

Exhibit 9

***Revenues, Expenditures/Expenses and Changes in Fund
Balance/Net Assets - Governmental Funds and Business-Type Activities***
(in thousands of dollars)

2010			
	<u>Revenues</u>	<u>Expenditures/ Expenses</u>	<u>Fund Balance/ Net Assets</u>
General Fund	\$ 15,336	\$ 14,860	\$ 2,797
Capital Projects Fund	5,343	6,654	73
Water Fund	6,388	4,471	7,528
Sewer Fund	2,566	2,651	25,253
Ambulance Fund	1,782	1,337	-
2009			
	<u>Revenues</u>	<u>Expenditures/ Expenses</u>	<u>Fund Balance/ Net Assets</u>
General Fund	\$ 14,779	\$ 13,075	\$ 2,321
Capital Projects Fund	1,989	2,672	1,384
Water Fund	5,009	3,773	5,611
Sewer Fund	2,578	2,386	25,338
Ambulance Fund	2,861	2,494	(445)

Figure A-9 Revenues and Expenditures include other financing sources or uses.

General Fund Budgetary Highlights

Amendments to the budget occur throughout the year for a variety of reasons. These include reserves for encumbrances from prior year unexpended purchase orders which are added to the current year budget at the close of the prior year, grants or other forms of financial aid which were received during the year but not anticipated in the original budget, appropriations of fund balances needed to offset unanticipated and unavoidable expenditures, and transfers of appropriations among object classes within department budgets to address particular requirements not anticipated in the original budget. The City Council approves and authorizes the annual budget at the level of object class totals within each department. The City Manager has the authority to transfer appropriations among line items within a fund. All transfers between funds must be approved by City Council. The reserve for encumbrances on prior year purchase orders are added to the budget as part of the annual financial closing process. All other budget amendments must be authorized by formal resolution of the City Council.

Significant amendments to the City's original general fund adopted budget include the following:

- \$250,000 Dispatch consolidation grant
- \$150,000 Member item grant for County jail alterations
- \$72,000 Town and City consolidation grant

The City received various other minor grant funding which also is reflected in the modified budgeted amounts.

As mentioned, the City continues to take a conservative approach when preparing the City's budget. One-time revenues that the City does not receive consistently are not included in future budgets. The City is making a concerted effort to fund reserves more aggressively, and the City has continued to budget \$250,000 solely towards eliminating the deficit fund balance. These methods have helped move the City towards a healthier financial position. Increases in revenues, other than grants, due to one-time revenues include:

- \$143,000 - Increase in Interest & penalties on taxes
- \$ 70,000 - Increase in Building permits
- \$ 40,000 - Increase in Sales of real property
- \$315,000 - Video lottery terminal aid

Variances between budget amounts and actual results are reviewed, researched and distributed to City Council on a monthly basis so there is consistent evaluation and understanding of the City's finances.

While some one-time revenues have assisted with financial recovery, larger reoccurring revenues have declined. These include:

- Sales tax revenue, which decreased 9.1% or \$449,609 and was under budget by approximately \$83,000. Sales tax revenue levels are currently as low as they were in 2006/07 and are expected to remain stagnant in the future;
- Gross utility receipts tax decreased 14.7% or \$39,584 and was under budget by \$56,000. This revenue has decreased steadily over the last two years, decreasing 11% in 2007/08 and 15% in 2008/09. The City has reacted by decreasing the budget in the next fiscal year by 23%;
- Mortgage tax decreased 31.7% or \$51,981 and was under budget by \$28,094; and
- Interest and earnings revenue fell well below budget by approximately \$51,000 or 85% due to the extraordinary drop in interest rates and banking institutions' inability to provide interest on short term CDs. The City reacted to the continued anticipation of low interest rates by decreasing the budget in the next fiscal year by approximately 80%.

Combined AIM, sales tax, gross utility receipts tax and mortgage tax traditionally accounts for 50% of the City's revenue. In the fiscal year ending March 31, 2010, these revenues combined decreased by 5.56% from actual revenues received from the prior year. This equates to a \$428,116 decrease in revenue. As mentioned above, due to the recent NYS budget cuts, the City will experience an additional \$58,000 decrease in AIM over the next year.

While the City has experienced a few unexpected one-time revenues, which have fortunately assisted in absorbing major revenue decreases, these one-time revenues are short lived and will not continue in future years. Furthermore, depending on the significance of revenue declines and increases in expenditures, such as police back pay and retirement costs, the City may have to consider alternative revenue sources such as user fee and possibly service level reductions and/or property tax increases in the future.

Capital Asset and Debt Administration

Capital Assets

In the year ending March 31, 2010, the City increased equipment reserves by \$165,000. The City continued to make an effort to plan and fund for future equipment, infrastructure purchases and improvements, rather than defer funding for these needed improvements. In addition to funding reserves, the City used \$130,000 of the Bureau of Maintenance equipment reserve to purchase a Snow Plow/Tandem Axle truck, thereby utilizing the strategy and planning of reserve funding versus property tax increases for these types of purchases.

A Bond Anticipation Note (BAN) was issued in June, 2009 for \$2,000,000 to provide the cash necessary to conduct the Walnut Street Reconstruction project. The interest rate was 1.8%. Another BAN was issued in August, 2009 for \$547,445, at an interest rate of 1.72%. This BAN is a rollover of a previous BAN for \$998,445 which provided the cash necessary to purchase an ice resurfacer, install a new roof on the DPW building and conduct the Ellicott Streetscape project. These projects are reflected in the construction work in progress amount in Exhibit 10.

Exhibit 10

Capital Assets Net of Depreciation

(in thousands of dollars)

	Governmental Activities		Business -Type Activities	
	2010	2009	2010	2009
Land	\$ 1,070	\$ 1,098	\$ 42	\$ 42
Construction work in progress	6,627	1,969	608	453
Buildings	7,711	7,954	21,481	22,524
Machinery & equipment	1,677	1,788	418	561
Infrastructure	729	867	6,880	7,170
Total	<u>\$ 17,814</u>	<u>\$ 13,676</u>	<u>\$ 29,429</u>	<u>\$ 30,750</u>

Long-Term Obligations

At the year ending March 31, 2010, the City's constitutional debt limit was \$34,651,359. Outstanding bonds totaled \$9,199,227. Of this total, \$7,070,019 is debt chargeable against the debt limit.

The City received a bond rating of "A2" from Moody's Investors Service in May 2010. At that time Moody's recalibrated the scale for municipalities to bring their ratings in line and more comparable to private organizations. Previously the City's bond rating was "Baa2".

Exhibit 11

Outstanding Long-Term Obligations (in thousands of dollars)

	Governmental Activities		Business-Type Activities	
	2010	2009	2010	2009
General obligation debt backed by the City	\$ 5,920	\$ 7,059	\$ 2,225	\$ 2,410
Installment purchase debt	788	834	266	281
Other debt	1,150	1,241	-	-
Compensated absences	3,345	3,327	572	590
Other post employment benefits	1,844	1,240	235	219
Total	<u>\$ 13,047</u>	<u>\$ 13,701</u>	<u>\$ 3,298</u>	<u>\$ 3,500</u>

Factors Bearing on the City's Future

Following is a description of both short and long-term factors the City will be forced to deal with in the future:

Short-Term Factors

- Police Back Pay – The City's Police union contract is three and a half years in arrears. The impact of future negotiations and/or arbitrations could be devastating to the City's recent financial achievements and future success, not to mention future property tax levels. Currently police back pay could exceed \$600,000 bringing the City back into a deficit fund balance and a cash strained position, in addition to increasing future taxes by more than \$300,000. Strong but fair negotiations will have to take place to ensure that benefit packages in the future are reasonable for City employees and affordable for City taxpayers.

- AFSCME negotiations – AFSME union contract negotiations are currently ongoing. As mentioned previously, the City will have to maintain a strong position to insure benefits are reasonable and affordable for City taxpayers.
- Retirement reserve – The City's State retirement expenses will increase significantly over the past year. Actual retirement expenses in the year ending March 31, 2010 was \$777,629. Estimates received for retirement payments due in December 2010 show a payment due of \$1,240,324, an increase of 61%, or \$472,779. If this estimate holds true, the City will have a shortfall in the City budget of approximately \$10,000 for the year ending March 31, 2011. The New York State Comptroller expects retirement expenses to continue to increase by another 30-40% in upcoming years. Creating and funding a retirement reserve will be critical in order to absorb future spikes in retirement costs. This will be discussed at length with the City Council in the near future.
- Sales Tax revenue – Year ending March 31, 2010 had a 9.1%, or \$449,609 decrease in sales tax revenues over prior years. As a result the City was \$82,000 under budget for sales tax revenue. Because sales tax makes up approximately one-third of the City's general fund revenue, any slight change in receipts may have a drastic effect on the City's budget. Currently a 1% decrease in sales tax receipts equals a 1% increase in property taxes. The City needs to continue to remain conservative when budgeting sales tax in the future.
- Reserve funding – Funding reserves now for future equipment and infrastructure improvements will be critical in avoiding larger tax burdens in future years. Planning for these improvements will be a major priority in the City's work plan. Updating capital improvement plans accompanied with designated revenue streams to fund these plans will be essential to maintain a safe financial position for the City. In addition, continuing to fund the Employee Benefits Accrued Liability and Health Insurance reserves will be critical in establishing safe financial resources for any unexpected expenses in the future and maintaining stable tax rates. For example, currently the City's compensated absences liability is greater than \$3.5 million. While it is unreasonable to fully fund the entire liability, approximately 34 employees are eligible to retire today, equaling approximately \$1,341,000 of compensated absence liability that could be paid out within 30 days notice. Considering the immediate liability potential, this will be discussed at length with the City Council in the near future.
- Workers Compensation Fund – There currently exists open workers comp claims from prior years that are not covered by the City's current worker comp carrier. These open claims are estimated at a liability of \$285,000. It will be imperative to aggressively appropriate funds to the worker comp reserve in order to absorb any claims that are not covered by the City's current insurance plan.
- State Budget – The City will need to be proactive in our response to various changes and cuts that affect the City as a result of the NYS Budget. We are currently aware of additional cuts in State aid and increased retirement costs. It is important that the City anticipate these well in advance and remain flexible in our ability to respond during the budget process.

- Property Tax Cap – If the State Assembly passes a property tax cap without relief from mandated expenses, the City's ability to levy the necessary funds to support services will be significantly hampered. If adopted, the City may be faced with significant service reductions.
- General fund revenues – If the major non-property tax revenues continue to decrease, the City will have to consider additional methods of generating revenue. User fees and special assessments for applicable services, such as garbage, sidewalks and roads, will have to be studied and considered in order to avoid substantial property tax increases or service losses.

