

**AUDITED
BASIC FINANCIAL STATEMENTS**

CITY OF BATAVIA, NEW YORK

MARCH 31, 2012

CITY OF BATAVIA, NEW YORK

TABLE OF CONTENTS

Page

SECTION A
FINANCIAL SECTION

Independent Auditor's Report	
Management's Discussion and Analysis	1-21
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
Statement of Revenues, Expenses and Changes in Net Assets - Enterprise Funds	A11
Statement of Cash Flows - Enterprise Funds	A12
Statement of Net Assets - Fiduciary Funds	A13
Statement of Changes in Net Assets - Fiduciary Fund	A14
Notes to Basic Financial Statements	A15-A35
Schedule of Funding Progress for Retiree Health Plan	A36
Budgetary Comparison Schedule for the General Fund	A37

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

CITY OF BATAVIA, NEW YORK

**TABLE OF CONTENTS
(Continued)**

Page

SECTION C
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 <i>Government Auditing Standards</i>	C1-C2
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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, 2012, 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 opinions 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, 2012, 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.

As stated in Note 1, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 1, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress for retiree health plan, and budgetary comparison schedule on pages 1 through 21, A36 and A37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The supplemental schedules, as listed on the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the supplemental schedules, as listed in the table of contents, are fairly stated in all material respects in relation to the financial statements as a whole.

Freed Maxick CPAs, P.C.

Batavia, New York
August 1, 2012

Management's Discussion and Analysis

City of Batavia, New York

Fiscal Year ended March 31, 2012

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, 2012. 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, 2012, the City continued to move forward cautiously in a positive direction towards a more healthy and stable financial condition. This is the fourth consecutive year the City has maintained a positive unassigned fund balance; however, short and long-term challenges such as, increasing retirement costs, active and retiree healthcare costs, a non-growth tax base and state mandates (ie. the property tax cap) may 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:

- A continued general fund surplus
- Healthy operations in general, water and sewer funds
- The commitment of unexpected revenue to reserve funds for one-time equipment purchases and infrastructure improvements
- The formal adoption of fiscal policies such as a Fund Balance Policy and monthly financial monitoring

These efforts along with continued 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 \$1,899,625 at March 31, 2012. This was largely related to an improvement in property tax revenue collections, increase in sales tax receipts, and conservative budgeting practices.
- The funding of reserves for anticipated liabilities/costs in order to avoid larger tax burdens in future years remained a priority with City Council. General fund reserve balances increased over prior year by \$386,000.
- Adopting a Fund Balance Policy and increasing financial reporting to the City Council supported the City's commitment to conservative budgeting and strong fiscal planning.

- The Walnut Street Reconstruction project remains open while the City diligently seeks reimbursement payments from New York State. Both Ellicott Streetscape and North/Ross sewer projects were completed and closed in the year ending March 31, 2012. The City paid down a portion of a consolidated BAN and rolled over the remaining, \$1,767,000, in June 2011 at an interest rate of 0.80%. These funds will be used to finance the Walnut Street Reconstruction project, the continuation of Cedar and Summit Street projects and water improvements as planned for in the City's Water & Sewer Capital Infrastructure Plan.
- New York State AIM (Aid and Incentives for Municipalities) decreased by 4.0%, or \$74,215, in the year ending March 31, 2012. New York State reduced funding streams overall for Youth Bureau service by 28% in 2012 which followed a 25% reduction in 2011. In total the Youth Bureau's State funding dropped from \$35,745 in 2011 to \$25,686 in 2012. The State also eliminated Assessment Parcel Reimbursement in 2012 for a reduction of \$22,000. In total, reduction in State aid from 2011 to 2012 amounted to approximately \$106,000.

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.

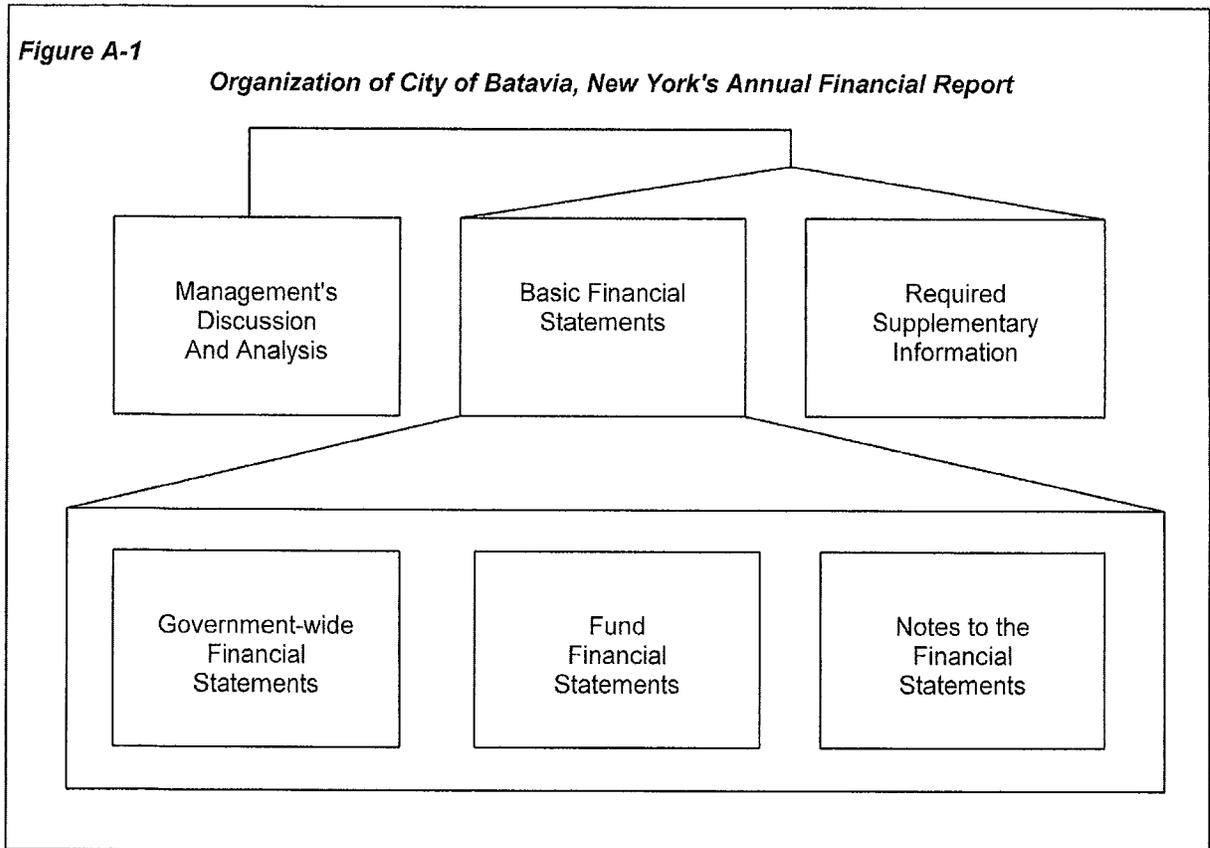


Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each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

Figure A-2			
Major Features of the Government-wide and Fund Financial Statements			
		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 of 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/out-flow information	All revenues and expenses 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 expenses 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, 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 and sewer 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 provided with 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 two enterprise funds. The City's enterprise funds are the water and sewer 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, both 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 few years the City has focused their efforts on proactive and strategic planning emphasizing the City's financial health with specific measured results reviewed every quarter. Through these efforts and with multi-year financial planning, the City is committing to and preparing for long-term financial stability. These plans include:

- **The Annual budget.** In reflecting on the City's multi-year financial plan, the City strives to maintain a responsible tax rate. The City continues to closely monitor expenses and conservatively budget revenue. In addition, for the first time in many years, the City's FY 12/13 budget calls for appropriating fund balance in the amount of \$100,000. This is directly responsive to the State's high projection of retirement costs, the increase in health insurance costs, the decrease in state aid and the unreliable growth in sales tax.
- **Strategic use of unexpected revenues and/or surpluses.** The City uses one-time revenues/surpluses such as Video Lottery Terminal aid (VLT) to offset capital project expenses, build fund balance and reserves, and assist in purchasing equipment. The City remains cautiously optimistic and budgetary conservative as major revenue sources such as sales tax and State aid continue to be stagnant and inconsistent.
- **The City's Strategic Plan.** The intent of the City's Strategic Plan is to allocate available resources to best meet the needs of City residents, while balancing the environmental factors that may affect us in the future. Created during the fiscal year ending March 31, 2011, the strategic plan began with a survey of citizens that progressed to creating strategic priorities defined by directional statements. The seven strategic priorities created are as follows: Financial Health, Government Efficiency, Environmental Sustainability, Public Safety, Health & Involved Community Members, and Economic Development & Job Creation. The City then developed a performance measurement system to monitor the strategic priorities. Key intended outcomes linked to the strategic priorities with associated performance goals became the basis for the annual budget and ultimately the City's Business Plan was created. Fiscal year ending March 31, 2012 was a success in that the City achieved nearly all of its identified Key Intended Outcomes. There are plans to re-evaluate strategic priorities with City Council during the 12/13 fiscal year.

- Invest in and maintain City vehicles, equipment, infrastructure and facilities and strive to adhere to a sound replacement program. 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. A Water & Sewer Capital Infrastructure Plan was developed and adopted by City Council in the fiscal year ending March 31, 2010 to plan and budget for future water and sewer infrastructure expenses. An equipment replacement plan has also been developed to assist with investing in and replacing the City's fleet of vehicles and equipment. Over the past two years the City has replaced over \$1 million of equipment and vehicles utilizing resources from reserve and operational funds. Continued planning and investment is needed for long-term stable operations, otherwise one-time equipment and emergency purchases, facility repairs and infrastructure replacement may force the City to unwillingly increase tax rates and debt service levels to meet service demands.
- The City's sales tax revenue, which traditionally accounts for approximately 34% - 36% of the City's general fund revenue, has increased each quarter in the fiscal year ending March 31, 2012 when compared to the prior year. In total for the year sales tax increased 6.7% or \$359,977 compared to the prior year. However, this is the first time sales tax receipts have peaked above the fiscal year ending March 31, 2009 level, \$5,499,806. This revenue remains unreliable and is economically sensitive; conservative budgeting remains a necessity.

New York State continued to reduce AIM (Aid and Incentives for Municipalities) allocations for communities across the state. The impact on the City of Batavia in the year ending March 31, 2012 amounted to a decrease of 4.0% or \$74,215 in AIM funding. Accompanied with prior decreases in Assessment Parcel Reimbursement and Youth Bureau aid, the City will have experienced a decrease of approximately \$143,082 in State aid from the year ending March 31, 2010 to the year ending March 31, 2012.

- In the previous fiscal year, the State passed legislation implementing a property tax cap which will cap year-to-year growth in the tax levy at the lesser of 2% or CPI, whichever is lower. The tax cap is accompanied by the following exclusions: legal settlements exceeding 5% of the prior year levy, increases in the average actuarial contribution rates for ERS & PFRS in excess of 2% of payroll, and a tax base growth factor. There has been no significant mandate relief to coincide with the passage of this bill. The tax cap reduce's the City's ability to react to unforeseen changes in the financial climate, however, the tax cap legislation can be overridden by a 60% majority of the City Council which is in the form of adopting a one year local law.

