AUDITED
BASIC FINANCIAL STATEMENTS

CITY OF BATAVIA, NEW YORK

MARCH 31, 2013

CITY OF BATAVIA, NEW YORK

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SECTION A
FINANCIAL SECTION

FreedMaxick CPAs, P.C.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, 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, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules and schedule of funding progress for retiree health plan on pages 1-21, A35 and A36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Freed Maxick CPAs, P.C.

Batavia, New York
July 15, 2013

Management's Discussion and Analysis
City of Batavia, New York
Fiscal Year ended March 31, 2013

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, 2013. 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, 2013, the City continued to move forward cautiously in a positive direction towards a healthy and stable financial condition. This is the fifth 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, 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 and facility 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 A7, there was a general fund surplus before transfers in the amount of $217,542 at March 31, 2013. This was largely related to conservative budgeting practices.
- Despite utilizing over $1 million of reserve funding for capital equipment, compensated absence pay outs and unanticipated retirement costs, the general fund was able to generate sufficient revenues to further build reserves and unassigned fund balance for anticipated liabilities/costs in future years. Total net fund balance increased by $294,107.
- 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.
- New York State AIM (Aid and Incentives for Municipalities) decreased by 2.4%, or $43,363, in the fiscal year ending March 31, 2013. Since fiscal year ending March 31, 2011 New York State reduced AIM by 6.9% or $109,949. Meanwhile New York State retirement costs have increased 39.7% or $496,749.

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 transporation were financed in the short term as well as what remains for future spending.

- Fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others.

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

Figure A-1

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

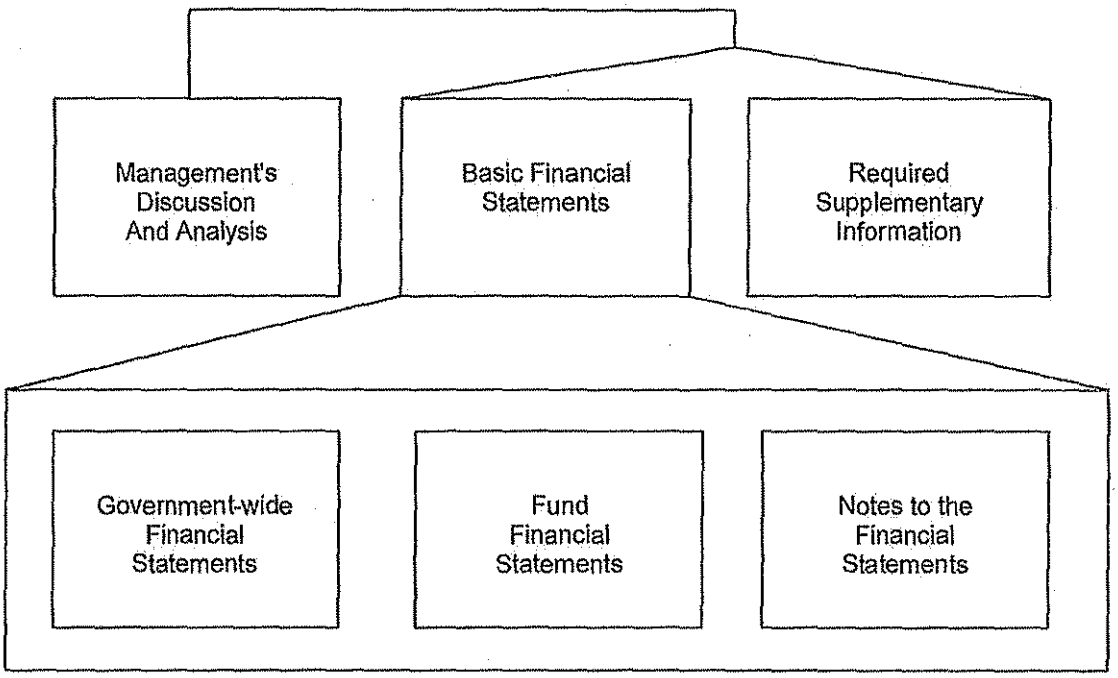


Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each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

Figure A-2
Major Features of the Government-wide and Fund Financial Statements

		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 acitivities of the City in which the City charges for services
Required financial statements	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances	• Statement of Net Position • Statement of Revenues, Expenses and Changes in Net Position • 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 deferred outflows of resources and liabilities and deferred inflows of resources, 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 position and how they have changed. Net position - 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 position 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 Position 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 govemmental 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.

- 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.