Long-Term Factors

- Post Employment Benefits (GASB 45) – The City's liability for post employment benefits as of the actuarial valuation date of April 1, 2009 amount to \$9,222,599. As of this time, this liability is unfunded and it is imperative the City begin to fund anticipated retiree costs. If the City does not begin to fund anticipated retiree costs now, future year costs will prove to outweigh any savings achieved today. In addition, aggressive labor negotiations to reduce future retiree costs will be essential for maintaining lower retiree benefits in the long term and decrease the above liability. The City will be conducting an updated actuarial valuation by March 31, 2011.
- Employee costs & retirement costs – As mentioned above, retirement costs have and are expected to increase significantly. In the same manner, employee benefit costs continue to increase. Maintaining reasonable employee benefits will be a major determining factor in the City's ability to provide quality services. Funding for these costs through reserves is imperative but also aggressively trying to change benefit levels for employees is equally important for the City to continue delivery services to the community at existing levels.

The City's financial improvement over the past several years has been the result of many necessary reactive and proactive approaches to budgeting and operations for the City. Still being faced with many large financial hurdles, namely union negotiations, retirement costs and state budget cuts, the City's financial outlook may quickly change for the worse. It is imperative that the City continue to spend a considerable effort on planning for the future; most specifically with regards to funding reserves, developing capital and equipment replacement plans, and maintaining a low cost, high quality service to residents.

Contacting the City's Financial Management

This financial report is designed to provide the City's citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Manager's Office, City of Batavia, Batavia, New York.

CITY OF BATAVIA, NEW YORK
STATEMENT OF NET ASSETS
MARCH 31, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 7,951,914	\$ 3,292,087	\$ 11,244,001
Property taxes receivable	1,741,536	-	1,741,536
Accounts receivable, net	359,317	1,577,969	1,937,286
State and federal receivables	1,042,463	86,232	1,128,695
Loans receivable, net	361,335	-	361,335
Due from other governments	1,120,591	610,662	1,731,253
Internal balances	(1,566,615)	1,566,615	-
Prepaid expenses	31,849	-	31,849
Capital assets not being depreciated	7,696,147	649,832	8,345,979
Capital assets, net of accumulated depreciation	10,117,535	28,779,239	38,896,774
Total assets	<u>28,856,072</u>	<u>36,562,636</u>	<u>65,418,708</u>
LIABILITIES AND NET ASSETS			
LIABILITIES:			
Accounts payable	366,868	58,751	425,619
Accrued liabilities	1,122,726	425,706	1,548,432
Bond anticipation notes payable	2,547,445	-	2,547,445
Due to other governments	627,613	-	627,613
Deferred revenue	1,625,602	-	1,625,602
Long-term liabilities			
Due and payable within one year			
Serial bonds payable	309,000	186,000	495,000
Installment purchase debt	48,507	16,376	64,883
Due to other governments	73,250	-	73,250
Compensated absences	334,451	57,154	391,605
Due and payable after one year			
Serial bonds payable	5,611,000	2,039,000	7,650,000
Installment purchase debt	739,634	249,710	989,344
Due to other governments	1,076,769	-	1,076,769
Compensated absences	3,010,063	514,389	3,524,452
Other post employment benefits	1,844,412	235,170	2,079,582
Total liabilities	<u>19,337,340</u>	<u>3,782,256</u>	<u>23,119,596</u>
NET ASSETS:			
Invested in capital assets, net of related debt	9,479,379	27,870,822	37,350,201
Restricted for:			
Insurance	676,579	-	676,579
Capital projects	519,427	3,328,602	3,848,029
Employee benefit accrued liability	268,002	-	268,002
Unrestricted	(1,424,655)	1,580,956	156,301
Total net assets	<u>\$ 9,518,732</u>	<u>\$ 32,780,380</u>	<u>\$ 42,299,112</u>

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2010

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 2,087,496	\$ 95,928	\$ 41,363	\$ -	\$ (1,950,205)	\$ -	(1,950,205)
Police	3,674,633	221,006	340,682	-	(3,112,945)	-	(3,112,945)
Fire	3,610,959	-	-	-	(3,610,959)	-	(3,610,959)
Public safety	440,933	111,536	-	-	(329,397)	-	(329,397)
Health	32,315	40,492	-	-	8,177	-	8,177
Transportation	1,965,119	22,919	319,154	4,618,159	2,995,113	-	2,995,113
Economic assistance	274,693	153,576	-	-	(121,117)	-	(121,117)
Culture and recreation	1,041,339	53,295	38,899	-	(949,145)	-	(949,145)
Home and community services	249,199	18,261	61,800	67,767	(101,371)	-	(101,371)
Refuse and recycling	989,570	-	-	-	(989,570)	-	(989,570)
Interest on debt	405,587	-	-	-	(405,587)	-	(405,587)
Total governmental activities	14,771,843	717,013	801,898	4,685,926	(8,567,006)	-	(8,567,006)
Business-type activities:							
Ambulance	1,198,306	1,042,752	3,196	-	-	(152,358)	(152,358)
Sewer	2,630,672	2,433,573	126,005	-	-	(71,094)	(71,094)
Water	3,788,922	2,210,395	2,045,782	-	-	467,255	467,255
Total business-type activities	7,617,900	5,686,720	2,174,983	-	-	243,803	243,803

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2010
(Continued)

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Total governmental and business-type activities	\$ 22,389,743	\$ 6,403,733	\$ 2,976,881	\$ 4,685,926	(8,567,006)	243,803	(8,323,203)
General revenues:							
Real property taxes				5,300,391	-	-	5,300,391
Non-property taxes				5,890,906	-	-	5,890,906
Interest earnings				83,086	16,690	-	99,776
State aid not restricted for a specific purpose				1,901,664	-	-	1,901,664
Other miscellaneous revenues				452,065	-	-	452,065
Transfers:							
Ambulance				(593,488)	593,488	-	-
Sewer				20,210	(20,210)	-	-
Capital				(1,441,858)	1,441,858	-	-
Total general revenues and transfers				11,612,976	2,031,826	-	13,644,802
Change in net assets				3,045,970	2,275,629	-	5,321,599
Net assets - beginning of year				6,472,762	30,504,751	-	36,977,513
Net assets - end of year				\$ 9,518,732	\$ 32,780,380	\$ -	42,299,112

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2010

	General	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	\$ 4,254,390	\$ 2,906,149	\$ 791,375	\$ 7,951,914
Receivables:				
Property tax	1,741,536	-	-	1,741,536
Accounts receivable	332,840	-	26,477	359,317
State and federal receivables	24,920	1,017,543	-	1,042,463
Loans receivable (net of allowance for uncollectibles of \$22,804 in the Special Grant Fund)	-	-	361,335	361,335
Due from other governments	1,120,591	-	-	1,120,591
Due from other funds	370	866,096	4,096	870,562
Prepaid expenses	-	-	31,849	31,849
Total assets	\$ 7,474,647	\$ 4,789,788	\$ 1,215,132	\$ 13,479,567
LIABILITIES AND FUND BALANCES:				
Accounts payable	\$ 311,274	\$ 44,856	\$ 10,738	\$ 366,868
Accrued liabilities	837,249	424	285,053	1,122,726
Due to other governments	627,613	-	-	627,613
Due to other funds	312,790	2,124,387	-	2,437,177
Deferred revenue	2,588,358	-	-	2,588,358
Bond anticipation note payable	-	2,547,445	-	2,547,445
Total liabilities	4,677,284	4,717,112	295,791	9,690,187

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2010
(Continued)

	General	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
FUND BALANCES:				
Reserved for:				
Encumbrances	216,583	-	-	216,583
Insurance:				
General liability	576,579	-	-	576,579
Employee health	100,000	-	-	100,000
Capital projects	519,427	-	-	519,427
Employee benefits accrued liability	268,002	-	-	268,002
Unreserved:				
Designated for special projects	60,556	-	-	60,556
Designated for funding of reserves	850,000	-	-	850,000
Undesignated	206,216	72,676	919,341	1,198,233
Total fund balances	<u>2,797,363</u>	<u>72,676</u>	<u>919,341</u>	<u>3,789,380</u>
Total liabilities and fund balances	<u>\$ 7,474,647</u>	<u>\$ 4,789,788</u>	<u>\$ 1,215,132</u>	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation			17,813,682	
Long-term liabilities, including serial bonds payable, installment purchase debt, amounts due to other governments, compensated absences and post employment benefits, are not due and payable in the current period and therefore are not reported in the funds				(13,047,086)
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds				962,756
Net assets				<u>\$ 9,518,732</u>

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2010

	General	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
REVENUES:				
Real property taxes	\$ 5,274,270	\$ -	-	\$ 5,274,270
Real property tax items	339,023	-	-	339,023
Special assessments	-	-	153,576	153,576
Sales and other taxes	5,439,977	-	-	5,439,977
Departmental income	213,641	-	-	213,641
Use of money and property	52,622	14,067	16,397	83,086
Licenses and permits	139,239	-	-	139,239
Fines and forfeitures	215,779	-	-	215,779
Sale of property and compensation for loss	64,653	-	64,599	129,252
Miscellaneous local sources	470,944	13,261	-	484,205
Federal and state sources	2,815,468	4,618,159	-	7,433,627
Total revenues	15,025,616	4,645,487	234,572	19,905,675

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2010
(Continued)

	General	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
EXPENDITURES:				
General government	1,511,381	259,923	249,822	2,021,126
Police	3,031,378	-	-	3,031,378
Fire	2,903,902	-	-	2,903,902
Public safety	374,737	-	-	374,737
Health	15,550	-	-	15,550
Transportation	1,845,093	4,270,320	-	6,115,413
Economic assistance and opportunity	87,159	-	187,534	274,693
Culture and recreation	633,838	-	-	633,838
Home and community services	200,976	-	2,023	202,999
Refuse and recycling	989,539	-	-	989,539
Employee benefits	1,260,510	-	181,070	1,441,580
Debt service:				
Principal	418,300	-	-	418,300
Interest	405,587	-	-	405,587
Total expenditures	13,677,950	4,530,243	620,449	18,828,642

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2010
(Continued)