Capital Projects

The Walnut Street Reconstruction project was completed in the prior fiscal year but remains open due to delays in state reimbursement. The Ellicott Streetscape and North/Ross sewer projects were completed and closed during the year. Remaining open at year end are Cedar Street and Summit Street Reconstruction projects as they are both in the final design phases. The Bank Street Water and Sewer Infrastructure Improvement project is complete but remains open as final invoices are processed.

Exhibit 3

Condensed Statement of Net Assets
(in thousands of dollars)

	Governmental Activities		Total Percentage Change	Business-Type Activities		Total Percentage Change
	2012	2011		2012	2011	
Current and other assets	\$ 11,130	\$ 11,348	-1.92%	\$ 9,089	\$ 9,366	-2.96%
Capital assets, net	17,556	17,636	-0.45%	28,961	29,330	-1.26%
Total assets	\$ 28,686	\$ 28,984	-1.03%	\$ 38,050	\$ 38,696	-1.67%
Long-term liabilities	\$ 12,263	\$ 12,202	0.50%	\$ 2,793	\$ 2,953	-5.42%
Other liabilities	3,526	5,069	-30.44%	1,426	2,180	-34.59%
Total liabilities	15,789	17,271	-8.58%	4,219	5,133	-17.81%
Invested in capital assets, net of related debt	10,582	9,338	13.32%	26,343	28,142	-6.39%
Restricted for:						
Insurance	410	584	-29.79%	-	-	0.00%
Capital projects	1,321	878	50.46%	3,445	3,355	2.68%
Employee benefit accrued liability	276	190	45.26%	-	-	0.00%
Retirement contributions	311	200	55.50%	-	-	0.00%
Other purposes	29	-	100.00%	-	-	0.00%
Special grant	406	547	-25.78%	-	-	0.00%
Unrestricted (deficit)	(438)	(24)	-1725.00%	4,043	2,066	95.69%
Total net assets	12,897	11,713	10.11%	33,831	33,563	0.80%
Total liabilities and and net assets	\$ 28,686	\$ 28,984	-1.03%	\$ 38,050	\$ 38,696	-1.67%

Governmental Activities

Governmental activities increased the City's net assets by \$1,183,653. Key elements of this increase are as follows:

- Expenses increased \$2,912,696 over the prior year. This increase was related to a number of planned and strategic events.
 - \$10,000 was budgeted for economic development through general fund operations and an additional \$80,000 funding through the City's revolving loan funds.
 - Increase in grants awarded to City businesses through the City's revolving loan funds totalling approximately \$48,000.
 - Grant spending in the amount of \$1,664,304, which was offset by the receipt of grant revenue for the Masse Gateway Redevelopment Project.
 - Approximately \$403,672 of reserves were used to purchase equipment and to fund liabilities as they came due.
 - \$249,000 was used for street maintenance and for Agri-Business Park preparation. This was offset by revenue received from CHIPS and the GCEDC.
 - Health Insurance costs increased \$172,583 and Refuse and Recycling expenses increased \$75,335, most of which was anticipated in the budget.
- Revenues increased \$1,882,963 over the prior year. As noted above, the increase in revenues are directly associated with and offsetting expenses as follows:
 - \$1,664,304 grant revenue was received. \$1,500,000 was the Restore New York grant used for the Masse Gateway Redevelopment Project. Other grants received during the year were for the Community Development Block Grant housing rehabilitation program.
 - \$249,000 in revenue resulted in payments received for the City's assistance in preparing the Agri-Business Park for future development and from CHIPS for street maintenance.
 - The City received \$77,000 reimbursement from our Workers Comp insurance carrier in reimbursement for expenses paid out by the City.
 - \$167,941 of revenue came to the City in the form of reimbursement for the Cedar Street and Summit Street reconstruction project expenses currently in the design stage.

Business-Type Activities

Business-type activities increased the City's net assets by \$268,385. Key elements of this increase are as follows:

- Retirements in the City's Sewer Fund in the prior year caused a decrease in compensated absence liability, thus decreasing personnel expenses in that year. Over all, expenses increased \$86,362 over the prior year.
- Overall revenues are down in both funds compared to last year. Both funds had received \$407,268 in state and federal grant revenue for the Bank Street reconstruction project in the prior year. Sewer and water rents increased over the prior year by \$79,916 and \$160,551, respectively.

Exhibit 4

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

	Governmental Activities		Total Percentage Change	Business-Type Activities		Total Percentage Change
	2012	2011		2012	2011	
Program Revenues:						
Charges for services	\$ 1,001	\$ 716	39.80%	\$ 4,841	\$ 4,625	4.67%
Operating grants and contributions	759	750	1.20%	2,165	2,788	-22.35%
Capital grants and contributions	1,668	316	427.85%	-	-	0.00%
General Revenues:						
Property taxes, special assessments and property tax items	5,928	5,757	2.97%	-	-	0.00%
Non-property taxes	6,190	5,835	6.08%	-	-	0.00%
Interest earnings	70	75	-6.67%	23	27	-14.81%
State and federal sources	1,891	1,977	-4.35%	-	-	0.00%
Miscellaneous	629	825	-23.76%	1	3	-66.67%
Total revenues	18,136	16,251	11.60%	7,030	7,443	-5.55%
Program Expenses:						
General government	2,276	2,013	13.07%	-	-	0.00%
Police	3,489	3,592	-2.87%	-	-	0.00%
Fire	4,036	3,696	9.20%	-	-	0.00%
Public safety	315	244	29.10%	-	-	0.00%
Health	34	32	6.25%	-	-	0.00%
Transportation	2,371	2,012	17.84%	-	-	0.00%
Economic assistance	309	160	93.13%	-	-	0.00%
Culture and recreation	1,029	919	11.97%	-	-	0.00%
Home and community service	2,100	417	403.60%	6,408	6,326	1.30%
Refuse and recycling	1,052	974	8.01%	-	-	0.00%
Interest on debt	295	333	-11.41%	-	-	0.00%
Total expenses	17,306	14,392	20.25%	6,408	6,326	1.30%
Increase in net assets before transfers	830	1,859	-55.35%	622	1,117	-44.32%
Transfers	354	335	-5.67%	(354)	(335)	5.67%
Increase in net assets	1,184	2,194	-46.03%	268	782	-65.73%
Net assets-beginning of year	11,713	9,519	23.05%	33,563	32,781	2.39%
Net assets-end of year	\$ 12,897	\$ 11,713	10.11%	\$ 33,831	\$ 33,563	0.80%