- Strategic use of unexpected revenues and/or surpluses. The City uses one-time revenues/surpluses to offset capital project expenses, build fund balance and reserves, and assist in purchasing equipment. The City remains cautiously optimistic and budgetarily conservative as major revenue sources such as sales tax, State aid and retirement contributions continue to be inconsistent.

- Bond Rating Upgrade. A bond rating upgrade was an objective outlined in the City's Strategic Plan. On July 19, 2012 Moody's Investors Service upgraded the City's bond rating from "A2" to "A1". The upgrade reflects the City's improved financial position marked by five consecutive years of operating surpluses as well as the City's practice of conservative budgeting of both revenues and expenditures. The rating also factors the City's moderately sized tax base, below average wealth levels and average direct debt level.

- 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, 2013 was another year of 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 14/15 fiscal year.

- Investment in City vehicles, equipment, infrastructure and facilities. A Water & Sewer Capital Infrastructure Plan (CIP) 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. The City has aggressively accomplished planned capital projects outlined in the CIP. In addition, the City has completed several sewer infrastructure projects on a cash for capital basis. An Equipment Replacement Plan (ERP) has also been developed to assist with investing in and replacing the City's fleet of vehicles and equipment. Over the past three years the City has replaced over $1.85 million of equipment utilizing a combination of operating funds, reserve funds and municipal leasing, with no additional debt service. 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.

- Employee Benefit Accrued Liability Reserve. Due to the high number of retirements, all of the Employee Benefit Accrued Liability Reserve was depleted. Over $311,000 from the reserve as well as $102,000 of VLT aid was needed to assist with pay outs of compensated absences related to 16 retirement/terminations for year ending March 31, 2013. Since the creation of the Employee Benefit Accrued Liability Reserve in 2010, the City has paid out over $690,000 in compensated absences due to retirements/terminations.

Capital Projects

Remaining open at year end are Cedar Street and Summit Street Reconstruction projects as they are both in the final design phases. The Cedar Street Reconstruction project started construction in August 2013. Summit Street reconstruction project is expected to begin in the spring of 2015.

Exhibit 3

Condensed Statement of Net Position
(in thousands of dollars)

	Governmental Activities		Total Percentage Change	Business-Type Activities		Total Percentage Change
	2013	2012		2013	2012	
Current and other assets	$ 11,106	$ 11,130	-0.22%	$ 9,738	$ 9,089	7.14%
Capital assets, net	17,854	17,556	1.70%	27,849	28,961	-3.84%
Total assets	$ 28,960	$ 28,686	0.96%	$ 37,587	$ 38,050	-1.22%
Long-term liabilities	$ 11,510	$ 12,263	-6.14%	$ 2,781	$ 2,793	-0.43%
Other liabilities	3,394	3,526	-3.74%	625	1,426	-56.17%
Total liabilities	14,904	15,789	-5.61%	3,406	4,219	-19.27%
Net investment in capital assets,	12,210	10,582	15.38%	25,784	26,343	-2.12%
Restricted for:						
Insurance	889	410	116.83%	-	-	0.00%
Capital projects	1,604	1,321	21.42%	3,346	3,445	-2.87%
Employee benefit accrued liability	-	276	-100.00%	-	-	0.00%
Retirement contributions	376	311	20.90%	-	-	0.00%
Other purposes	27	29	100.00%	-	-	0.00%
Special grant	339	406	-16.50%	-	-	0.00%
Unrestricted (deficit)	(1,389)	(438)	-217.12%	5,051	4,043	24.93%
Total net position	14,056	12,897	8.99%	34,181	33,831	1.03%
Total liabilities and and net position	$ 28,960	$ 28,686	0.96%	$ 37,587	$ 38,050	-1.22%

Governmental Activities

Governmental activities increased the City's net position by $1,159,184. Key elements of this increase are as follows:

- Revenues and expenses decreased by 8.44% and 8.66% respectively, due to the completion of the Masse Gateway Redevelopment Project in year ending March 31, 2012. The redevelopment project included the closeout of a $1,500,000 state grant.

Business-Type Activities

Business-type activities increased the City's net position by $349,237. Key elements of this increase are as follows:

- Sewer and water rents increased over the prior year by $67,328 and $94,178 respectively. Sewer revenue in total is down compared to prior year due to the completion of the North and Ross Street sewer replacement which utilized approximately $133,000 of state aid (CHIPs) for the street resurfacing component of the project.