	General	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
Excess (deficit) of revenues over expenditures	1,347,666	115,244	(385,877)	1,077,033
OTHER FINANCING SOURCES (USES):				
Interfund transfers in	309,904	697,951	286,100	1,293,955
Interfund transfers out	(1,181,770)	(2,124,367)	(2,954)	(3,309,091)
Total other financing sources (uses)	(871,866)	(1,426,416)	283,146	(2,015,136)
Net change in fund balances	475,800	(1,311,172)	(102,731)	(938,103)
Fund balances - beginning of year	2,321,563	1,383,848	1,022,072	4,727,483
Fund balances - end of year	\$ 2,797,363	\$ 72,676	\$ 919,341	\$ 3,789,380

CITY OF BATAVIA, NEW YORK
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2010

Net change in fund balances - total governmental funds	\$ (938,103)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$4,914,982), exceeded depreciation (\$667,883) in the current period.	4,247,099
In the statement of activities, the loss on the disposal of assets is reported, whereas in the governmental funds, the losses decrease financial resources. Thus the change in net assets differs from the change in fund balance by the cost of the assets sold.	(109,347)
Revenues that are not available to pay current obligations are not reported in the fund financial statements, but they are presented as revenues in the statement of activities.	26,121
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of debt repayments (\$350,800) and payments to other governments (\$91,372) made in the current period.	442,172
On the statement of activities the actual and projected long term expenditures for post employment benefits are reported whereas on the governmental funds only the actual expenditures are recorded for post employment benefits	(604,894)
(Increases) decreases in accrued compensated absences reported in the statement of activities do not provide for or require the use of current financial resources and therefore are not reported as revenues or expenditures in the governmental funds.	<u>(17,078)</u>
Change in net assets of governmental activities	\$ <u><u>3,045,970</u></u>

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF NET ASSETS - ENTERPRISE FUNDS
MARCH 31, 2010

	Ambulance	Sewer	Water	Total
ASSETS:				
Cash and cash equivalents	\$ -	\$ 1,228,939	\$ 2,063,148	\$ 3,292,087
Accounts receivable	-	781,070	796,899	1,577,969
State and federal receivables	-	18,750	67,482	86,232
Due from other governments	-	-	610,662	610,662
Due from other funds	-	94,797	2,161,193	2,255,990
Capital assets not being depreciated	-	32,297	617,535	649,832
Capital assets, net of accumulated depreciation	-	25,443,315	3,335,924	28,779,239
Total assets	\$ -	\$ 27,599,168	\$ 9,652,843	\$ 37,252,011

LIABILITIES AND NET ASSETS:

LIABILITIES:				
Accounts payable	\$ -	\$ 37,708	\$ 21,043	\$ 58,751
Accrued liabilities	-	45,104	380,602	425,706
Due to other funds	-	12,297	677,078	689,375
Current portion of long-term liabilities:				
Serial bonds payable	-	175,500	10,500	186,000
Installment purchase debt	-	4,801	11,575	16,376
Compensated absences	-	25,155	31,999	57,154
Long-term liabilities:				
Serial bonds payable	-	1,639,500	399,500	2,039,000
Installment purchase debt	-	73,212	176,498	249,710
Compensated absences	-	226,396	287,993	514,389
Other post employment benefit	-	106,896	128,274	235,170
Total liabilities	-	2,346,569	2,125,062	4,471,631

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF NET ASSETS - ENTERPRISE FUNDS
MARCH 31, 2010
(Continued)

	<u>Ambulance</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
NET ASSETS:				
Invested in capital assets, net of related debt	-	24,556,555	3,314,267	27,870,822
Restricted for capital projects	-	949,176	2,379,426	3,328,602
Unrestricted (deficit)	-	<u>(253,132)</u>	<u>1,834,088</u>	<u>1,580,956</u>
Total net assets	-	<u>25,252,599</u>	<u>7,527,781</u>	<u>32,780,380</u>
Total liabilities and net assets	<u>\$ -</u>	<u>\$ 27,599,168</u>	<u>\$ 9,652,843</u>	<u>\$ 37,252,011</u>

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
ENTERPRISE FUNDS
FOR THE YEAR ENDED MARCH 31, 2010

	Ambulance	Sewer	Water	Total
OPERATING REVENUES:				
Charges for services	\$ 1,042,752	\$ 2,433,573	\$ 2,210,395	\$ 5,686,720
County water agreement charges	-	-	1,227,731	1,227,731
Rental of real property	-	-	550,000	550,000
Other operating revenue	3,196	126,005	268,051	397,252
Total operating revenues	1,045,948	2,559,578	4,256,177	7,861,703
OPERATING EXPENSES:				
Salaries, wages and employee benefits	926,408	754,479	1,014,398	2,695,285
Contractual expense	201,027	562,610	2,630,752	3,394,389
Depreciation	70,871	1,252,973	122,240	1,446,084
Total operating expenses	1,198,306	2,570,062	3,767,390	7,535,758
Operating income	(152,358)	(10,484)	488,787	325,945
NON-OPERATING REVENUES (EXPENSES):				
Investment income	3,566	5,992	7,132	16,690
Interest expense	-	(60,610)	(21,532)	(82,142)
Operating subsidy from governmental funds	731,998	-	2,124,367	2,856,365
Operating subsidy to governmental funds	(138,510)	(20,210)	(682,509)	(841,229)
Total non-operating revenues (expenses)	597,054	(74,828)	1,427,458	1,949,684
Change in net assets	444,696	(85,312)	1,916,245	2,275,629
Net assets (deficit) - beginning of year	(444,696)	25,337,911	5,611,536	30,504,751
Net assets - end of year	\$ -	\$ 25,252,599	\$ 7,527,781	\$ 32,780,380

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED MARCH 31, 2010

	Ambulance	Sewer	Water	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>				
Cash received from customers	\$ 1,564,045	\$ 2,421,218	\$ 2,120,293	\$ 6,105,556
Cash payments for contractual expenses	(383,014)	(533,112)	(2,324,703)	(3,240,829)
Cash payments to employees for services	(1,029,681)	(701,972)	(965,856)	(2,697,509)
Other operating revenue	3,196	126,005	2,045,782	2,174,983
Net cash provided by operating activities	154,546	1,312,139	875,516	2,342,201
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>				
Operating subsidy from governmental funds	731,998	-	2,124,367	2,856,365
Operating subsidy to governmental funds	(138,510)	(20,210)	(682,509)	(841,229)
Interfund loan or loan repayments received	-	(94,797)	(2,161,044)	(2,255,841)
Interfund loans made or repaid	(1,137,192)	(658,044)	677,078	(1,118,158)
Net cash used by noncapital financing activities	(543,704)	(773,051)	(42,108)	(1,358,863)
<u>CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:</u>				
Acquisition and construction of capital assets	-	(99,483)	(142,429)	(241,912)
Proceeds from sale of property, plant and equipment	117,194	-	-	117,194
Principal payments on debt	-	(179,534)	(20,930)	(200,464)
Interest paid on debt	-	(60,610)	(21,532)	(82,142)
Net cash provided (used) by capital and financing activities	117,194	(339,627)	(184,891)	(407,324)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>				
Interest on cash and investments	3,566	5,992	7,132	16,690
Net cash provided by investing activities	3,566	5,992	7,132	16,690

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED MARCH 31, 2010
(Continued)

	Ambulance	Sewer	Water	Total
Net increase (decrease) in cash	(268,398)	205,453	655,649	592,704
Cash - beginning of year	268,398	1,023,486	1,407,499	2,699,383
Cash - end of year	\$ -	\$ 1,228,939	\$ 2,063,148	\$ 3,292,087
Reconciliation of income from operations to net cash provided by operating activities:				
Income from operations	\$ (152,358)	\$ (10,484)	\$ 488,787	\$ 325,945
Adjustments to reconcile income from operations to net cash provided by operating activities:				
Depreciation	70,871	1,252,973	122,240	1,446,084
Change in assets and liabilities				
Decrease (increase) in:				
Accounts receivable	521,293	6,395	(22,620)	505,068
State and federal receivables	-	(18,750)	(67,482)	(86,232)
Due from other governments	-	-	477,120	477,120
Inventory	9,156	-	-	9,156
Increase (decrease) in:				
Accounts payable	(34,805)	17,764	546	(16,495)
Accrued liabilities	(90,258)	11,734	(171,617)	(250,141)
Deferred revenue	(66,080)	-	-	(66,080)
Compensated absences	(44,942)	18,524	7,763	(18,655)
Other post employment benefit	(58,331)	33,983	40,779	16,431
Net cash provided by operating activities	\$ 154,546	\$ 1,312,139	\$ 875,516	\$ 2,342,201

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF NET ASSETS -
FIDUCIARY FUNDS
MARCH 31, 2010

	Private Purpose Trusts	Agency
ASSETS		
Cash and cash equivalents	\$ -	\$ 259,585
Cash and cash equivalents - restricted	42,678	-
Restricted investments	<u>-</u>	<u>7,681,632</u>
Total assets	\$ <u>42,678</u>	\$ <u>7,941,217</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Agency liabilities	\$ <u>-</u>	\$ <u>7,941,217</u>
Total liabilities	-	7,941,217
NET ASSETS:		
Restricted trust funds	<u>42,678</u>	<u>-</u>
Total liabilities and net assets	\$ <u>42,678</u>	\$ <u>7,941,217</u>

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF CHANGES IN NET ASSETS -
FIDUCIARY FUND
FOR THE YEAR ENDED MARCH 31, 2010

	Private Purpose Trusts
	<hr/>
ADDITIONS:	
Interest	\$ 82
Total additions	<hr/> 82
Change in net assets	82
Net assets - beginning of the year	<hr/> 42,596
Net assets - end of year	<hr/> <hr/> \$ 42,678

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Batavia, New York (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units, except as otherwise noted. The Governmental Accounting Standards Board (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.

A. REPORTING ENTITY

The City reports related organizations under the guidance of Statement No. 14 of the Governmental Accounting Standards Board. Statement No. 14 defines the primary government, and redefines and establishes the criteria for which potential component units are included in the reporting entity. Statement No. 14 defines financial accountability of the primary government as being determined on the basis of fiscal dependency, appointment of a voting majority of a governing board, ability to impose its will or potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government.

According to Statement No. 14 a related organization of a primary government is defined as one in which the government appoints a voting majority of the board, but is not financially accountable for the organization. The City appoints a voting majority of the Batavia Housing Authority's board; however, no financial burden or benefit relationship exists between the City and the Authority. The Authority maintains and runs a senior citizens' housing unit within the City.

JOINT VENTURES - The City participates in various joint ventures with other local municipalities for the purpose of providing intermunicipal services. These activities are excluded from the financial statements of all participating municipalities.