Exhibit 5

**Revenues for Governmental Activities
Fiscal Year 2012**

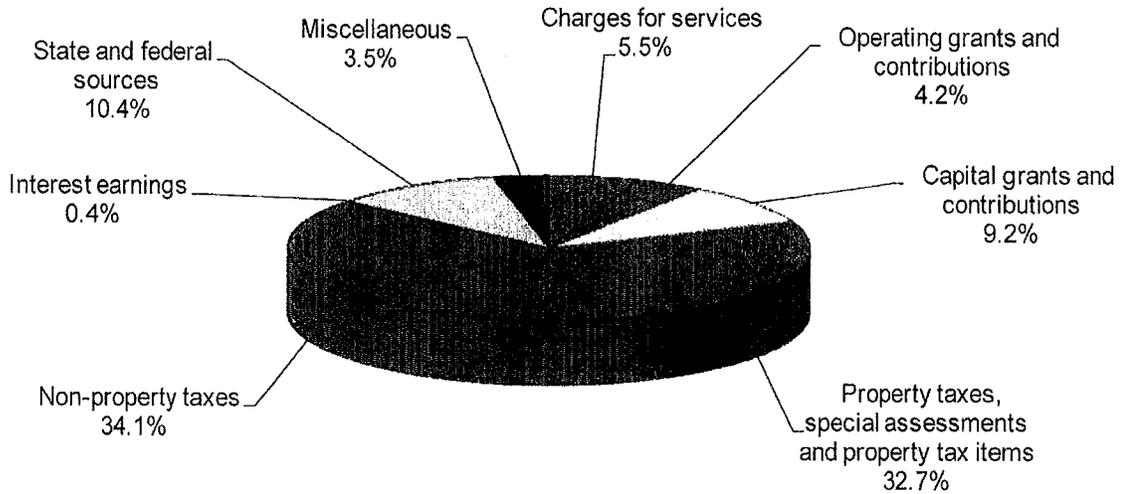


Exhibit 5

**Revenues for Governmental Activities
Fiscal Year 2011**

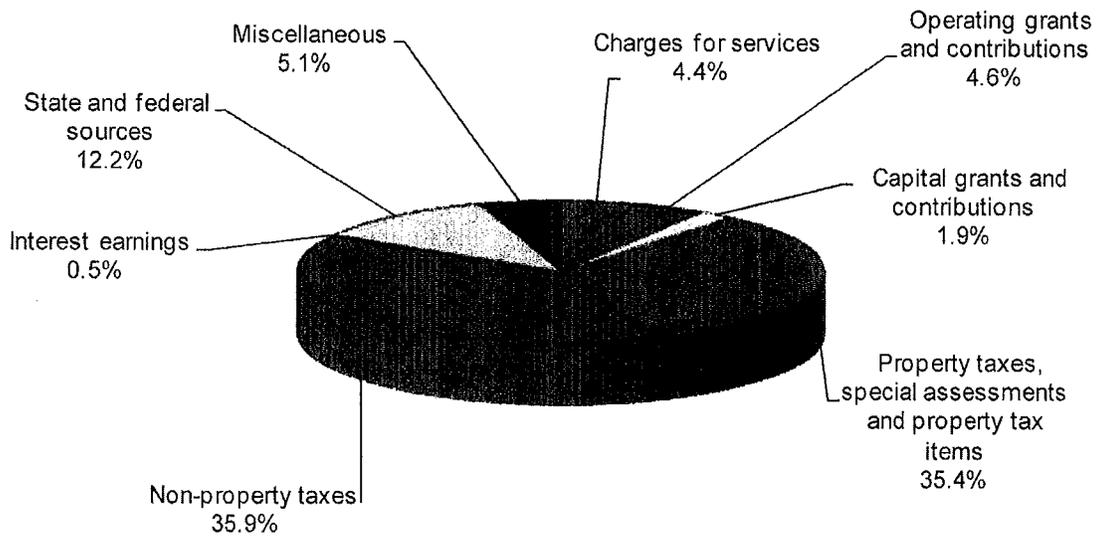


Exhibit 6

**Expenses for Governmental Activities
Fiscal Year 2012**

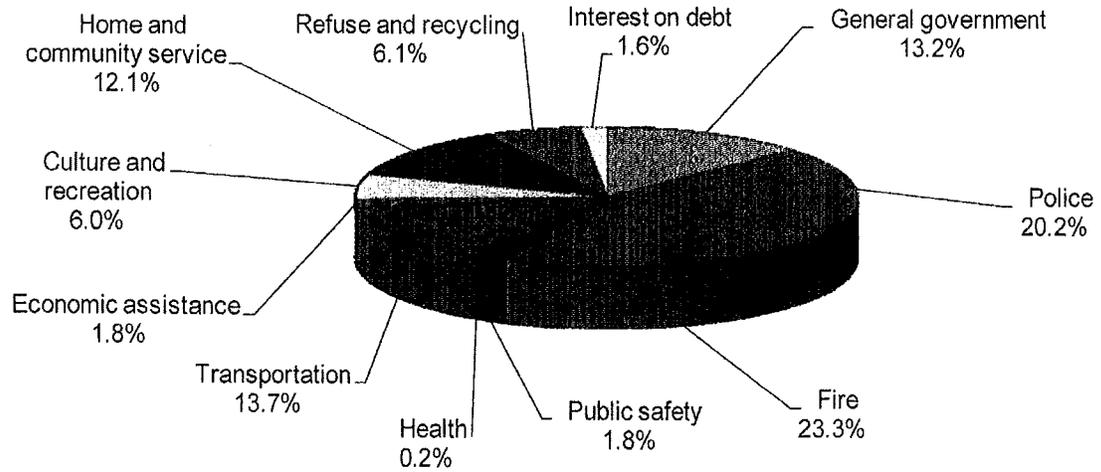
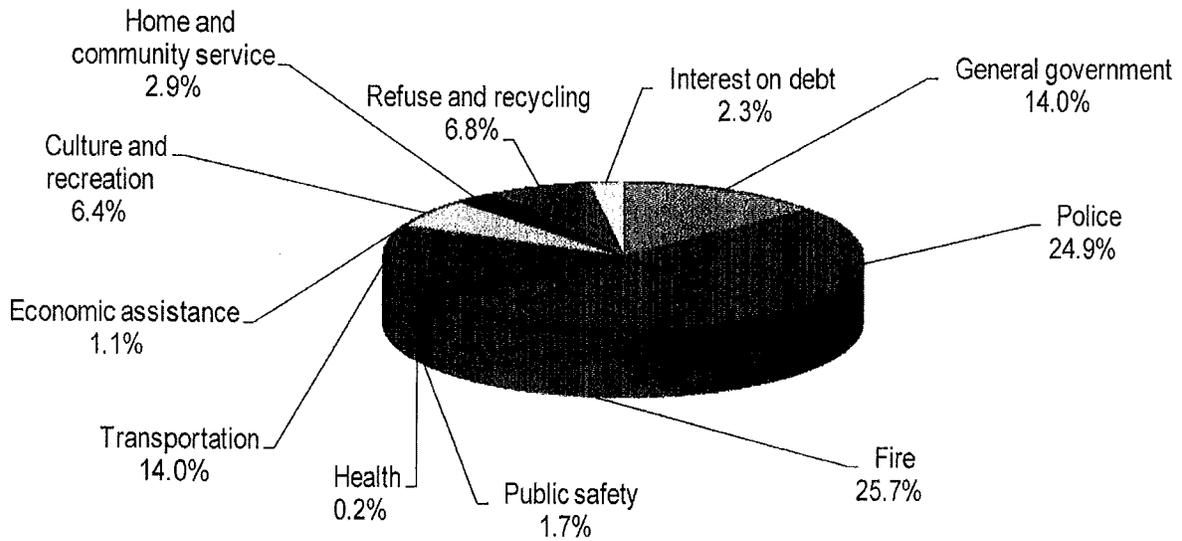


Exhibit 6

**Expenses for Governmental Activities
Fiscal Year 2011**



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.

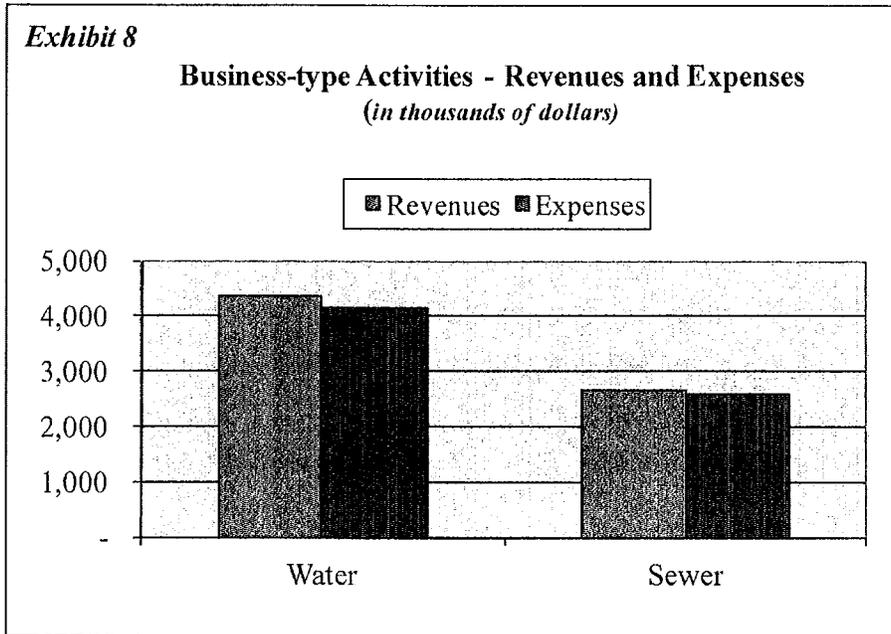
Exhibit 7

Net Cost of Governmental Activities (in thousands of dollars)

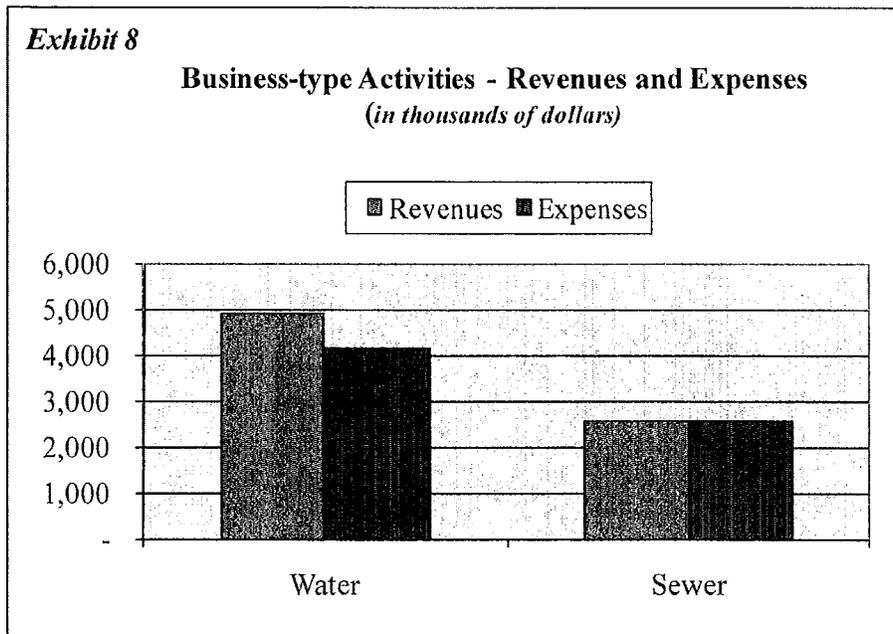
	Total Cost of Services		Total Percentage Change	Net Cost of Services		Total Percentage Change
	2012	2011		2012	2011	
General government	\$ 2,276	\$ 2,013	13.07%	\$ 1,876	\$ 1,828	2.63%
Police	3,489	3,592	-2.87%	3,266	3,208	1.81%
Fire	4,036	3,696	9.20%	4,036	3,696	9.20%
Public safety	315	244	29.10%	217	178	21.91%
Health	34	32	6.25%	1	(5)	-120.00%
Transportation	2,371	2,012	17.84%	1,686	1,256	34.24%
Economic assistance	309	160	93.13%	(19)	(20)	-5.00%
Culture & recreation	1,029	919	11.97%	888	836	6.22%
Home & community service	2,100	417	403.60%	579	326	77.61%
Refuse & recycling	1,052	974	8.01%	1,052	974	8.01%
Interest on debt	295	333	-11.41%	295	333	-11.41%
Total	<u>\$ 17,306</u>	<u>\$ 14,392</u>	<u>20.25%</u>	<u>\$ 13,877</u>	<u>\$ 12,610</u>	<u>10.05%</u>

Business-Type Activities

2012



2011



Financial Analysis of the City's Funds

The fiscal year ending March 31, 2012 concluded with an unassigned fund balance of \$1,098,838 exclusive of restrictions and assignments for encumbrances, insurance, employee benefits accrued liability and capital reserves. This is the fourth consecutive year the City has maintained a positive fund balance.

The General Fund

The general fund's assets increased in fiscal year ending March 31, 2012. This increase is shown mainly in cash and cash equivalent which increased \$1,809,541 over the prior year, of which \$566,422 is attributed to the increase in reserve balances. The City experienced an increase in collection on unpaid taxes from prior years, evidenced by the property tax receivable decreasing \$874,147 compared to last year. Likewise, the general fund's liabilities decreased as a result of the decrease in deferred tax revenue and accrued liabilities.

Revenues for the general fund increased compared to last year by \$1,112,092. The increase in real property taxes and property tax items accounts for a majority of this increase. In addition, sales tax increased largely due to a temporary increase in gas prices. Specific changes in revenues were as follows:

- Property tax and property tax items increased \$686,879 or 13.4% and \$231,215 or 77.8%, respectively, over the prior year.
- Sales and other taxes increased \$354,862 or 6.2% over the prior year.

Expenditures for the general fund increased \$246,082 compared to the prior year. Areas that experienced increases included:

- Insurance expenses increased \$161,970.
- Police department expense decreased approximately \$141,565 due to grant expenses paid in the prior year associated with the Genesee County jail renovations. State retirement expense decreased \$65,763, however this does not include the impact resulting from the PBA settlement that will be recognized in future years.
- Employee benefits increased \$172,583 compared to the prior year. This is primarily the City's health insurance expense.

Water Fund

The water fund, including depreciation, had a current year change in net assets of \$202,695, compared to last year's change of \$743,894. Accounts receivable accounts for the biggest change from last year within the Fund's assets, increasing \$86,316 over the prior year indicating fewer timely payments of water bills. A BAN (Bond Anticipation Note) that was issued in the previous fiscal year was rolled over in the amount of \$165,000 to finance water capital improvements as put forth in the City's Water & Sewer Capital Infrastructure Plan. In addition, the water fund benefited from transferring \$300,000 to the general fund compared to the \$350,000 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 \$65,690, compared to last year's \$38,777. From a cash standpoint the sewer fund's net cash position decreased by \$207,124. This change is attributed to a BAN issued in the fiscal year ending March 31, 2011, in which \$811,000 was paid down in the current fiscal year. In addition, accrued liabilities increased due to a North/Ross sewer project invoice yet to be received and paid at year end. The more significant change in this year's financial position for the sewer fund is the increase in salary expense of approximately \$199,509. The increase is more in line with where actual salary expense should be for the year. Last year's decrease was artificially low resulting in a decrease in the fund's compensated absence liability.

Workers Comp. Fund

This year's workers compensation fund balance improved with an increase of \$41,176. Workers comp premiums and other costs associated with premium based workers comp insurance increased by \$50,109 over the prior year. Anticipated future payments due on open claims dating back to when the City was self insured for workers compensation continue to decrease, evidenced by the decrease in accrued liabilities in the amount of \$51,721 compared to the prior year.

Capital Projects Fund

The Ellicott Streetscape project and North/Ross Sewer project were closed in the year ending March 31, 2012. The Bank Street Water and Sewer Infrastructure project and Walnut Street Reconstruction project remain open as final payments and receipts are finalized. They are expected to be closed by March 31, 2013. Cedar Street Reconstruction and Summit Street Reconstruction projects are still in the design phase at March 31, 2012.