B. BASIS OF PRESENTATION

1. Government-wide statements:

The statement of net assets and the statement of activities present financial information about the reporting government as a whole. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. The statements distinguish between governmental and business-type activities. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, intergovernmental revenues, and other exchange and nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Governmental Funds

- a. General Fund - the principal operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. Capital Projects Fund - used to account for and report financial resources to be used in the acquisition, construction or renovation of major capital facilities or equipment.
- c. Special Grant Fund - used to account for community development block grants and other federal grants not required to be accounted for in other funds.
- d. Parking Authority Fund - used to account for the operation of City parking areas. As of March 31, 2010 this fund is no longer a fund of the City.
- e. Mall Maintenance Fund - used to account for the maintenance of the Batavia City Centre (formerly the Genesee Country Mall).
- f. Small Cities Fund - used to account for the activity of the City's New York State Small Cities Block Grant and U.S. Department of Housing and Urban Development programs.
- g. Self Insurance Fund - used to account for workers' compensation insurance transactions for all funds of the City. This fund is also used to account for the liability related to open workers' compensation claims from the period when the City was self insured for workers' compensation.

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- h. Business Improvement District Fund - used to account for additional taxes within the business district for improvements within the district. As of March 31, 2010 this fund is no longer a fund of the City and any remaining fund balance will be remitted to the BID Corporation.

Proprietary Funds

The City reports the following enterprise funds:

Water, Sewer and Ambulance Funds - used to account for operations that provide water, sewer and ambulance services and are financed primarily by user charges for these services.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues for the proprietary funds are as follows: sale of water and treatment of wastewater for the Water and Sewer Funds, water agreement and rental of real property for the Water Fund, and ambulance charges for the Ambulance Fund. Operating expenses for the proprietary funds include the cost of sales and services, personnel services, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary Fund Types

Fiduciary Fund Types include Expendable and Nonexpendable Trust Funds and Agency Funds. The Expendable and Nonexpendable Trust Funds and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and other governments.

Expendable and Nonexpendable Trust Funds are accounted for on the accrual basis. Agency Funds are custodial in nature (assets equal liabilities) and generally are accounted for on the cash basis, which approximates the accrual basis of accounting.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The City has elected to apply all GASB pronouncements, applicable (Financial Accounting Standards Board (FASB) Accounting Standards Codification), and Accounting Principals Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Government-wide and fiduciary fund 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 at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within one year after the end of the fiscal year, with the exception of property taxes, which the period of availability is sixty days.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

D. BUDGETARY DATA

1. **BUDGET POLICIES** - The City Manager prepares a budget for approval by City Council. City Council holds at least one public hearing on the proposed budget. The City Council adopts a final budget based upon the proposed budget plus any modifications. Appropriations established by the budget constitute a limitation on expenditures (and encumbrances) which may be incurred. Expenditures may not exceed appropriations, which lapse at the end of the fiscal year. Subsequent transfers or adjustment in the approved budget may be made only by the City Council or, in certain limited circumstances by the City Manager.
2. **ENCUMBRANCES** - Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded for budgetary control purposes in order to reserve that portion of the applicable appropriations, is employed as a control in preventing over-expenditure of established appropriations.

Open encumbrances are reported as reservations of fund balance since they do not constitute expenditures or liabilities and will be honored through budget appropriations in the subsequent year.

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. BUDGET BASIS OF ACCOUNTING - Budgets are adopted annually on a basis consistent with accounting principles generally accepted in the United States of America. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year.

E. DUE TO/FROM OTHER FUNDS

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds."

The amounts reported on the Statement of Net Assets for due to and due from other funds represents amounts due between different fund types (governmental and enterprise activities). Eliminations have been made for amounts due to and due from within the same fund type. A detailed description of the individual fund balances at year-end is provided subsequently in Note 3., A., 3.

F. CAPITAL ASSETS

Government-wide statements:

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual cost is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Prior to January 1, 1980, governmental funds' infrastructure assets were not capitalized. The City has elected to adopt the more liberal provisions of GASB Statement No. 34 which allows retroactive reporting of only major general infrastructure assets acquired, significantly reconstructed or that received significant improvements in fiscal years ending after December 31, 1979. Capital assets are reported at actual cost for acquisitions subsequent to April 1, 2003.

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the Government-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings	\$ 50,000	straight-line	25-50 years
Building and site improvements	50,000	straight-line	10-50 years
Infrastructure	200,000	straight-line	25-50 years
Furniture and equipment	5,000	straight-line	3-20 years
Vehicles	20,000	straight-line	3-5 years

Fund Financial Statements:

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

G. INSURANCE

The City has purchased a commercial insurance policy for most risks including general, personal injury, employee benefits, police professional, automobile and public official liability effective February 12, 2008. The City assumes the liability for amounts in excess of the commercial coverage. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated.

H. LONG-TERM DEBT

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of serial bonds payable, the City's portion of debt issued by other governments on joint projects, installment purchases and compensated absences.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest are reported as expenditures.

I. COMPENSATED ABSENCES

The City's labor agreements and City Council rules and regulations provide for sick and vacation leave. Upon retirement certain eligible employees qualify for paid medical and dental insurance premiums and/or payment for fractional values of unused sick leave. These payments are budgeted annually.

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Consistent with GASB Statement No. 16, Accounting for Compensated Absences, an accrual for accumulated sick leave is included in compensated absences at year-end. The compensated absences liability is calculated based on the contractually negotiated rates in effect at year-end.

Compensated absences for governmental fund type employees are reported as a fund liability and expenditure in the government-wide financial statements. A portion of the compensated absences liability recognized is attributed to the value of sick leave converted to pay the employees' share of post-employment health insurance premiums. The compensated absences liability for the Governmental and Enterprise funds at the year-end totaled \$3,344,514 and \$571,543, respectively.

Payment of compensated absences recorded in the government-wide financial statements is dependent upon many factors; therefore timing of future payments are not readily determinable. However, management believes that sufficient resources will be made available for the payment of compensated absences when such payments become due.

J. POST EMPLOYMENT BENEFITS

In addition to providing compensated absence and retirement benefits, the City provides post employment health insurance to its retirees in accordance with provisions of the employment contracts negotiated between the City and the Batavia Firefighters Association, I.A.F.F Local 896, the Civil Service Employees Association, CSEA Local 819, the American Federation of State, County and Municipal Employees, AFSCME Local 3632, the Batavia Police Benevolent Association and non-union management. Substantially all employees in these bargaining units may become eligible for these benefits if they meet the retirement eligibility requirements under their contracts while working for the City. The City accounts for these benefits as described in Note 3., B., 2.

K. INTERFUND TRANSFERS

The operations of the City give rise to certain transactions between funds, including transfers of expenditures and revenues, to provide services and construct assets.

L. FUND EQUITY

Government-wide statements:

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bond anticipation notes, bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- b. Restricted net assets - Consists of net assets with constraints on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

The following is a description of the reserves and designations utilized by the City.

Reserve for Capital Projects - This balance represents amounts reserved to finance future construction, reconstruction or acquisition of capital improvement type items or equipment as authorized when the reserve was established.

Reserve for Insurance - The City is self-insured for risks including, but not limited to, property damage and personal injury. The reserve is funded annually through budgetary provisions in the General Fund.

Reserve for Employee Benefits - This reserve is used to reserve funds for the payment of accrued employee benefits due to employees upon termination of services.

Reserve for Encumbrances - Encumbrance accounting, under which purchase orders, contracts and other commitments of expenditures are recorded for budgetary control purposes in order to reserve applicable appropriations, is employed as a control in preventing over-expenditure of established appropriations. Open encumbrances are reported as a reservation of fund balance, since they do not constitute expenditures or liabilities and will be honored through budget appropriations in the subsequent year.

Designations represent funds for which there is intent by the City to be used for a specific purpose. Designations of fund balance at March 31, 2010 include:

- a. Designated for Special Projects - represents funds to be used for projects related to improvements to City facilities and operations as determined by City Council.
- b. Designated for Funding of Reserves - represents funds that will be transferred to various reserves as determined by City Council.

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. REAL PROPERTY TAX

Real property taxes are levied upon budget adoption and become an enforceable lien on April 1st. Taxes are payable in two installments on May 1st and August 1st. The City assumes enforcement responsibility for all property taxes levied by the County on properties within the City. The City also enforces real property taxes of the Batavia City School District, which are unpaid at January 1st. The City pays the County and School District the full amount of the property taxes collected on their behalf. Any amounts which have been collected as of March 31st but have not yet been remitted to the County and the School District are included in the account "Due to other governments".

In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end. The City is permitted by the New York State Constitution to levy taxes up to 2% of the most recent five-year average full valuation of taxable real property. Principal and interest on long-term debt related to Water and Sewer debt (if application filed with Office of State Comptroller) and for budgetary appropriations for capital outlay are excludable. In the 2009-10 year, the five-year average full valuation was \$495,019,415 allowing for a maximum tax limit of \$9,900,388 (includes allowance exclusions). The City tax levy was \$1,973,439 for the year ended March 31, 2010.

N. USE OF ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

O. STATEMENT OF CASH FLOWS

For purposes of the statement of cash flows - enterprise funds, the City considers cash to be all unrestricted and restricted cash accounts including demand accounts and certificates of deposit with an original maturity of generally three months or less.

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - REPORTING ON BUDGETARY BASIS

The City reports its budgetary status with the actual data including outstanding encumbrances as charges against budget appropriations. This results in the following reconciliation of fund balance computed on a GAAP basis and budgetary basis.

GAAP BASIS:

Fund Balance - March 31, 2010	\$ 2,797,363
Deduct outstanding encumbrances	<u>216,583</u>
BUDGETARY BASIS - Fund balance - March 31, 2010	\$ <u>2,580,780</u>

NOTE 3 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. ASSETS

1. CASH AND INVESTMENTS

The City's investment policies are governed by State statutes. In addition, the City has its own written investment policy. City monies must be deposited in FDIC insured commercial banks or trust companies located within the State. Permissible investments include demand accounts and certificates of deposit, obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements and obligations of New York State or its localities.

Collateral is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and municipalities and school districts.

Investment and Deposit Policy

The City implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*.

The City follows an investment and deposit policy, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conformance with federal, state and other legal requirements; and provide sufficient liquidity of invested funds in order to meet obligations as they become due. Oversight of investment activity is the responsibility of the City Manager.

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. The City's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

Credit Risk

The City's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations. The City's investment and deposit policy authorizes the reporting entity to purchase the following types of investments:

- Interest bearing demand accounts.
- Certificates of deposit.
- Obligations of the United States Treasury and United States agencies.
- Obligations of New York State and its localities.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the City's investment and deposit policy, all deposits of the City including interest bearing demand accounts and certificates of deposit, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIC) shall be secured by a pledge of securities with an aggregate value equal to 102% of the aggregate amount of deposits. The City restricts the securities to the following eligible items:

- Obligations issued, fully insured or guaranteed as to the payment of principal and interest, by the United States Treasury and United States agencies.
- Obligations issued or fully insured or guaranteed by New York State and its localities.

2. RECEIVABLES

Major revenues accrued by the City, include the following:

a. Accounts Receivables - Amounts accrued at March 31, 2010:

General Fund:

Franchise fees	\$ 210,388
Arterial reimbursement	79,458
Fines and forfeited bail	12,097
Other miscellaneous receivables	<u>30,897</u>
Total governmental activities accounts receivable	<u>\$ 332,840</u>

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

Sewer Fund:
Sewer rents \$ 781,070

Water Fund:
Water rents \$ 796,899

Total business-type activities accounts receivable \$ 1,577,969

- b. State and Federal Receivables - represents amounts due primarily from New York State and the federal government. Amounts accrued at March 31, 2010 consist of:

General Fund:
City/Town consolidation grant \$ 4,920
State aid-Code Enforcement 20,000
Total state and federal receivables \$ 24,920

Capital Fund:
CHIPS recievable \$ 19,920
Walnut Street reimbursement 957,958
Miscellaneous receivables 58,415
Total state and federal receivables \$ 1,036,293

- c. Due from Other Governments - represents amounts due primarily from the County of Genesee, New York, and other governmental entities. Amounts accrued at March 31, 2010, consist of:

General Fund:
NYS sales tax \$ 1,120,591
Governmental Activities Total Due from Other Governments \$ 1,120,591

Water Fund:
City/County water agreement \$ 610,662
Business-Type Activities Total Due from Other Governments \$ 610,662

2. LOANS RECEIVABLE

The loans receivable recorded in the Small Cities Grant Fund represent micro-enterprise loans receivable issued under the New York State Small Cities Block Grant programs and those passed through the U.S. Department of Housing and Urban Development. Loans outstanding as of March 31, 2010, under both programs amounted to \$157,248.

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

The loans receivable recorded in the Special Grant Fund represent loans issued through Batavia Development Corporation. Loans outstanding as of March 31, 2010, amounted to \$226,891, net of an allowance of \$22,804 for uncollectable loans.

3. INTERFUND ACTIVITY

Interfund activity balances at March 31, 2010, are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Interfund Revenues</u>	<u>Interfund Expenditures</u>
General Fund	\$ 370	\$ 312,790	\$ 309,904	\$ 1,181,770
Water Fund	2,161,193	677,078	2,124,367	682,509
Sewer Fund	94,797	12,297	-	20,210
Ambulance Fund	-	-	731,998	138,510
Capital Projects Fund	866,096	2,124,387	697,951	2,124,367
Self-Insurance Fund	-	-	286,100	-
Mall Fund	4,096	-	-	-
Parking Fund	-	-	-	2,954
Total	<u>\$ 3,126,552</u>	<u>\$ 3,126,552</u>	<u>\$ 4,150,320</u>	<u>\$ 4,150,320</u>

The interfund activity in the ambulance fund represents activity related to the elimination of the fund during the current year. The majority of the general fund interfund expenditures is also related to the elimination of the ambulance fund. The interfund activity between the capital and water funds is related to the Walnut Street capital project.

4. CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2010, was as follows:

	<u>Balance 04/01/09</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 03/31/10</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,098,208	\$ -	\$ 28,700	\$ 1,069,508
Construction work in progress	<u>1,968,629</u>	<u>4,658,010</u>	<u>-</u>	<u>6,626,639</u>
Total capital assets not being depreciated	<u>\$ 3,066,837</u>	<u>\$ 4,658,010</u>	<u>\$ 28,700</u>	<u>\$ 7,696,147</u>

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

	<u>Balance</u> <u>04/01/09</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>03/31/10</u>
Capital assets, being depreciated:				
Buildings and building improvements	\$ 9,781,357	\$ -	\$ -	\$ 9,781,357
Machinery, equipment and vehicles	5,301,674	256,972	411,409	5,147,237
Infrastructure	<u>3,088,384</u>	<u>-</u>	<u>-</u>	<u>3,088,384</u>
Total capital assets, being depreciated	<u>18,171,415</u>	<u>256,972</u>	<u>411,409</u>	<u>18,016,978</u>
Less accumulated depreciation:				
Buildings and building improvements	1,827,252	243,179	-	2,070,431
Machinery, equipment and vehicles	3,513,868	286,739	330,762	3,469,845
Infrastructure	<u>2,221,202</u>	<u>137,965</u>	<u>-</u>	<u>2,359,167</u>
Total accumulated depreciation	<u>7,562,322</u>	<u>667,883</u>	<u>330,762</u>	<u>7,899,443</u>
Total capital assets, being depreciated - net	<u>10,609,093</u>	<u>(410,911)</u>	<u>80,647</u>	<u>10,117,535</u>
Governmental activities capital assets, net	\$ <u>13,675,930</u>	\$ <u>4,247,099</u>	\$ <u>109,347</u>	\$ <u>17,813,682</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 41,500	\$ -	\$ -	\$ 41,500
Construction work in progress	<u>453,606</u>	<u>154,726</u>	<u>-</u>	<u>608,332</u>
Total capital assets, not being depreciated	\$ <u>495,106</u>	\$ <u>154,726</u>	\$ <u>-</u>	\$ <u>649,832</u>
Capital assets, being depreciated:				
Buildings and building improvements	\$ 41,427,000	\$ -	\$ -	\$ 41,427,000
Machinery, equipment and vehicles	1,435,280	87,186	656,527	865,939
Infrastructure	<u>11,608,091</u>	<u>-</u>	<u>-</u>	<u>11,608,091</u>
Total capital assets, being depreciated	<u>54,470,371</u>	<u>87,186</u>	<u>656,527</u>	<u>53,901,030</u>

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

	Balance 04/01/09	Additions	Disposals	Balance 03/31/10
Less accumulated depreciation:				
Buildings and building improvements	18,902,928	1,043,299	-	19,946,227
Machinery, equipment and vehicles	874,385	112,582	539,333	447,634
Infrastructure	<u>4,437,727</u>	<u>290,203</u>	<u>-</u>	<u>4,727,930</u>
Total accumulated depreciation	<u>24,215,040</u>	<u>1,446,084</u>	<u>539,333</u>	<u>25,121,791</u>
Total capital assets, being depreciated - net	<u>30,255,331</u>	<u>(1,358,898)</u>	<u>117,194</u>	<u>28,779,239</u>
Business-type capital assets, net	<u>\$ 30,750,437</u>	<u>\$ (1,204,172)</u>	<u>\$ 117,194</u>	<u>\$ 29,429,071</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 137,109
Police	65,051
Fire	66,611
Health	14,390
Transportation	111,904
Culture and recreation	<u>272,818</u>
Total governmental activities depreciation expense	<u>667,883</u>
Business-type activities:	
Ambulance	70,871
Water	122,240
Sewer	<u>1,252,973</u>
Total business-type activities depreciation expense	<u>1,446,084</u>
Total depreciation expense	<u>\$ 2,113,967</u>

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

B. LIABILITIES

1. PENSION PLANS

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

Funding Policies

The Systems are noncontributory except for employees who join the New York State and Local Employees' Retirement System after July 27, 1976, who contribute 3% of their salary.

Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates, expressed as percentages of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund. The City of Batavia is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were:

	<u>ERS</u>	<u>PFRS</u>
2010	\$ 261,268	\$ 516,361
2009	367,469	705,128
2008	367,995	859,955

The City of Batavia contributions made to the Systems were equal to 100 percent of the contributions required for each year.

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

2. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

a. PLAN DESCRIPTION

The City of Batavia, New York (the City), administers the City of Batavia Retiree Medical, Dental and Life Insurance Plan (the Plan) as a single-employer defined benefit Other Post Employment Benefit plan (OPEB). The Plan provides for continuation of medical, dental and life insurance benefits for certain retirees and their spouses and can be amended by action of the City subject to applicable collective bargaining and employment agreements. The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

b. FUNDING POLICY

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

c. 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, paid by a willing buyer to a willing seller.

d. ANNUAL OPEB COST AND NET OPEB OBLIGATION

The City's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The City has engaged an actuary to calculate the ARC and related information per the provisions of GASB Statement No. 45 for employers in plans with more than one hundred 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 thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and the City's net OPEB obligation to the Retiree Health Plan at March 31, 2010:

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

<u>Annual OPEB Cost and Net OPEB Obligation</u>	<u>Fiscal Year Ending 3/31/10</u>
Normal Cost	\$ 351,071
Amortization of UAL	512,831
Interest	<u>34,556</u>
ARC	898,458
Interest on OPEB Obligation	29,290
Adjustment to ARC	<u>(42,346)</u>
OPEB Expense	885,402
Net OPEB contributions made during the fiscal year	(205,746)
Net OPEB obligation at beginning of year	1,458,257
Adjustment for discontinuation of the ambulance fund	<u>(58,331)</u>
Net OPEB obligation at end of year	\$ <u>2,079,582</u>
Percentage of expense contributed	23.2%

e. FUNDED STATUS AND FUNDING PROGRESS

As of March 31, 2010, the actuarial accrued liability for benefits was \$9,222,599, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was not available, and the ratio of the unfunded unavailable accrued liability to the covered payroll was not available. The total post employment health insurance cost to the City for 43 retirees was \$205,746 for the year ended March 31, 2010.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information on page A45, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

f. 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 at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following assumptions were made:

The March 31, 2010, actuarial valuation, utilized the entry age actuarial cost method. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses), which is the expected short-term investment rate of the City's own assets, and an annual healthcare cost trend of 12 percent initially, reduced by decrements to an ultimate rate of 5 percent after 6 years. Both rates included a 2.5 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period is twenty-nine years.

g. ALLOCATION OF POST EMPLOYMENT BENEFITS

The City's allocation of their OPEB liability to the City's functions are as follows:

Governmental activities:	
General government	\$ 45,817
Police	198,486
Fire	202,710
Public safety	23,086
Transportation	72,509
Culture and recreation	46,223
Home and community service	<u>16,063</u>
Total governmental activities OPEB expense	\$ <u>604,894</u>
Business-type activities:	
Home and community service	\$ <u>74,762</u>
Total business-type activities OPEB expense	\$ <u>74,762</u>

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

3. INDEBTEDNESS

a. SHORT-TERM DEBT

The City may issue Bond Anticipation Notes (BAN), in anticipation of proceeds from the subsequent sale of bonds. These notes are recorded as current liabilities of the funds that will actually receive the proceeds from the issuance of bonds. State law requires that BANs issued for capital purposes be converted to long-term financing within five years after the original issue date. During the current year, the City recognized \$67,262 of expenditures for their Bond Anticipation Notes interest.