Exhibit 9			
Revenues, Expenditures/Expenses and Changes in Fund			
Balance/Net Assets - Governmental Funds and Business-Type Activities			
(in thousands of dollars)			
	2012		
	<u>Revenues</u>	<u>Expenditures/ Expenses</u>	<u>Fund Balance/ Net Assets</u>
General Fund	\$ 17,906	\$ 16,000	\$ 5,512
Capital Projects Fund	500	469	177
Special Grant Fund	1,588	1,729	406
Water Fund	4,362	4,160	8,474
Sewer Fund	2,668	2,602	25,357
	2011		
	<u>Revenues</u>	<u>Expenditures/ Expenses</u>	<u>Fund Balance/ Net Assets</u>
General Fund	\$ 15,557	\$ 14,748	\$ 3,606
Capital Projects Fund	424	351	146
Special Grant Fund	7	135	547
Water Fund	4,904	4,160	8,272
Sewer Fund	2,551	2,513	25,291

Exhibit 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 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 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.

As previously mentioned, the City continues to take a conservative approach when preparing the City's budget. Revenues that the City does not receive on a consistent basis are not included in future budgets. The City is making a concerted effort to fund reserves more aggressively. These methods have helped move the City towards a healthier financial position. While some one-time revenues have assisted with financial recovery, sustained growth in larger reoccurring revenues remain doubtful. These include:

- Sales tax revenue, which increased 6.7% or \$359,977 and exceeded budget by approximately \$604,104. Sales tax revenue levels have currently increased over prior year, however they are only \$213,987 above the levels that were experienced in the fiscal year ending March 31, 2009.
- Gross utility receipts tax decreased 2.6% or \$6,821 although it exceeded budget by \$28,128. Similar to sales tax, these revenues are still \$10,803 below the levels that were experienced in the fiscal year ending March 31, 2009.
- Mortgage tax decreased 12.7% or \$14,651 and was below budget by \$13,902. These revenues are \$62,790 below the levels that were experienced in the fiscal year ending March 31, 2009.
- Interest and earnings revenue decreased slightly but exceeded budget by approximately \$772. Interest revenues are still \$6,057 below the levels that were experienced in the fiscal year ending March 31, 2009 and \$25,536 below March 31, 2008 levels.
- Interest and penalties on taxes exceeded budget by \$348,601. \$91,684 was due to a delinquency payment received by one of the City's largest taxpayers.

In addition to conservative revenue budgeting and the utilization of one-time revenues to fund capital acquisitions, the City's continued practice of conservative spending and strict expense monitoring resulted in a surplus of funds in contingency and city facilities budgets equaling \$152,070 and \$ 80,171, respectively.

The City's prudent revenue budgeting and expense monitoring has resulted in general fund surpluses needed to eliminate prior fund balance deficits, grow reserves and unassigned fund balance. However, while the City has experienced several unexpected one-time revenues, these one-time revenues are short lived and will not continue in future years. Furthermore, depending on the severity of change, revenue declines and expenditure increases, such as healthcare, retiree healthcare and retirement costs, the City may experience challenges in building the financial resources necessary to gain better financial footing. With the New York State Property Tax Cap, the inability to increase property taxes may further limit our ability to maintain services to residents at current levels.

Capital Asset and Debt Administration

Capital Assets

In the year ending March 31, 2012, the City funded reserves with an additional \$1,129,500. The City continued to make an effort to plan and fund for future equipment and infrastructure improvements, rather than defer funding for these needed improvements. In addition to funding reserves, the City used \$170,000 of the reserve funds to purchase a dump truck, a police cruiser, and install sidewalks, thereby utilizing reserve funding instead of property tax increases for these types of improvements.

A consolidated Bond Anticipation Note (BAN) was issued in June 2011 for \$1,767,000 to provide the cash necessary to finance the Walnut Street Reconstruction project, purchase an ice resurfacer, install a new roof on the DPW building and conduct water and sewer improvements as set forth in the City's Water & Sewer Capital Infrastructure Plan. The interest rate was 0.80%. 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	
	2012	2011	2012	2011
Land	\$ 1,140	\$ 1,070	\$ 42	\$ 42
Construction work in progress	6,463	6,951	1,848	1,817
Buildings	7,224	7,468	19,394	20,437
Machinery & equipment	1,598	1,556	447	444
Infrastructure	1,131	591	7,230	6,590
Total	\$ 17,556	\$ 17,636	\$ 28,961	\$ 29,330

Long-Term Obligations

For the year ending March 31, 2012, the City's constitutional debt limit was \$36,518,610. Outstanding bonds totaled \$8,075,698. Of this total, \$6,285,788 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 with and more comparable to private organizations. Previously the City's bond rating was "Baa2". In June 2011, Moody's affirmed the City's "A2" bond rating and assigned the City a "positive outlook". Moody's assignment of the positive outlook acknowledges a modest financial position by specifically identifying City management's ability to restore financial health, establishment of Retirement, Health Insurance and Employee Benefits Reserves and negotiated manageable settlements with three of its unions, which included wage freezes and healthcare concessions.

Exhibit 11**Outstanding Long-Term Obligations
(in thousands of dollars)**

	Governmental Activities		Business-Type Activities	
	2012	2011	2012	2011
General obligation debt backed by the City	\$ 5,308	\$ 5,611	\$ 1,847	\$ 2,039
Installment purchase debt	978	740	233	250
Other debt	688	1,068	-	-
Compensated absences	2,788	2,579	397	385
Other post employment benefits	2,501	2,204	316	279
Total	\$ 12,263	\$ 12,202	\$ 2,793	\$ 2,953

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

- Union Contracts – Currently the City's AFSCME (public works employees) union contract expired March 31, 2012. The City's negotiations are focused on manageable benefit packages that will not significantly impact future property tax levels. The City's police and fire union contracts expire March 31, 2013 and negotiations will begin within the next several months. Strong but fair negotiations will have to take place to ensure that future benefit packages are reasonable for City employees and affordable for City taxpayers.
- Sales Tax revenue – The year ending March 31, 2012 had a 6.7%, or \$359,977 increase in sales tax revenues over the prior year. While this is an increase over the prior year, the City's sales tax revenue is an economically sensitive revenue, and is subject to volatile swings in receipts as witnessed in the recent past. Because sales tax makes up approximately one-third of the City's general fund revenue, any slight change in receipts may have a significant 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 as growth in sales tax is unpredictable at best.
- Reserve funding – Funding reserves now for future equipment and infrastructure improvements have and will be critical in avoiding larger tax burdens in future years. In the fiscal year ending March 31, 2012, the City utilized \$464,574 of reserve funding to purchase needed equipment and offset liabilities as they came due. Planning for these improvements/costs is a major priority in the City's work plan. Updating capital improvement plans and designated revenue streams to fund these plans are essential to maintaining a safe financial position for the City. In addition, funding reserves such as the Employee Accrued Liability Reserve, Retirement Reserve and Healthcare Reserve is critical in order to pay for one-time and often unexpected expenses which have the potential to negatively impact the City's unassigned fund balance. While it is unreasonable to fully fund all liabilities, it is important to properly assess and evaluate potential risks in order to appropriately fund and prepare for likely obligations.

- State Budget & Property Tax Cap – The City continues to be proactive in our response to various NYS Budget changes and cuts that affect the City. It is important that the City anticipate these well in advance and remain flexible in our ability to respond during the budget process. With the recent adoption of the property tax cap without relief from mandated expenses, the City's ability to levy the necessary funds to support services may be significantly hampered. The City is continually evaluating the impact of the tax cap on the City's budget and services.
- NYS Retirement Costs – Since FY 2009/10 annual fluctuations in actual retirement payments have ranged from a 29% decrease (\$311,000) in 2009/10 to a 62% increase (\$478,000) the following year in 2010/11, and then a 4% decrease (\$52,000) in 2011/12. This unexplainable fluctuation has created skepticism and a lack of confidence in New York State retirement projections. Preemptively, in 2009 the City Council created a Retirement Contribution Reserve to capture surplus funds for future years of uncertainty. Considering the State's suggested retirement contribution rates for the past three years have not been consistent with actual retirement payments, it is prudent to assume retirement costs will increase by double digits in future years until consistent and reliable retirement payments are restored.
- Healthcare Costs – On average for the past five years the City's healthcare costs have increased approximately 8-10% per year. On an annual basis the City analyzes the option of transitioning from a self-insured plan to an experienced-based plan, however the City's ability to maintain manageable annual increases in healthcare costs while building a healthcare reserve makes it financially feasible to remain self-insured. This year the expected increase in healthcare costs is again 8-10% however, unlike prior years, the City's retiree healthcare population has increased adding additional costs.
- Retiree Healthcare Costs – Between January 2010 – January 2012, 16 employees retired or left employment from the City of Batavia. Of those 16 employees, 14 carried the City's health insurance during employment. Ten of those 14 now carry retiree health insurance plans. In addition, 14 of the employees who have replaced those who retired now carry City health insurance. In total, for FY 2012/13, the City is carrying 24 health insurance plans for 16 positions. This is a 60%, or \$102,000, increase in healthcare costs compared to 2010/2011, for the same 16 positions. Retiree healthcare will continue to increase in the future. For this reason, the City will continue to aggressively negotiate with City unions to discontinue this benefit moving forward.
- Taxable Assessed Value Decline – The City's taxable assessed value decreased in 2011 from 2010. This is an unprecedented backwards step for the City with respect to its most stable source of revenue, tax base. On average the tax base growth has been about 1.5% annually, however 2011 showed a decrease in taxable assessed value of .03%, or \$158,992. Considering the tax base has increased every year, this decrease, even though slight, is a reflection of the economy. The slowdown in the economy has restricted the City's ability to maintain slow and steady tax base growth, and is a concern for future revenue growth.

Long-Term Factors

- *Taxable Assessed Value Decline* – As mentioned above, the City has enjoyed an average growth of 1.5% in our tax base annually, however in 2011 the City's taxable assessed value decreased. When compared to Genesee County's tax base growth, the City is lagging. In addition, 2012 shows no growth over 2011. As the housing market continues to show slow signs of recovery, the City should expect little to no growth over the next several years. Considering taxable assessed value is the City's largest source of revenue, the City needs to make improving the City's tax base, particularly the non-residential tax base, a priority and encourage future commercial and industrial redevelopment throughout the City's Central Corridor.
- *Post Employment Benefits (GASB 45) & Retiree Healthcare* – The City's liability for post employment benefits as of the actuarial valuation date of April 1, 2011 amounted to \$7,147,986. As of this time, that liability is unfunded and, therefore, it is imperative the City begin to consider a means to fund these costs. If the City does not begin to fund anticipated retiree costs now, future 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 this liability.
- *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 addressing a change to benefit levels for employees is equally important for the City to continue delivering services to the community at existing levels.

Over the past three years the City has experienced decreases in State aid as well as considerable increases in state retirement costs and retiree healthcare costs. In addition, the imposition of the Property Tax Cap may further limit the City's ability to combat increasing mandated costs as the cap imposes a ceiling on the City's ability to levy property taxes. The City's Council's Strategic Plan emphasizes Financial Health as one of seven strategic priorities. 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. However, being faced with many large financial hurdles, such as retirement costs and state budget cuts, the City's financial outlook is somewhat unpredictable. It is critically important that the City continue to spend a considerable effort on planning for the future; most specifically with regards to funding reserves, maintaining and funding capital and equipment replacement plans, and maintaining low cost, high quality services to residents. In addition, resources need to be focused on encouraging tax base growth through economic development efforts promoting land use redevelopment and job growth within the City.