The City may issue Revenue Anticipation Notes (RAN), in anticipation of the receipt of revenues. These notes are recorded as a liability of the fund that will actually receive the proceeds from the issuance of the notes. The RAN represents a liability that will be extinguished by the use of expendable, available resources of the fund. During the current year, the City recognized \$33,000 of expenditures for their Revenue Anticipation Notes interest.

Transactions in short-term debt for the year are summarized below:

	Balance 04/01/09	Issued	Redeemed	Balance 03/31/10
RAN maturing 06/17/09 at 2.20%	\$ 1,500,000	\$ -	\$ 1,500,000	\$ -
BAN maturing 06/17/10 at 1.80%	2,000,000	-	-	2,000,000
BAN maturing 08/26/10 at 1.72%	<u>988,445</u>	<u>-</u>	<u>441,000</u>	<u>547,445</u>
	<u>\$ 4,488,445</u>	<u>\$ -</u>	<u>\$ 1,941,000</u>	<u>\$ 2,547,445</u>

b. LONG-TERM DEBT

Serial Bonds - The City borrows money in order to acquire or construct equipment, buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These are long-term liabilities, which are full faith and credit debt for the City. During the current year, the City recognized \$349,046 of expenditures for serial bond interest.

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

The following is a summary of changes in long-term liabilities for the year ended March 31, 2010:

	Balance 04/01/09	Additions	Redeemed	Balance 3/31/10	Due within One year
Governmental Activities:					
General obligation debt:					
Serial Bonds	\$ 6,225,000	\$ -	\$ 305,000	\$ 5,920,000	\$ 309,000
Other long-term liabilities:					
Due to other governments					
-Courthouse	652,500	-	78,000 *	574,500	68,250
Due to other governments					
-Dwyer Stadium	216,328	-	5,000	211,328	5,000
Due to other governments					
-Landfill	372,563	-	8,372	364,191	-
Installment Purchase Debt	833,941	-	45,800	788,141	48,507
Compensated absences	3,327,436	904,920	887,842	3,344,514	334,451
Other post employment benefits	<u>1,239,518</u>	<u>604,894</u>	<u>-</u>	<u>1,844,412</u>	<u>-</u>
Total governmental activities	<u>\$ 12,867,286</u>	<u>\$ 1,509,814</u>	<u>\$ 1,330,014</u>	<u>\$ 13,047,086</u>	<u>\$ 765,208</u>
Business-type activities:					
General obligation debt:					
Serial Bonds	\$ 2,410,000	\$ -	\$ 185,000	\$ 2,225,000	\$ 186,000
Other long-term liabilities:					
Installment purchase debt	281,550	-	15,464	266,086	16,376
Compensated absences	590,198	96,428	115,083	571,543	57,154
Other post employment benefits	<u>218,739</u>	<u>74,762</u>	<u>58,331</u>	<u>235,170</u>	<u>-</u>
Total business-type activities	<u>\$ 3,500,487</u>	<u>\$ 171,190</u>	<u>\$ 373,878</u>	<u>\$ 3,297,799</u>	<u>\$ 259,530</u>

*The County of Genesee refinanced the serial bond related to the courthouse during February 2010 which reduced future debt service of the City in the amount of \$10,500.

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

c. OTHER LONG-TERM LIABILITIES

Compensated absences - represents a liability for sick and vacation leave accrued by employees and payable upon retirement.

Installment Purchase Debt - The City entered into Energy Performance Contracts for energy conservation improvements and equipment in the current year. Principal and interest payments are made annually. The first payment was made in November, 2007. The interest rate is 3.84%. During the current year, the City recognized \$20,637 of expenditures for their installment purchase debt interest.

Due to other governments - The City shares responsibility for the long-term maintenance of a landfill site in the Town of Batavia. The City's portion of the liability has been estimated at \$364,191 as of March 31, 2010 and is included in the long-term debt recorded by the City, as discussed further in Note 5.A. The City also owes Genesee County a portion of the financing of the Genesee County Courthouse and Dwyer stadium. The liability for these as of March 31, 2010 were \$574,000 and \$211,328, respectively.

- d. DEFERRED COMPENSATION - Beginning in January 1990, all City employees were given the opportunity to defer a portion of their wages to future years. The Plan was established in accordance with Section 457 of the Internal Revenue Code and is administered by Hartford Life Insurance Company. Participation is on a voluntary payroll deduction basis. According to Plan provisions, accumulated contributions are available only for termination, retirement, death or unforeseeable emergency.

All deferred amounts are the property of the Plan participants. The City's responsibility under the Plan is limited to deducting voluntary contributions from participants' wages and transmittal of such deductions to Hartford Life Insurance Company. It is management's opinion that the City has no liability for losses under the Plan but does have the duty of due care that would be required of an ordinary prudent investor. Amounts on deposit with Hartford Life Insurance Company for City employees at March 31, 2010 amounted to \$7,681,632 and are recorded as restricted investments in the Agency Fund.

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

e. MATURITY

Following is a summary of maturities of serial bonds and installment purchase debt:

<u>Issue Description</u>	<u>Original Date Issued</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Date of Final Maturity</u>	<u>Balance</u>
<u>Governmental Funds:</u>					
Serial bonds					
Dwyer and BID	02/01	\$2,859,000	Various	08/21	\$ 1,425,000
Landfill	11/05	1,360,000	Various	11/21	920,557
Equipment	11/05	100,000	Various	11/21	67,688
Dwyer Stadium	11/05	110,000	Various	11/21	74,457
City Centre	11/05	225,000	Various	11/21	152,298
City Centre	11/05	3,580,000	4.25%	11/36	3,280,000
Installment purchase debt	11/06	923,454	1.850%	11/21	788,141
<u>Enterprise Funds:</u>					
<u>Sewer Fund:</u>					
Serial bonds					
State clean water and drinking water	07/99	2,165,590	Various	10/19	1,225,000
State clean water and drinking water	03/03	600,000	Various	04/12	180,000
City Centre	11/05	447,500	4.25%	11/36	410,000
Installment purchase debt	11/06	91,407	1.850%	11/21	78,012
<u>Water Fund:</u>					
Serial bond					
City Centre	11/05	447,500	4.25%	11/36	410,000
Installment purchase debt	11/06	220,364	1.850%	11/21	188,074
					<u>\$ 9,199,227</u>

The following is a summary of maturing debt service requirements for the City's serial bonds and installment purchase debt:

<u>Fiscal Year</u>	<u>Serial Bonds</u>	<u>Interest</u>	<u>Installment Purchase Debt</u>	<u>Interest</u>
2011	\$ 495,000	\$ 330,403	\$ 64,883	\$ 19,503
2012	520,000	311,539	68,648	18,303
2013	530,000	291,557	72,554	17,033
2014	475,000	272,326	76,614	15,691
2015	480,000	253,616	80,831	14,273
2016-2020	2,575,000	957,572	473,269	47,268
2021-2025	1,100,000	540,513	217,428	6,014
2026-2030	1,055,000	332,987	-	-
2031-2035	865,000	95,839	-	-
2036	50,000	2,125	-	-
Total	<u>\$8,145,000</u>	<u>\$3,388,477</u>	<u>\$1,054,227</u>	<u>\$ 138,085</u>

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

The City is permitted by the New York State Constitution to issue indebtedness up to 7% of the most recent five-year average full valuation of taxable real property. Certain indebtedness is excluded from this limit. In the fiscal year, the five-year average full valuation was \$495,019,415 allowing the City to incur debt up to \$34,651,359. Currently, the City has \$7,070,019 in debt chargeable against the debt limit, leaving an available margin of \$27,581,340.

NOTE 4 - STEWARDSHIP, COMPLIANCE, ACCOUNTABILITY

A. Deficit Fund Balance/ Net Assets

Self Insurance Fund - The City continues to at least minimize, if not eliminate past claims that have not been typical in the self-insured workers' compensation history.

NOTE 5 - COMMITMENTS AND CONTINGENCIES

A. LANDFILL CLOSURE COSTS

The City has been identified by the United States Environmental Protection Agency (EPA) as a responsible party which can be held liable for a portion of the long-term maintenance and operation of a landfill site in the Town of Batavia.

The cost for the long-term maintenance and operation of the landfill has been estimated to be approximately \$485,589. All parties designated as potentially responsible parties by the EPA participated in a Pilot Allocation Program. As a result of the Pilot Allocation Program, 75% of the long-term operation and maintenance have been allocated to the City, or \$364,191. As of March 31, 2010, a liability has been recorded in the Governmental activities funds for future maintenance and operation costs.

B. COUNTY WATER AGREEMENT

During the year ended March 31, 2001, the City entered into an agreement with Genesee County whereby the County has assumed responsibility for the production, treatment, operation, maintenance and/or supply of municipal water. Under the terms of the agreement, the County has agreed to lease the City's water supply and treatment facilities for a term not to exceed 10 years. The agreement also calls for the transfer of title to, access to, and/or rights to the County for certain machinery and equipment used in connection with the water supply and treatment facility. In addition, the City entered into an operational agreement with the County to operate and maintain the facilities. In exchange, the City has agreed to purchase water from the County on a wholesale basis. The rate in effect for the fiscal year ended March 31, 2010 was \$4.08 per the first 1,000 gallons and \$3.40 per 1,000 gallons over 300,000 gallons. This rate is subject to adjustment on April 1st of each subsequent year.

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - COMMITMENTS AND CONTINGENCIES (Continued)

C. RISK FINANCING AND RELATED INSURANCE

Health Insurance Plan

The City independently self-insures costs related to an employee health insurance plan (the Plan). The Plan's objectives are to formulate, develop, and administer a health insurance program to obtain lower costs for coverage, and to develop a comprehensive loss control program. The Plan uses reinsurance agreements to reduce exposure to large losses on insured events. Reinsurance permits recovery of a portion of the losses from the reinsurer, although it does not discharge the liability of the Plan as a direct insurer of the risks reinsured.