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, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 7,012,027	\$ 6,961,846	\$ 13,973,873
Property taxes receivable	1,312,559	-	1,312,559
Accounts receivable, net	402,957	1,593,674	1,996,631
State and federal receivables	810,724	-	810,724
Loans receivable, net	259,913	-	259,913
Due from other governments	1,306,049	533,884	1,839,933
Prepaid expenses	26,008	-	26,008
Capital assets not being depreciated	7,603,147	1,889,697	9,492,844
Capital assets, net of accumulated depreciation	9,952,930	27,071,328	37,024,258
Total assets	28,686,314	38,050,429	66,736,743
LIABILITIES AND NET ASSETS			
LIABILITIES:			
Accounts payable	366,088	52,190	418,278
Accrued liabilities	315,618	578,620	894,238
Retainage payable	-	6,552	6,552
Bond anticipation notes payable	978,000	789,000	1,767,000
Due to fiduciary funds	7,943	-	7,943
Due to other governments	352,352	-	352,352
Deferred revenue	1,506,377	-	1,506,377
Long-term liabilities			
Due and payable within one year	774,483	256,008	1,030,491
Due and payable after one year	11,488,465	2,536,623	14,025,088
Total liabilities	15,789,326	4,218,993	20,008,319
NET ASSETS:			
Invested in capital assets, net of related debt	10,581,763	26,342,641	36,924,404
Restricted for:			
Insurance	410,484	-	410,484
Capital projects	1,321,249	3,445,439	4,766,688
Employee benefit accrued liability	275,718	-	275,718
Retirement contribution	311,094	-	311,094
Other purposes	29,474	-	29,474
Special grant	405,935	-	405,935
Unrestricted (deficit)	(438,729)	4,043,356	3,604,627
Total net assets	\$ 12,896,988	\$ 33,831,436	\$ 46,728,424

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2012

	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	\$ 2,276,888	\$ 367,462	\$ 33,101	\$ -	\$ (1,876,325)	\$ -	\$ (1,876,325)
Police	3,488,727	178,542	44,293	-	(3,265,892)	-	(3,265,892)
Fire	4,035,627	-	-	-	(4,035,627)	-	(4,035,627)
Public safety	315,057	97,758	-	-	(217,299)	-	(217,299)
Health	34,375	32,880	-	-	(1,495)	-	(1,495)
Transportation	2,371,102	24,700	492,272	167,941	(1,686,189)	-	(1,686,189)
Economic assistance	309,113	164,003	164,304	-	19,194	-	19,194
Culture and recreation	1,028,749	115,033	25,686	-	(888,030)	-	(888,030)
Home and community services	2,100,300	21,107	-	1,500,000	(579,193)	-	(579,193)
Refuse and recycling	1,051,574	-	-	-	(1,051,574)	-	(1,051,574)
Interest on debt	295,151	-	-	-	(295,151)	-	(295,151)
Total governmental activities	17,306,663	1,001,485	759,656	1,667,941	(13,877,581)	-	(13,877,581)
Business-type activities:							
Sewer	2,578,846	2,430,021	229,730	-	-	80,905	80,905
Water	3,829,075	2,411,386	1,935,586	-	-	517,897	517,897
Total business-type activities	6,407,921	4,841,407	2,165,316	-	-	598,802	598,802

See notes to basic financial statements.
A2

CITY OF BATAVIA, NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2012
(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	\$ 23,714,584	\$ 2,924,972	\$ 1,667,941	(13,877,581)	598,802	(13,278,779)
General revenues:						
Real property taxes and tax items				5,928,000	-	5,928,000
Non-property taxes				6,190,436	-	6,190,436
Interest earnings				69,505	22,752	92,257
State aid not restricted for a specific purpose				1,890,513	-	1,890,513
Other miscellaneous revenues				628,880	731	629,611
Transfers:						
Sewer				22,690	(22,690)	-
Capital				331,210	(331,210)	-
Total general revenues and transfers				15,061,234	(330,417)	14,730,817
Change in net assets				1,183,653	268,385	1,452,038
Net assets - beginning of year				11,713,335	33,563,051	45,276,386
Net assets - end of year	\$	\$	\$	\$ 12,896,988	\$ 33,831,436	\$ 46,728,424

See notes to basic financial statements.
A3

CITY OF BATAVIA, NEW YORK
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2012

	General	Capital Projects	Special Grant Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS:					
Cash and cash equivalents	\$ 5,978,325	\$ 244,631	\$ 250,985	\$ 538,086	\$ 7,012,027
Receivables:					
Property tax	1,312,559	-	-	-	1,312,559
Accounts receivable	342,142	-	-	60,815	402,957
State and federal receivables	28,440	774,364	7,920	-	810,724
Loans receivable (net of allowance for uncollectibles of \$45,828 in the Special Grant Fund and \$25,666 in the Small Cities Fund)	-	-	155,403	104,510	259,913
Due from other governments	1,306,049	-	-	-	1,306,049
Due from other funds	419	155,528	-	365	156,312
Prepaid expenses	26,008	-	-	-	26,008
Total assets	\$ 8,993,942	\$ 1,174,523	\$ 414,308	\$ 703,776	\$ 11,286,549
LIABILITIES AND FUND BALANCES:					
Accounts payable	\$ 314,205	\$ 19,783	\$ 34	\$ 32,066	\$ 366,088
Accrued liabilities	291,046	-	-	24,572	315,618
Due to other governments	350,298	-	-	2,054	352,352
Due to other funds	155,916	-	8,339	-	164,255
Deferred revenue	2,370,041	-	-	-	2,370,041
Bond anticipation note payable	-	978,000	-	-	978,000
Total liabilities	\$ 3,481,506	\$ 997,783	\$ 8,373	\$ 58,692	\$ 4,546,354

See notes to basic financial statements.
A4

CITY OF BATAVIA, NEW YORK
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2012
(Continued)

FUND BALANCES:	General	Capital Projects	Special Grant Fund	Non-Major Governmental Funds	Total Governmental Funds
Nonspendable	26,008	-	-	-	26,008
Restricted	2,760,377	-	405,935	-	3,166,312
Assigned	1,627,213	176,740	-	645,084	2,449,037
Unassigned	1,098,838	-	-	-	1,098,838
Total fund balances	<u>5,512,436</u>	<u>176,740</u>	<u>405,935</u>	<u>645,084</u>	<u>6,740,195</u>
Total liabilities and fund balances	<u>\$ 8,993,942</u>	<u>\$ 1,174,523</u>	<u>\$ 414,308</u>	<u>\$ 703,776</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	17,556,077
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	(12,262,948)
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds	<u>863,664</u>
Net assets	<u>\$ 12,896,988</u>

CITY OF BATAVIA, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2012

	General	Capital Projects	Special Grant Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES:					
Real property taxes	\$ 5,822,940	\$ -	\$ -	\$ -	5,822,940
Real property tax items	528,258	-	-	-	528,258
Special assessments	-	-	-	164,003	164,003
Sales and other taxes	6,190,436	-	-	-	6,190,436
Departmental income	277,873	-	-	-	277,873
Use of money and property	57,850	2,332	3,699	5,624	69,505
Licenses and permits	100,641	-	-	-	100,641
Fines and forfeitures	175,235	-	-	-	175,235
Sale of property and compensation for loss	104,892	-	-	102,026	206,918
Miscellaneous local sources	495,292	154,632	-	-	649,924
Federal and state sources	2,565,865	167,941	1,584,304	-	4,318,110
Total revenues	16,319,282	324,905	1,588,003	271,653	18,503,843

See notes to basic financial statements.
A6

CITY OF BATAVIA, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2012
(Continued)

	General	Capital Projects	Special Grant Fund	Non-Major Governmental Funds	Total Governmental Funds
EXPENDITURES:					
General government	1,738,935	29,297	-	302,771	2,071,003
Police	2,915,581	-	-	-	2,915,581
Fire	3,253,304	-	-	-	3,253,304
Public safety	259,122	-	-	-	259,122
Health	15,568	-	-	-	15,568
Transportation	1,975,438	389,633	-	-	2,365,071
Economic assistance and opportunity	151,133	-	-	157,980	309,113
Culture and recreation	618,981	-	-	-	618,981
Home and community services	225,524	-	1,729,552	99,908	2,054,984
Refuse and recycling	1,051,173	-	-	-	1,051,173
Employee benefits	1,412,142	-	-	43,306	1,455,448
Debt service:					
Principal	454,320	-	-	-	454,320
Interest	295,151	-	-	-	295,151
Bond issuance costs	53,285	-	-	-	53,285
Total expenditures	14,419,657	418,930	1,729,552	603,965	17,172,104

See notes to basic financial statements.
A7

CITY OF BATAVIA, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2012
(Continued)

	General	Capital Projects	Special Grant Fund	Non-Major Governmental Funds	Total Governmental Funds
Excess (deficit) of revenues over expenditures	1,899,625	(94,025)	(141,549)	(332,312)	1,331,739
OTHER FINANCING SOURCES (USES):					
Premium on refunding bonds	36,767	-	-	-	36,767
Refunding bonds issued	1,200,000	-	-	-	1,200,000
Payment on refunding bonds	(1,175,000)	-	-	-	(1,175,000)
Interfund transfers in	350,000	175,306	-	283,690	808,996
Interfund transfers out	(405,096)	(50,000)	-	-	(455,096)
Total other financing sources (uses)	6,671	125,306	-	283,690	415,667
Net change in fund balances	1,906,296	31,281	(141,549)	(48,622)	1,747,406
Fund balances - beginning of year	3,606,140	145,459	547,484	693,706	4,992,789
Fund balances - end of year	\$ 5,512,436	\$ 176,740	\$ 405,935	\$ 645,084	\$ 6,740,195

See notes to basic financial statements.
A8

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, 2012

Net change in fund balances - total governmental funds	\$	1,747,406
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 depreciation (\$650,011) exceeded capital outlays (\$585,476) in the current period.		(64,535)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales and trade-ins) is to decrease net assets.		(15,059)
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.		(423,198)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		444,511
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.		(296,385)
(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>(209,087)</u>
Change in net assets of governmental activities	\$	<u><u>1,183,653</u></u>

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF NET ASSETS - ENTERPRISE FUNDS
MARCH 31, 2012

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
ASSETS:			
Cash and cash equivalents	\$ 2,502,307	\$ 4,459,539	\$ 6,961,846
Accounts receivable	734,018	859,656	1,593,674
Due from other governments	-	533,884	533,884
Capital assets not being depreciated	865,795	1,023,902	1,889,697
Capital assets, net of accumulated depreciation	<u>23,777,995</u>	<u>3,293,333</u>	<u>27,071,328</u>
Total assets	\$ <u>27,880,115</u>	\$ <u>10,170,314</u>	\$ <u>38,050,429</u>
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
Accounts payable	\$ 27,358	\$ 24,832	\$ 52,190
Accrued liabilities	108,273	470,347	578,620
Retainage payable	-	6,552	6,552
Bond anticipation notes payable	624,000	165,000	789,000
Long-term liabilities			
Due and payable within one year	201,170	54,838	256,008
Due and payable after one year	<u>1,562,248</u>	<u>974,375</u>	<u>2,536,623</u>
Total liabilities	<u>2,523,049</u>	<u>1,695,944</u>	<u>4,218,993</u>
NET ASSETS:			
Invested in capital assets, net of related debt	22,578,158	3,764,483	26,342,641
Restricted for capital projects	1,141,276	2,304,163	3,445,439
Unrestricted	<u>1,637,632</u>	<u>2,405,724</u>	<u>4,043,356</u>
Total net assets	<u>25,357,066</u>	<u>8,474,370</u>	<u>33,831,436</u>
Total liabilities and net assets	\$ <u>27,880,115</u>	\$ <u>10,170,314</u>	\$ <u>38,050,429</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, 2012