Since actual claim costs depend on complex factors, the process of computing claim liabilities does not necessarily result in an exact amount. Such liabilities are based on the ultimate cost of claims (including future claim adjustment expenses) that have been incurred but not charged or credited to expense in the periods in which they are made. As of March 31, 2010, the City recorded liabilities in the amounts of \$156,793, \$16,664 and \$15,906 in the General, Water and Sewer Funds, respectively, for incurred but not reported insured events.

Workers' Compensation Plan

The City was previously independently self-insured for costs related to an employee workers' compensation plan (the Plan). However, during the fiscal year ended March 31, 2009, the City changed to a premium based plan. Any claims incurred during the period in which the City was independently self-insured continue to be the responsibility of the City. The formerly self-insured plan's objectives were to formulate, develop, and administer a workers' compensation program to obtain lower costs for coverage, and to develop a comprehensive loss control program. The former Plan uses reinsurance agreements to reduce exposure to large losses on insured events. Reinsurance permits recovery of a portion of the losses from the reinsurer, although it does not discharge the liability of the Plan as a direct insurer of the risks reinsured.

Since actual claim costs depend on complex factors, the process of computing claim liabilities does not necessarily result in an exact amount. Such liabilities are based on the ultimate cost of claims (including future claim adjustment expenses) that have been incurred but not charged or credited to expense in the periods in which they are made. As of March 31, 2010, the City has recorded a liability for future costs associated with open claims of \$284,738. The City has not consulted an actuary and has not estimated a liability for incurred but not reported claim liabilities.

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - COMMITMENTS AND CONTINGENCIES (Continued)

D. LITIGATION

The City is a defendant in various lawsuits. Although the outcome of these suits is not presently determinable, in the opinion of the City's Corporation Counsel, the resolution of these matters will not have a material adverse effect on the financial condition or results of operation.

NOTE 6 - STEWARDSHIP, COMPLIANCE, ACCOUNTABILITY

A. OVERDRAWN APPROPRIATIONS

Expenditures for the year ended March 31, 2010 exceeded appropriations in the General Fund for home and community services by \$82,184.

NOTE 7 - FUTURE GASB PRONOUNCEMENTS

A. ACCOUNTING AND FINANCIAL REPORTING FOR INTANGIBLE ASSETS

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. Intangible assets, and more specifically easements, are referred to in the description of capital assets in Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis—for State and Local Governments*.

This reference has created questions as to whether and when intangible assets should be considered capital assets for financial reporting purposes. An absence of sufficiently specific authoritative guidance that addresses these questions has resulted in inconsistencies in the accounting and financial reporting of intangible assets among state and local governments, particularly in the areas of recognition, initial measurement, and amortization. The objective of this statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.

This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The City is required to adopt the provisions of Statement No. 51 for the year ended March 31, 2011. However, it is anticipated that the implementation of this standard will not have a material effect on the City's financial statements.

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - FUTURE GASB PRONOUNCEMENTS (Continued)

B. FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITIONS

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which will be effective for the City beginning with its year ending March 31, 2012. Statement No. 54 is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. It distinguishes fund balance between amounts that are considered *nonspendable*, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts will be reported in the following classifications such as restricted, committed, assigned and unassigned.

The new standards also clarify the definitions of individual governmental fund types. It interprets certain terms within the definition of special revenue fund types, while further clarifying the debt service and capital projects fund type definitions. The final standard also specifies how economic stabilization or "rainy-day" amounts should be reported. GASB Statement No. 54 is effective for financial statements for periods beginning after June 15, 2010. Governments that wish to implement earlier than that date are encouraged to do so.

C. OPEB MEASUREMENTS BY AGENT EMPLOYERS AND AGENT MULTIPLE-EMPLOYER PLANS

In December 2009, GASB issued Statement No. 57 which addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. (In agent multiple-employer plans, separate liabilities are calculated and separate asset accounts are kept for each participating government, rather than being administered and accounted for as a single plan as is done in a cost-sharing plan). GASB Statement No. 57 amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

This Statement enables certain agent employers to use the alternative measurement method, a less complex and potentially less expensive alternative to a full actuarial valuation. It also adjusts the requirement that a defined benefit OPEB plan obtain an actuarial valuation, in light of the change allowing more qualifying employers to use the alternative measurement method and clarifies that the same frequency and timing of determining OPEB measures are required for both agent multiple-employer plans and their participating employers. GASB Statement No. 57 is effective for financial statements for periods beginning after June 15, 2011, however, earlier application of this Statement is encouraged.

CITY OF BATAVIA, NEW YORK
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - DISCONTINUED OPERATIONS

On January 26, 2009, the City Council passed a resolution to discontinue all Ambulance Fund operations effective September 1, 2009. The assets of the Ambulance Fund were transferred to the General Fund or sold with the proceeds used to reduce the interfund loan owed to the General Fund.

CITY OF BATAVIA, NEW YORK
SCHEDULE OF FUNDING PROGRESS FOR RETIREE HEALTH PLAN
FOR THE YEAR ENDED MARCH 31, 2010

<u>Schedule of Funding Progress</u>	<u>Actuarial Valuation Date</u> <u>04/01/09</u>
1. Currently retired liability	\$ 2,059,122
2. Actives eligible to retire	2,639,022
3. Actives not yet eligible	<u>4,524,455</u>
4. Actuarial Accrued Liability	9,222,599
5. Actuarial Value of Assets	-
6. Unfunded Actuarial Accrued Liability	<u>9,222,599</u>
7. Funded Ratio (5. divided by 4.)	0%
8. Annual Covered Payroll	N/A
9. Ratio of Unfunded Actuarial Accrued Liability to Covered Payroll	N/A

<u>Schedule of Employer Contributions</u>	<u>Fiscal Year Ending</u> <u>3/31/10</u>
	\$ 205,746

The City elected to implement GASB Statement No. 45 prospectively.

CITY OF BATAVIA, NEW YORK
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2010

	Original Budget	Modified Budget	Actual	Variance From Modified Budget
REVENUES:				
Real property taxes	\$ 5,274,769	\$ 5,274,769	\$ 5,274,270	\$ (499)
Real property tax items	204,500	204,500	339,023	134,523
Sales and other taxes	5,537,967	5,537,967	5,439,977	(97,990)
Departmental income	153,763	161,263	213,641	52,378
Use of money and property	106,300	106,300	52,622	(53,678)
Licenses and permits	52,580	52,580	139,239	86,659
Fines and forfeitures	197,500	197,500	215,779	18,279
Sale of property and compensation for loss	3,500	3,500	64,653	61,153
Miscellaneous local sources	159,503	159,503	470,944	311,441
State and federal sources	2,614,568	3,116,057	2,815,468	(300,589)
Total revenues	14,304,950	14,813,939	15,025,616	211,677
EXPENDITURES:				
General government	2,382,082	2,196,060	1,511,381	684,679
Public safety	6,584,500	6,364,795	6,310,017	54,778
Health	15,550	15,550	15,550	-
Transportation	2,153,130	2,058,595	1,845,093	213,502
Economic assistance and opportunity	30,500	102,734	87,159	15,575
Culture and recreation	720,840	659,273	633,838	25,435
Home and community services	44,785	113,590	200,976	(87,386)
Recycling	1,022,930	1,022,930	989,539	33,391
Employee benefits	443,825	1,455,015	1,260,510	194,505
Debt service:				
Principal	668,301	668,301	418,300	250,001
Interest	413,077	413,077	405,587	7,490
Total expenditures	14,479,520	15,069,920	13,677,950	1,391,970
Excess (deficit) of revenues over expenditures	(174,570)	(255,981)	1,347,666	1,603,647
OTHER FINANCING SOURCES (USES):				
Interfund transfers in	555,000	555,000	309,904	(245,096)
Interfund transfers out	(235,430)	(235,430)	(1,181,770)	(946,340)
Funding of reserves	(145,000)	(145,000)	-	145,000
Appropriated fund balance	-	81,411	-	(81,411)
Total other financing sources (uses)	174,570	255,981	(871,866)	(1,127,847)

See independent auditor's report.

CITY OF BATAVIA, NEW YORK
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2010
(Continued)

	Original Budget	Modified Budget	Actual	Variance From Modified Budget
Net change in fund balance	-	-	475,800	475,800
Fund balance - beginning of year	-	-	2,321,563	2,321,563
Fund balance - end of year	\$ -	\$ -	\$ 2,797,363	\$ 2,797,363

See independent auditor's report.

SECTION B
SUPPLEMENTAL SCHEDULES

CITY OF BATAVIA, NEW YORK
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
MARCH 31, 2010

	Special Grant Fund	Self Insurance	Parking Authority Fund	Mall Maintenance Fund	Small Cities Fund	Business Improvement District	Total Non-Major Governmental Funds
ASSETS:							
Cash and cash equivalents	\$ 471,650	\$ 113,116	\$ -	\$ 88,011	\$ 118,598	\$ -	\$ 791,375
Accounts receivable	-	20,333	-	6,144	-	-	26,477
Loan receivables (net of allowance for uncollectible accounts of \$22,804 in the Special Grant Fund)	204,087	-	-	-	157,248	-	361,335
Due from other funds	-	-	-	4,096	-	-	4,096
Prepaid expenses	-	31,849	-	-	-	-	31,849
Total assets	\$ 675,737	\$ 165,298	\$ -	\$ 98,251	\$ 275,846	\$ -	\$ 1,215,132
LIABILITIES AND FUND BALANCE:							
LIABILITIES:							
Accounts payable	\$ -	\$ 3,625	\$ -	\$ 7,113	\$ -	\$ -	\$ 10,738
Accrued liabilities	-	284,738	-	315	-	-	285,053
Total liabilities	-	288,363	-	7,428	-	-	295,791
FUND BALANCE:							
Undesignated (deficit)	675,737	(123,065)	-	90,823	275,846	-	919,341
Total fund balance (deficit)	675,737	(123,065)	-	90,823	275,846	-	919,341
Total liabilities and fund balance	\$ 675,737	\$ 165,298	\$ -	\$ 98,251	\$ 275,846	\$ -	\$ 1,215,132

See independent auditor's report.

CITY OF BATAVIA, NEW YORK
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2010

	Special Grant Fund	Self Insurance	Parking Authority Fund	Mall Maintenance Fund	Small Cities Fund	Business Improvement District	Total Non-Major Governmental Funds
REVENUES:							
Special assessments	\$ -	\$ -	\$ -	\$ 153,576	\$ -	\$ -	\$ 153,576
Use of money and property	8,306	929	6	4,869	2,282	5	16,397
Sale of property and compensation for loss	2,571	59,720	-	-	2,308	-	64,599
Total revenues	10,877	60,649	6	158,445	4,590	5	234,572
EXPENDITURES:							
General government	-	249,749	-	-	-	73	249,822
Economic assistance and opportunity	-	-	-	187,534	-	-	187,534
Home and community services	(24,650)	-	-	-	26,673	-	2,023
Employee benefits	-	181,070	-	-	-	-	181,070
Total expenditures	(24,650)	430,819	-	187,534	26,673	73	620,449
Excess (deficit) of revenues over expenditures	35,527	(370,170)	6	(29,089)	(22,083)	(68)	(385,877)

See independent auditor's report.

CITY OF BATAVIA, NEW YORK
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2010

(Continued)

	Special Grant Fund	Self Insurance	Parking Authority Fund	Mall Maintenance Fund	Small Cities Fund	Business Improvement District	Total Non-Major Governmental Funds
OTHER FINANCING SOURCES:							
Interfund transfers in	-	286,100	-	-	-	-	286,100
Interfund transfers out	-	-	(2,954)	-	-	-	(2,954)
Total other financing sources	-	286,100	(2,954)	-	-	-	283,146
Net change in fund balances	35,527	(84,070)	(2,948)	(29,089)	(22,083)	(68)	(102,731)
Fund balances (deficit) - beginning of year	640,210	(38,995)	2,948	119,912	297,929	68	1,022,072
Fund balances (deficit) - end of year	\$ 675,737	\$ (123,065)	\$ -	\$ 90,823	\$ 275,846	\$ -	\$ 919,341

See independent auditor's report.

SECTION C
FEDERAL FINANCIAL ASSISTANCE

CITY OF BATAVIA, NEW YORK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2010

<u>Federal Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Justice</u>			
Direct Program:			
None			
Passed through New York State:			
Bulletproof Vest Partnership Program	16.607	2009BUBX09046584	\$ 369
Recovery Act Edward Byrne Memorial Justice Assistance Grant (JAG Program)/Grants to Units of Local Government	16.084	2009SBB92032	16,286
<u>U.S. Department of Transportation</u>			
Passed through New York State:			
Federal Highway Administration	20.205*	D024533/475340322	3,514,547
<u>U.S. Department of Housing and Urban Development</u>			
Passed through New York State:			
Community Development Block Grants	14.228	82-PW109-09	3,732
Community Development Block Grants	14.228	82-CP13-08	<u>25,000</u>
Total Expenditures of Federal Awards			<u>\$ 3,559,934</u>

*Denotes Major Program

CITY OF BATAVIA, NEW YORK
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2010

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of all federal financial assistance programs administered by the City of Batavia, New York (the City). The information in this schedule was prepared on the accrual basis of accounting and is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE 2 - BASIS OF ACCOUNTING

The amounts reported as federal expenditures generally were obtained from federal financial reports for the applicable program and period. The amounts reported in these federal financial reports are prepared from records maintained for each program. These records are periodically reconciled to the general ledger which is the source of the general purpose financial statements.

NOTE 3 - PASS-THROUGH GRANTOR

The federal financial assistance received was passed-through departments of the State of New York.

NOTE 4 - MAJOR PROGRAM DETERMINATION

All federal programs with expenditures exceeding the greater of 3% of the total federal awards or \$300,000 are considered Type A programs, and all federal programs with expenditures exceeding the greater of .3% of the total federal awards or \$100,000 are considered Type B programs. These programs were then further evaluated and major programs were selected.

SECTION D
INTERNAL CONTROL AND COMPLIANCE



**Independent Auditor's 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**

The President and Members of the Council of the City of Batavia
Batavia, New York

We have audited the financial statements of the City of Batavia, New York, (the City) as of and for the year ended March 31, 2010, and have issued our report thereon dated July 26, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 10-1 to be a significant deficiency in internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City in a separate letter dated July 26, 2010.

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

Freed Maxick & Battaglia, CPAs, PC

Batavia, New York
July 26, 2010



Freed Maxick & Battaglia, CPAs, PC

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance In Accordance with OMB Circular A-133

The President and Members of the Council of the City of Batavia
Batavia, New York

Compliance

We have audited the compliance of the City of Batavia, New York, (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2010. The City's major federal programs are identified in the summary of audit results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2010.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of the 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Freed Maxick & Battaglia, CPAs, PC

Batavia, New York
July 26, 2010

CITY OF BATAVIA, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2010

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiencies identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weakness(es) ☐ Yes ☒ None

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

- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major programs:

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

Dollar threshold used to distinguish between Type A and type B programs (3% of total federal awards) \$ 300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

CITY OF BATAVIA, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2009
(Continued)

II. FINDINGS - FINANCIAL STATEMENT AUDIT

10-1 Financial Accounting and Reporting

Condition: Management requests us to draft the City's annual audited financial statements and footnote disclosures. As part of this process, we identify and recommend various audit adjustments required to ensure the financial statements are fairly stated in conformity with generally accepted accounting principles. Because an auditor cannot be part of a municipality's system of internal control, we believe management's need for our assistance results in a significant deficiency in internal control over financial reporting.

Criteria: An auditor cannot be part of the City's internal control. Accordingly, we believe management's need for our assistance results in a significant deficiency in the City's internal control over financial reporting.

Effect: Management requests that we draft the annual audited financial statements and footnote disclosures.

Recommendation: While a significant deficiency of this nature is typical of municipalities of your size and structure, we recommend management consider additional training to ensure that they completely understand the accounting and reporting requirements of generally accepted accounting principles.

Management Response: The audit adjustments have been reduced 50% from the year ending 3/31/2008 to 3/31/2009 and an additional 30% from the year ending 3/31/2009 to 3/31/2010. It is the City's intent to continue to reduce the number of entries required at year end.

CITY OF BATAVIA, NEW YORK
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2009

FINDINGS - FINANCIAL STATEMENT AUDIT

09-1 Financial Accounting and Reporting

Condition: Management requests us to draft the City's annual audited financial statements and footnote disclosures. As part of this process, we identify and recommend various audit adjustments required to ensure the financial statements are fairly stated in conformity with generally accepted accounting principles. Because an auditor cannot be part of a municipality's system of internal control, we believe management's need for our assistance results in a significant deficiency in internal control over financial reporting.

Criteria: An auditor cannot be part of the City's internal control. Accordingly, we believe management's need for our assistance results in a significant deficiency in the City's internal control over financial reporting.

Effect: Management requests that we draft the annual audited financial statements and footnote disclosures.

Status: See 10-1.

09-2 Interfund Loans

Condition: The City incurs loans between the various funds in the normal course of operations. This is a normal event; however, the funds' ability to repay must be assessed and if there is not the intent or ability to repay the borrowed funds in the course of the subsequent year the loan becomes suspect.

Criteria: Any borrowed funds must be repaid in the year subsequent to the loan.

Effect: Borrowed funds are not repaid in the subsequent year and the loan becomes suspect.

Status: There was no reoccurrence of this finding in the current year.

SECTION E
NYSDOT STATE SINGLE AUDIT PROGRAM



Freed Maxick & Battaglia, CPAs, PC

Independent Auditor's Report on Compliance and Internal Control Over State Transportation Assistance Expended Based on an Audit of Basic Financial Statements Performed in Accordance with Government Auditing Standards

The President and Members of the Council of the City of Batavia
Batavia, New York

Compliance

We have audited the compliance of the City of Batavia, New York, (the City) with the types of compliance requirements described in the preliminary Draft Part 43 of the New York State Codification of Rules and Regulations (NYCRR) that are applicable to the major state transportation assistance program for the year ended March 31, 2010. The major state transportation assistance program is identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major state transportation assistance program is the responsibility of City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 Draft 43 of NYCRR. Those standards and Draft Part 43 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 the major state transportation assistance program has occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major state transportation assistance program for the year ended March 31, 2010.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state transportation assistance programs tested. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on the state transportation assistance program tested in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Draft Part 43 of NYCRR.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to state transportation assistance programs tested, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of State Transportation Assistance Expended

We have audited the basic financial statements of the City of Batavia as of and for the year ended March 31, 2010, and have issued our report thereon dated July 26, 2010. Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City taken as a whole. The accompanying schedule of state transportation assistance expended is presented for purposes of additional analysis as required by Draft Part 43 of NYCRR, and is not a required part of the basic financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the members of the City Council, management and the New York State Department of Transportation and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Freed Maxick & Battaglia, CPAs, PC

Batavia, New York
July 26, 2010

CITY OF BATAVIA, NEW YORK
SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED
FOR THE YEAR ENDED MARCH 31, 2010

<u>Grantor/Program Title</u>	<u>NYSDOT</u> <u>Contract/Reference</u> <u>Number</u>	<u>Expenditures</u>
U.S. Department of Transportation Passed through New York State Department of Transportation		
Walnut Street Project	D024533	\$ 677,048
CHIPs Aid	N/A	215,476
Arterial Maintenance	N/A	<u>166,408</u>
Total Expenditures of NYSDOT Assistance		<u>\$ 1,058,932</u>

CITY OF BATAVIA, NEW YORK
NOTES TO SCHEDULE OF STATE TRANSPORTATION
ASSISTANCE EXPENDED
FOR THE YEAR ENDED MARCH 31, 2010

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of State Transportation Assistance Expended by the City of Batavia, New York (the City), an entity as defined in Note 1 to the City's basic financial statements, presents the activity of all financial assistance programs provided by the New York State Department of Transportation.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying Schedule of State Transportation Expended is presented using the accrual basis of accounting.

CITY OF BATAVIA, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR
STATE TRANSPORTATION ASSISTANCE EXPENDED
FOR THE YEAR ENDED MARCH 31, 2010

SUMMARY OF AUDIT RESULTS

1. No significant deficiencies relating to the audit of the schedule of state transportation assistance expended are reported in the independent auditor's report on compliance and internal control over state transportation assistance expended based on an audit of basic financial statements performed in accordance with *Government Auditing Standards*.
2. The auditor's report on compliance for state transportation assistance program tested for the City of Batavia expresses an unqualified opinion.
3. No audit findings relative to the state transportation assistance program tested are reported in this schedule.
4. The major state transportation assistance program tested was the Walnut Street Project (NYSDOT Contract No. D024533).

COMPLIANCE FINDINGS AND QUESTIONED COSTS

No findings or questioned costs were noted in the current year.