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
OPERATING REVENUES:			
Charges for services	\$ 2,430,021	\$ 2,411,386	\$ 4,841,407
County water agreement charges	-	1,330,292	1,330,292
Rental of real property	-	550,000	550,000
Other operating revenue	229,730	55,294	285,024
Total operating revenues	<u>2,659,751</u>	<u>4,346,972</u>	<u>7,006,723</u>
OPERATING EXPENSES:			
Salaries, wages and employee benefits	796,175	1,092,549	1,888,724
Contractual expense	478,829	2,585,727	3,064,556
Depreciation	1,270,902	127,640	1,398,542
Total operating expenses	<u>2,545,906</u>	<u>3,805,916</u>	<u>6,351,822</u>
Operating income	<u>113,845</u>	<u>541,056</u>	<u>654,901</u>
NON-OPERATING REVENUES (EXPENSES):			
Investment income	7,475	15,277	22,752
Interest expense	(32,940)	(23,159)	(56,099)
Gain on sale of fixed assets	-	731	731
Operating subsidy to governmental funds	<u>(22,690)</u>	<u>(331,210)</u>	<u>(353,900)</u>
Total non-operating expenses	<u>(48,155)</u>	<u>(338,361)</u>	<u>(386,516)</u>
Change in net assets	65,690	202,695	268,385
Net assets - beginning of year	<u>25,291,376</u>	<u>8,271,675</u>	<u>33,563,051</u>
Net assets - end of year	<u>\$ 25,357,066</u>	<u>\$ 8,474,370</u>	<u>\$ 33,831,436</u>

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED MARCH 31, 2012

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Cash received from customers	\$ 2,417,340	\$ 2,325,070	\$ 4,742,410
Cash payments for contractual expenses	(240,000)	(2,605,074)	(2,845,074)
Cash payments to employees for services	(778,568)	(1,061,756)	(1,840,324)
Other operating revenue	229,730	1,935,586	2,165,316
Net cash provided by operating activities	<u>1,628,502</u>	<u>593,826</u>	<u>2,222,328</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>			
Operating subsidy to governmental funds	(22,690)	(331,210)	(353,900)
Interfund loan or loan repayments received	57,576	-	57,576
Interfund loans made or repaid	-	(57,576)	(57,576)
Net cash provided (used) by noncapital financing activities	<u>34,886</u>	<u>(388,786)</u>	<u>(353,900)</u>
<u>CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:</u>			
Acquisition and construction of capital assets	(847,967)	(181,264)	(1,029,231)
Proceeds from sale of property, plant and equipment	-	731	731
Principal payments on debt	(997,080)	(23,246)	(1,020,326)
Interest paid on debt	(32,940)	(23,159)	(56,099)
Net cash used by capital and financing activities	<u>(1,877,987)</u>	<u>(226,938)</u>	<u>(2,104,925)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>			
Interest on cash and investments	7,475	15,277	22,752
Net cash provided by investing activities	<u>7,475</u>	<u>15,277</u>	<u>22,752</u>
Net decrease in cash	(207,124)	(6,621)	(213,745)
Cash - beginning of year	<u>2,709,431</u>	<u>4,466,160</u>	<u>7,175,591</u>
Cash - end of year	<u>\$ 2,502,307</u>	<u>\$ 4,459,539</u>	<u>\$ 6,961,846</u>
Reconciliation of income from operations to net cash provided by operating activities:			
Income from operations	\$ 113,845	\$ 541,056	\$ 654,901
Adjustments to reconcile income from operations to net cash provided by operating activities:			
Depreciation	1,270,902	127,640	1,398,542
Change in assets and liabilities			
Decrease (increase) in:			
Accounts receivable	(12,681)	(86,316)	(98,997)
Due from other governments	-	(15,222)	(15,222)
Prepaid expenses	177,306	-	177,306
Increase (decrease) in:			
Accounts payable	(34,565)	1,202	(33,363)
Accrued liabilities	96,088	(5,327)	90,761
Compensated absences	956	10,812	11,768
Other post employment benefit	16,651	19,981	36,632
Net cash provided by operating activities	<u>\$ 1,628,502</u>	<u>\$ 593,826</u>	<u>\$ 2,222,328</u>

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF NET ASSETS -
FIDUCIARY FUNDS
MARCH 31, 2012

	<u>Private Purpose Trusts</u>	<u>Agency</u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 262,279
Cash and cash equivalents - restricted	21,242	-
Due from other funds	<u>-</u>	<u>7,943</u>
 Total assets	 \$ <u>21,242</u>	 \$ <u>270,222</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Agency liabilities	\$ <u>-</u>	\$ <u>270,222</u>
 Total liabilities	 -	 270,222
NET ASSETS:		
Restricted trust funds	<u>21,242</u>	<u>-</u>
 Total liabilities and net assets	 \$ <u>21,242</u>	 \$ <u>270,222</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, 2012

	<u>Private Purpose Trusts</u>
ADDITIONS:	
Interest	\$ <u>33</u>
Total additions	33
Change in net assets	33
Net assets - beginning of the year	<u>21,209</u>
Net assets - end of year	<u>\$ <u>21,242</u></u>

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
NOTES TO BASIC 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 the Governmental Accounting Standards Board (GASB). The Standards define the primary government, and redefines and establishes the criteria for which potential component units are included in the reporting entity. The Standards also define 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 GASB 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.

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 proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type; and

CITY OF BATAVIA, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary 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 or state grants not required to be accounted for in other funds.
- d. Mall Maintenance Fund - used to account for the maintenance of the Batavia City Centre (formerly the Genesee Country Mall).
- e. 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.
- f. 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.

Proprietary Funds

The City reports the following enterprise funds:

Water and Sewer Funds - used to account for operations that provide water and sewer 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, and water agreement and rental of real property for the Water 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.

CITY OF BATAVIA, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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 assignments of fund balance since they do not constitute expenditures or liabilities and will be honored through budget appropriations in the subsequent year.

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.

CITY OF BATAVIA, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 proprietary 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.

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.

CITY OF BATAVIA, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.
- 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 - Reports all other net assets that do not meet the definition of the above two classifications and are deemed to be available for general use by the City.

Fund statements:

In the fund statements there are potentially five classes of net assets to be reported including nonspendable, restricted, committed, assigned and unassigned. These classes are explained further in Note 3.,C.

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 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 budgetary appropriations for capital outlay are excludable. In the 2011-12 year, the five-year average full valuation was \$521,694,423 allowing for a maximum tax limit of \$10,433,888 (includes allowance exclusions). The City tax levy was \$3,473,054 for the year ended March 31, 2012.

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 BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. NEW ACCOUNTING PRONOUNCEMENTS

During the fiscal year ended March 31, 2012, the City adopted GASB Statement No. 54, *Accounting and Fund Balance Reporting and Governmental Fund Type Definitions*. This statement requires that the equity of governmental funds be classified into five specific categories which will give greater clarity to the different kinds of constraints that apply. Note 3. C. contains details behind the categories as they are reported on the financial statements.

The GASB has issued the following new statements:

- Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-employers Plans*, which will be effective for the year ending March 31, 2013;
- Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, which will be effective for the year ending March 31, 2014;
- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which will be effective for the year ending March 31, 2013;
- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* which will be effective for the year ending March 31, 2013; and
- Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*, which will be effective for the year ending March 31, 2013.

The City is currently studying these statements and plans on adoption, as required.

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, 2012	\$ 6,740,195
Deduct outstanding encumbrances	<u>187,213</u>
BUDGETARY BASIS - Fund balance - March 31, 2012	<u>\$ 6,552,982</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.

CITY OF BATAVIA, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

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

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.

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.

CITY OF BATAVIA, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

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

2. RECEIVABLES

Major revenues accrued by the City, include the following:

a. Accounts Receivables - Amounts accrued at March 31, 2012:

General Fund:

Franchise fees	\$ 218,515
Gross utilities	32,486
Retiree health insurance	25,944
Other miscellaneous receivables	<u>65,197</u>
Total governmental activities accounts receivable	<u>\$ 342,142</u>

Sewer Fund:

Sewer rents	<u>\$ 734,018</u>
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Water Fund:

Water rents	<u>\$ 859,656</u>
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Total business-type activities accounts receivable	<u>\$ 1,593,674</u>
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b. State and Federal Receivables - represents amounts due primarily from New York State and the federal government. Amounts accrued at March 31, 2012 consist of:

Capital Fund:

Walnut Street reimbursement	\$ 704,019
Summit Street reimbursement	51,236
Cedar Street reimbursement	<u>19,109</u>
Total state and federal receivables	<u>\$ 774,364</u>

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, 2012, consist of:

General Fund:

NYS sales tax	\$ 1,302,630
Ag Park	<u>3,419</u>
Total governmental activities due from other governments	<u>\$ 1,306,049</u>

Water Fund:

City/County water agreement	<u>\$ 533,884</u>
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CITY OF BATAVIA, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

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

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, 2012, under both programs amounted to \$104,510, net of an allowance of \$25,666 for uncollectible loans.

The loans receivable recorded in the Special Grant Fund represent loans issued through Batavia Development Corporation. Loans outstanding as of March 31, 2012, amounted to \$155,403, net of an allowance of \$45,828 for uncollectible loans.

3. INTERFUND ACTIVITY

Interfund activity balances at March 31, 2012, are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Interfund Revenues</u>	<u>Interfund Expenditures</u>
General Fund	\$ 419	\$ 155,916	\$ 350,000	\$ 405,096
Water Fund	-	-	-	331,210
Sewer Fund	-	-	-	22,690
Capital Projects Fund	155,528	-	175,306	50,000
Self-Insurance Fund	-	-	283,690	-
Special Grant Fund	365	8,339	-	-
Agency Fund	7,943	-	-	-
Total	<u>\$ 164,255</u>	<u>\$ 164,255</u>	<u>\$ 808,996</u>	<u>\$ 808,996</u>

The interfund activity between the capital and general funds is related to various capital projects. Transfers among funds are provided for as part of the annual budget process.

4. CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2012, was as follows:

	<u>Balance 04/01/11</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 03/31/12</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,069,508	\$ 70,830	\$ -	\$ 1,140,338
Construction work in progress	<u>6,951,542</u>	<u>211,934</u>	<u>700,667</u>	<u>6,462,809</u>
Total capital assets not being depreciated	<u>\$ 8,021,050</u>	<u>\$ 282,764</u>	<u>\$ 700,667</u>	<u>\$ 7,603,147</u>
Capital assets, being depreciated:				
Buildings and building improvements	\$ 9,781,357	\$ -	\$ -	\$ 9,781,357
Machinery, equipment and vehicles	5,201,914	302,712	159,092	5,345,534
Infrastructure	<u>3,088,384</u>	<u>700,667</u>	<u>-</u>	<u>3,789,051</u>
Total capital assets, being depreciated	<u>18,071,655</u>	<u>1,003,379</u>	<u>159,092</u>	<u>18,915,942</u>

CITY OF BATAVIA, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

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

	Balance <u>04/01/11</u>	Additions	Disposals	Balance <u>03/31/12</u>
Less accumulated depreciation:				
Buildings and building improvements	2,313,608	243,179	-	2,556,787
Machinery, equipment and vehicles	3,646,323	245,512	144,033	3,747,802
Infrastructure	<u>2,497,103</u>	<u>161,320</u>	<u>-</u>	<u>2,658,423</u>
Total accumulated depreciation	<u>8,457,034</u>	<u>650,011</u>	<u>144,033</u>	<u>8,963,012</u>
Total capital assets, being depreciated - net	<u>9,614,621</u>	<u>353,368</u>	<u>15,059</u>	<u>9,952,930</u>
Governmental activities capital assets, net	<u>\$ 17,635,671</u>	<u>\$ 636,132</u>	<u>\$ 715,726</u>	<u>\$ 17,556,077</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 41,500	\$ -	\$ -	\$ 41,500
Construction work in progress	<u>1,817,172</u>	<u>31,025</u>	<u>-</u>	<u>1,848,197</u>
Total capital assets, not being depreciated	<u>\$ 1,858,672</u>	<u>\$ 31,025</u>	<u>\$ -</u>	<u>\$ 1,889,697</u>
Capital assets, being depreciated:				
Buildings and building improvements	\$ 41,427,000	\$ -	\$ -	\$ 41,427,000
Machinery, equipment and vehicles	938,685	56,270	-	994,955
Infrastructure	<u>11,608,091</u>	<u>941,936</u>	<u>-</u>	<u>12,550,027</u>
Total capital assets, being depreciated	<u>53,973,776</u>	<u>998,206</u>	<u>-</u>	<u>54,971,982</u>
Less accumulated depreciation:				
Buildings and building improvements	20,989,527	1,043,300	-	22,032,827
Machinery, equipment and vehicles	494,453	53,264	-	547,717
Infrastructure	<u>5,018,132</u>	<u>301,978</u>	<u>-</u>	<u>5,320,110</u>
Total accumulated depreciation	<u>26,502,112</u>	<u>1,398,542</u>	<u>-</u>	<u>27,900,654</u>
Total capital assets, being depreciated - net	<u>27,471,664</u>	<u>(400,336)</u>	<u>-</u>	<u>27,071,328</u>
Business-type capital assets, net	<u>\$ 29,330,336</u>	<u>\$ (369,311)</u>	<u>\$ -</u>	<u>\$ 28,961,025</u>

CITY OF BATAVIA, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

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

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 138,100
Police	50,091
Fire	54,458
Health	15,805
Transportation	105,187
Culture and recreation	<u>286,370</u>
Total governmental activities depreciation expense	<u>650,011</u>
Business-type activities:	
Water	127,640
Sewer	<u>1,270,902</u>
Total business-type activities depreciation expense	<u>1,398,542</u>
Total depreciation expense	\$ <u>2,048,553</u>

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 System is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 and before January 1, 2010 who have less than 10 years of service or membership are required to contribute 3% of their salary for the first ten years of membership. Employees joining on or after January 1, 2010 are required to contribute 3% of their annual salary throughout their active membership. Under the authority of the NYSRSSL, the Comptroller annually certifies the rates used in computing the employers contributions.

CITY OF BATAVIA, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

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

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>
2012	\$ 469,774	\$ 740,124
2011	\$ 358,990	\$ 891,418
2010	261,268	516,361

The City of Batavia contributions made to the Systems were equal to 100 percent of the contributions required for each year. The City chose to prepay the required contributions by December 15, 2011 and received an overall discount of \$10,773.

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, 2012:

CITY OF BATAVIA, NEW YORK
NOTES TO BASIC 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</u> <u>3/31/12</u>
Normal Cost	\$ 213,081
Amortization of UAL	397,470
Interest	<u>24,422</u>
ARC	634,973
Interest on OPEB Obligation	99,364
Adjustment to ARC	<u>(143,656)</u>
OPEB Expense	590,681
Net OPEB contributions made during the fiscal year	(257,664)
Net OPEB obligation at beginning of year	<u>2,484,102</u>
Net OPEB obligation at end of year	<u>\$ 2,817,119</u>
Percentage of expense contributed	43.6%

e. FUNDED STATUS AND FUNDING PROGRESS

As of the actuarial valuation dated April 1, 2010, the actuarial accrued liability for benefits was \$7,147,986, 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 34 retirees was \$257,664 for the year ended March 31, 2012.

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 A36, 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.

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, 2011 actuarial valuation, with a valuation date of April 1, 2010, 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 11 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-seven years.

CITY OF BATAVIA, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

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

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	\$ 23,464
Police	90,065
Fire	109,979
Public safety	9,655
Transportation	34,812
Culture and recreation	20,659
Home and community service	<u>7,751</u>
 Total governmental activities OPEB expense	 \$ <u>296,385</u>
Business-type activities:	
Home and community service	\$ <u>36,632</u>
 Total business-type activities OPEB expense	 \$ <u>36,632</u>

3. SHORT-TERM DEBT

BOND ANTICIPATION NOTES - 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 \$1,386 of expenditures for their Bond Anticipation Notes interest and capitalized \$19,645 of interest in the Sewer Fund.

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

	Interest Rate	Balance 04/01/11	Issued	Redeemed	Balance 03/31/12
BAN maturing 06/14/12	0.80%	\$ 1,947,000	\$ -	\$ 969,000	\$ 978,000
BAN maturing 06/14/12	0.80%	165,000	-	-	165,000
BAN maturing 06/14/12	0.80%	<u>1,435,000</u>	<u>-</u>	<u>811,000</u>	<u>624,000</u>
		<u>\$ 3,547,000</u>	<u>\$ -</u>	<u>\$ 1,780,000</u>	<u>\$ 1,767,000</u>

4. LONG-TERM LIABILITIES

a. **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 \$274,253 of expenditures for serial bond interest.

CITY OF BATAVIA, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

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

b. CHANGES IN LONG-TERM LIABILITIES - The following is a summary of changes in long-term liabilities for the year ended March 31, 2012:

	Balance 04/01/11	Additions	Payments	Balance 3/31/12	Due within One year
Governmental activities:					
General obligation debt:					
Serial Bonds	\$ 5,611,000	\$ 1,200,000	\$ 1,503,000	\$ 5,308,000	\$ 342,000
Other long-term liabilities:					
Due to other governments					
-Courthouse	506,250	-	75,000	431,250	78,000
Due to other governments					
-Dwyer Stadium	206,328	-	5,000	201,328	5,000
Due to other governments					
-Landfill	355,401	-	10,191	345,210	16,439
Installment Purchase Debt	739,634	-	51,320	688,314	54,241
Compensated absences	2,578,939	1,040,168	831,081	2,788,026	278,803
Other post employment benefits	<u>2,204,435</u>	<u>296,385</u>	<u>-</u>	<u>2,500,820</u>	<u>-</u>
Total governmental activities	<u>\$ 12,201,987</u>	<u>\$ 2,536,553</u>	<u>\$ 2,475,592</u>	<u>\$ 12,262,948</u>	<u>\$ 774,483</u>
Business-type activities:					
General obligation debt:					
Serial Bonds	\$ 2,039,000	\$ -	\$ 192,000	\$ 1,847,000	\$ 198,000
Other long-term liabilities:					
Installment purchase debt	249,710	-	17,326	232,384	18,313
Compensated absences	385,180	136,148	124,380	396,948	39,695
Other post employment benefits	<u>279,667</u>	<u>36,632</u>	<u>-</u>	<u>316,299</u>	<u>-</u>
Total business-type activities	<u>\$ 2,953,557</u>	<u>\$ 172,780</u>	<u>\$ 333,706</u>	<u>\$ 2,792,631</u>	<u>\$ 256,008</u>

The following is a summary of maturities of serial bonds and installment purchase debt with corresponding maturity schedules:

<u>Issue Description</u>	<u>Original Date Issued</u>	<u>Amount of Original Issue</u>	<u>Interest Rate</u>	<u>Date of Final Maturity</u>	<u>Balance</u>
<u>Governmental Funds:</u>					
Serial bonds					
Dwyer and BID-Refunding	08/11	\$1,200,000	2.000-3.125%	08/20	\$1,200,000
Landfill	11/05	1,360,000	4.000-5.000%	11/21	757,660
Equipment	11/05	100,000	4.000-5.000%	11/21	55,710
Dwyer Stadium	11/05	110,000	4.000-5.000%	11/21	61,282
City Centre	11/05	225,000	4.000-5.000%	11/21	125,348
City Centre	11/05	3,580,000	4.250%	11/36	3,108,000
Installment purchase debt	11/06	923,454	1.850%	11/21	688,314

CITY OF BATAVIA, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

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

<u>Issue Description</u>	<u>Original Date Issued</u>	<u>Amount of Original Issue</u>	<u>Interest Rate</u>	<u>Date of Final Maturity</u>	<u>Balance</u>
<u>Enterprise Funds:</u>					
Sewer Fund:					
Serial bonds					
State clean water and drinking water	07/99	2,165,590	3.480-5.430%	10/19	1,010,000
State clean water and drinking water	03/03	600,000	1.031-3.731%	04/12	60,000
City Centre	11/05	447,500	4.250%	11/36	388,500
Installment purchase debt	11/06	91,407	1.850%	11/21	68,132
Water Fund:					
Serial bond					
City Centre	11/05	447,500	4.250%	11/36	388,500
Installment purchase debt	11/06	220,364	1.850%	11/21	164,252
GRAND TOTAL					<u>\$8,075,698</u>

c. OTHER LONG-TERM LIABILITIES

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

Other Post Employment Benefits - represents benefits owed to retirees as described at Note 3.,B.,2.

Installment Purchase Debt - The City has entered into Energy Performance Contracts for energy conservation improvements and equipment. 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 \$18,302 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 \$345,210 as of March 31, 2012 and is included in the long-term debt recorded by the City, as discussed further in Note 4.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, 2012 was \$431,250 and \$201,328, respectively.

d. MATURITY - The following table summarizes the City's future serial bonds and installment purchase debt requirements as of March 31, 2012:

<u>Fiscal Year</u>	<u>Serial Bonds</u>	<u>Interest</u>	<u>Installment Purchase Debt</u>	<u>Interest</u>
2013	\$ 540,000	\$ 257,098	\$ 72,554	\$ 17,033
2014	485,000	243,633	76,614	15,691
2015	485,000	229,308	80,831	14,273
2016	515,000	213,474	85,209	12,778
2017	525,000	196,434	89,756	11,201
2018-2022	2,095,000	727,921	515,734	29,303
2023-2027	935,000	456,875	-	-
2028-2032	1,160,000	241,188	-	-
2033-2036	415,000	30,389	-	-
Total	<u>\$ 7,155,000</u>	<u>\$2,596,320</u>	<u>\$ 920,698</u>	<u>\$ 100,279</u>

CITY OF BATAVIA, NEW YORK
NOTES TO BASIC 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 \$521,644,423 allowing the City to incur debt up to \$36,518,610. Currently, the City has \$6,285,788 in debt chargeable against the debt limit, leaving an available margin of \$30,232,822.

On July 19, 2011, the City issued \$1,200,000 of Refunding Bonds, Series 2011, to refund on a current basis all the \$1,175,000 of outstanding Various Purpose Serial Bonds, Series 2001, and to pay expenses of issuance of the Series 2011 Bonds. The current refunding transactions resulted in a cash flow savings over the next ten years of \$80,785, and a net present value debt services savings of \$75,489.

C. FUND BALANCES

As of March 31, 2012, fund balances on the fund basis statements are classified as follows:

Nonspendable - amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

Restricted - amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision making authority, i.e., the City Council. As of March 31, 2012, the City had no committed fund balances.

Assigned - amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The assigned category includes funds encumbered as of March 31, 2012 and appropriation of fund balances. Also, the City Council has authorized the City Manager to assign amounts for specific purposes.

Unassigned - all other spendable amounts that do not meet the definition of the above four classifications and are deemed to be available for general use by the City.

As March 31, 2012, fund balances were classified as follows:

	<u>General</u>	<u>Capital Projects</u>	<u>Special Grant</u>	<u>Non-Major Funds</u>	<u>Total</u>
<u>Nonspendable:</u>					
Prepaid expenditures	\$ 26,008	\$ -	\$ -	\$ -	\$ 26,008
<u>Restricted:</u>					
Insurance-general liability	410,484	-	-	-	410,484
Insurance-employee health	346,447	-	-	-	346,447
Retirement contribution	311,094	-	-	-	311,094
Employee benefit accrued liability	275,718	-	-	-	275,718
Repairs	65,911	-	-	-	65,911
Other-EMS	29,474	-	-	-	29,474
Capital projects	1,321,249	-	-	-	1,321,249
Special grant	-	-	405,935	-	405,935
<u>Assigned:</u>					
Encumbrances-					
General government	62,418	-	-	-	62,418
Public safety	72,769	-	-	-	72,769

CITY OF BATAVIA, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

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

	<u>General</u>	<u>Capital Projects</u>	<u>Special Grant</u>	<u>Non-Major Funds</u>	<u>Total</u>
Transportation	20,603	-	-	-	20,603
Culture and recreation	25,390	-	-	-	25,390
Home and community	6,033	-	-	-	6,033
Richmond Ave. resurfacing	300,000	-	-	-	300,000
Health insurance	75,000	-	-	-	75,000
Police	10,000	-	-	-	10,000
Fire	380,000	-	-	-	380,000
Department of public works	250,000	-	-	-	250,000
Facilities	100,000	-	-	-	100,000
Sidewalks	100,000	-	-	-	100,000
Employee benefit accrued liability	25,000	-	-	-	25,000
Retirement contribution	100,000	-	-	-	100,000
Subsequent years' expenditures	100,000	-	-	-	100,000
Capital projects fund	-	176,740	-	-	176,740
Self insurance	-	-	-	354,718	354,718
Mall maintenance	-	-	-	121,036	121,036
Small cities	-	-	-	169,330	169,330
<u>Unassigned:</u>					
General fund	<u>1,098,838</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,098,838</u>
Total	<u>\$ 5,512,436</u>	<u>\$ 176,740</u>	<u>\$ 405,935</u>	<u>\$ 645,084</u>	<u>\$ 6,740,195</u>

The City adopted a formal spending policy, under the provisions of GASB Statement No. 54, stating the City Council will assess the current financial condition of the City and then determine the order of application of expenditures to which fund balance classifications will be charged.

NOTE 4 - 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 \$460,279. 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 costs have been allocated to the City, or \$345,210. As of March 31, 2012, a liability has been recorded in the Governmental activities funds for future maintenance and operation costs.

CITY OF BATAVIA, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 4 - COMMITMENTS AND CONTINGENCIES (Continued)

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, 2012 was \$4.31 per 1,000 gallons for the first 300,000 gallons and \$3.59 per 1,000 gallons over 300,000 gallons. This rate is subject to adjustment on April 1st of each subsequent year.

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, 2012, the City recorded liabilities in the amounts of \$101,783, \$10,263 and \$8,693 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, 2012, the City has recorded a liability for future costs associated with open claims of \$24,451. 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 BASIC FINANCIAL STATEMENTS

NOTE 4 - 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.

E. CONSTRUCTION CONTRACTS

The City as entered into construction contracts in the amount of \$628,920 for the North/Ross Street Sewer project and \$1,388,850 for the Bank Street project. The construction costs for the North/Ross Street project and the Bank Street project as of March 31, 2012 amounted to \$633,419 and \$1,256,703, respectively. The City has also entered into engineering contracts totaling \$230,000 for the Cedar Street reconstruction project and \$138,000 for the Summit Street reconstruction Project. The engineering costs for the Cedar Street reconstruction Project and the Summit Street reconstruction Project as of March 31, 2012 amounted to \$152,606 and \$53,932, respectively.

NOTE 5 - STEWARDSHIP, COMPLAINE, ACCOUNTABILITY

A. OVERDRAWN APPROPRIATIONS

Expenditures for the year ended March 31, 2012 materially exceeded appropriations in the General Fund for economic assistance and opportunity and home and community services by \$89,274 and \$45,883, respectively.

CITY OF BATAVIA, NEW YORK
SCHEDULE OF FUNDING PROGRESS FOR RETIREE HEALTH PLAN
FOR THE YEAR ENDED MARCH 31, 2012

<u>Schedule of Funding Progress</u>	Actuarial Valuation Date	
	<u>04/01/10</u>	<u>04/01/08</u>
1. Currently retired liability	\$ 2,042,911	\$ 2,059,122
2. Actives eligible to retire	2,117,994	2,639,022
3. Actives not yet eligible	<u>2,987,081</u>	<u>4,524,455</u>
4. Actuarial Accrued Liability	7,147,986	9,222,599
5. Actuarial Value of Assets	<u>-</u>	<u>-</u>
6. Unfunded Actuarial Accrued Liability	7,147,986	9,222,599
7. Funded Ratio (5. divided by 4.)	0%	0%
8. Annual Covered Payroll	N/A	N/A
9. Ratio of Unfunded Actuarial Accrued Liability to Covered Payroll	N/A	N/A

<u>Schedule of Employer Contributions</u>	<u>Fiscal Year Ending</u>
March 31, 2009	\$ 159,395
March 31, 2010	\$ 205,746
March 31, 2011	\$ 193,373
March 31, 2012	\$ 257,664

CITY OF BATAVIA, NEW YORK
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2012

	Original Budget	Modified Budget	Actual	Variance From Modified Budget
REVENUES:				
Real property taxes	\$ 5,578,355	\$ 5,578,355	\$ 5,822,940	\$ 244,585
Real property tax items	176,500	176,500	528,258	351,758
Sales and other taxes	5,514,689	5,514,689	6,190,436	675,747
Departmental income	162,128	162,128	277,873	115,745
Use of money and property	51,680	51,680	57,850	6,170
Licenses and permits	58,180	58,180	100,641	42,461
Fines and forfeitures	195,500	195,500	175,235	(20,265)
Sale of property and compensation for loss	15,500	15,500	104,892	89,392
Miscellaneous local sources	195,290	218,288	495,292	277,004
State and federal sources	2,669,080	2,893,429	2,565,865	(327,564)
Total revenues	14,616,902	14,864,249	16,319,282	1,455,033
EXPENDITURES:				
General government	2,114,997	1,769,010	1,738,935	30,075
Public safety	7,345,162	6,598,237	6,428,007	170,230
Health	16,730	16,100	15,568	532
Transportation	2,022,741	2,015,858	1,975,438	40,420
Economic assistance and opportunity	35,000	61,859	151,133	(89,274)
Culture and recreation	739,815	660,970	618,981	41,989
Home and community services	210,270	179,641	225,524	(45,883)
Recycling	1,168,639	1,160,858	1,051,173	109,685
Employee benefits	-	1,411,448	1,412,142	(694)
Debt service:				
Principal	454,320	454,320	454,320	-
Interest	296,438	296,438	295,151	1,287
Bond issuance costs	-	-	53,285	(53,285)
Total expenditures	14,404,112	14,624,739	14,419,657	205,082
Excess (deficit) of revenues over expenditures	212,790	239,510	1,899,625	1,660,115
OTHER FINANCING SOURCES (USES):				
Premium on refunding bonds	-	-	36,767	36,767
Refunding bonds issued	-	-	1,200,000	1,200,000
Payment on refunding bonds	-	-	(1,175,000)	(1,175,000)
Interfund transfers in	160,000	160,000	350,000	190,000
Interfund transfers out	(372,790)	(533,790)	(405,096)	128,694
Appropriated fund balance	-	134,280	-	(134,280)
Total other financing sources (uses)	(212,790)	(239,510)	6,671	246,181
Net change in fund balance	-	-	1,906,296	1,906,296
Fund balance - beginning of year	-	-	3,606,140	3,606,140
Fund balance - end of year	\$ -	\$ -	\$ 5,512,436	\$ 5,512,436

SECTION B
SUPPLEMENTAL SCHEDULES

CITY OF BATAVIA, NEW YORK
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
MARCH 31, 2012

	<u>Self Insurance</u>	<u>Mall Maintenance Fund</u>	<u>Small Cities Fund</u>	<u>Total Non-Major Governmental Funds</u>
ASSETS:				
Cash and cash equivalents	\$ 354,800	\$ 113,390	\$ 69,896	\$ 538,086
Accounts receivable	50,304	10,511	-	60,815
Loan receivables (net of allowance for uncollectible accounts of \$25,666 in the Small Cities Fund)	-	-	104,510	104,510
Due from other funds	-	-	365	365
Total assets	\$ 405,104	\$ 123,901	\$ 174,771	\$ 703,776
LIABILITIES AND FUND BALANCE:				
LIABILITIES:				
Accounts payable	\$ 25,934	\$ 2,745	\$ 3,387	\$ 32,066
Accrued liabilities	24,452	120	-	24,572
Due to other governments	-	-	2,054	2,054
Total liabilities	\$ 50,386	\$ 2,865	\$ 5,441	\$ 58,692
FUND BALANCE:				
Assigned	354,718	121,036	169,330	645,084
Total fund balance	\$ 354,718	\$ 121,036	\$ 169,330	\$ 645,084
Total liabilities and fund balance	\$ 405,104	\$ 123,901	\$ 174,771	\$ 703,776

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, 2012

	Self Insurance	Mall Maintenance Fund	Small Cities Fund	Total Non-Major Governmental Funds
REVENUES:				
Special assessments	\$ -	\$ 164,003	\$ -	\$ 164,003
Use of money and property	1,537	2,055	2,032	5,624
Sale of property and compensation for loss	102,026	-	-	102,026
Total revenues	103,563	166,058	2,032	271,653
EXPENDITURES:				
General government	302,771	-	-	302,771
Economic assistance and opportunity	-	157,980	-	157,980
Home and community services	-	-	99,908	99,908
Employee benefits	43,306	-	-	43,306
Total expenditures	346,077	157,980	99,908	603,965
Excess (deficit) of revenues over expenditures	(242,514)	8,078	(97,876)	(332,312)
OTHER FINANCING SOURCES (USES):				
Interfund transfers in	283,690	-	-	283,690
Total other financing sources	283,690	-	-	283,690
Net change in fund balances	41,176	8,078	(97,876)	(48,622)
Fund balances - beginning of year	313,542	112,958	267,206	693,706
Fund balances - end of year	\$ 354,718	\$ 121,036	\$ 169,330	\$ 645,084

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, 2012
 (Continued)

	Self Insurance	Mail Maintenance Fund	Small Cities Fund	Total Non-Major Governmental Funds
OTHER FINANCING SOURCES (USES):				
Interfund transfers in	283,690	-	-	283,690
Total other financing sources	283,690	-	-	283,690
Net change in fund balances	41,176	8,078	(97,876)	(48,622)
Fund balances - beginning of year	313,542	112,958	267,206	693,706
Fund balances - end of year	\$ 354,718	\$ 121,036	\$ 169,330	\$ 645,084

SECTION C
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 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, 2012, and have issued our report thereon dated August 1, 2012. 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

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

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 previously.

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*.

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 CPAs, P.C.

Batavia, New York
August 1, 2012