Exhibit 4

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

	Governmental Activities		Total Percentage Change	Business-Type Activities		Total Percentage Change
	2013	2012		2013	2012	
Program Revenues:						
Charges for services	$ 792	$ 1,001	-20.88%	$ 5,003	$ 4,841	3.35%
Operating grants and contributions	1,020	759	34.39%	2,066	2,165	-4.57%
Capital grants and contributions	319	1,668	-80.88%	-	-	0.00%
General Revenues:						
Property taxes, special assessments and property tax items	5,709	5,928	-3.69%	-	-	0.00%
Non-property taxes	6,355	6,190	2.67%	-	-	0.00%
Interest earnings	59	70	-15.71%	16	23	-30.43%
State and federal sources	1,851	1,891	-2.12%	-	-	0.00%
Gain (loss) on sale of equipment	108	-	100.00%	(2)	-	0.00%
Miscellaneous	392	629	-37.68%	-	1	-100.00%
Total revenues	16,605	18,136	-8.44%	7,083	7,030	0.75%
Program Expenses:						
General government	2,105	2,276	-7.51%	-	-	0.00%
Police	3,678	3,489	5.42%	-	-	0.00%
Fire	4,027	4,036	-0.22%	-	-	0.00%
Public safety	275	315	-12.70%	-	-	0.00%
Health	31	34	-8.82%	-	-	0.00%
Transportation	2,371	2,371	0.00%	-	-	0.00%
Economic assistance	375	309	21.36%	-	-	0.00%
Culture and recreation	893	1,029	-13.22%	-	-	0.00%
Home and community service	742	2,100	-64.67%	6,371	6,408	-0.58%
Refuse and recycling	1,066	1,052	1.33%	-	-	0.00%
Interest on debt	245	295	-16.95%	-	-	0.00%
Total expenses	15,808	17,306	-8.66%	6,371	6,408	-0.58%
Increase in net position before transfers	797	830	-3.98%	712	622	14.47%
Transfers	362	354	-2.26%	(362)	(354)	2.26%
Increase in net position	1,159	1,184	-2.11%	350	268	30.60%
Net position-beginning	12,897	11,713	10.11%	33,831	33,563	0.80%
Net position-end	$ 14,056	$ 12,897	8.99%	$ 34,181	$ 33,831	1.03%

Exhibit 5

Revenues for Governmental Activities
Fiscal Year 2013

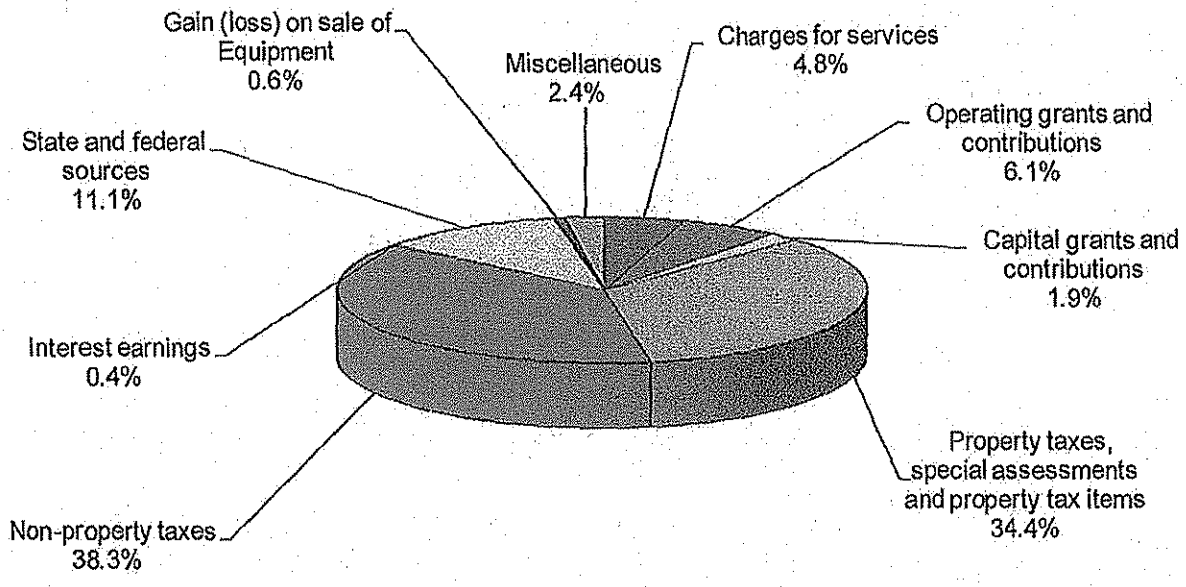


Exhibit 5

Revenues for Governmental Activities
Fiscal Year 2012

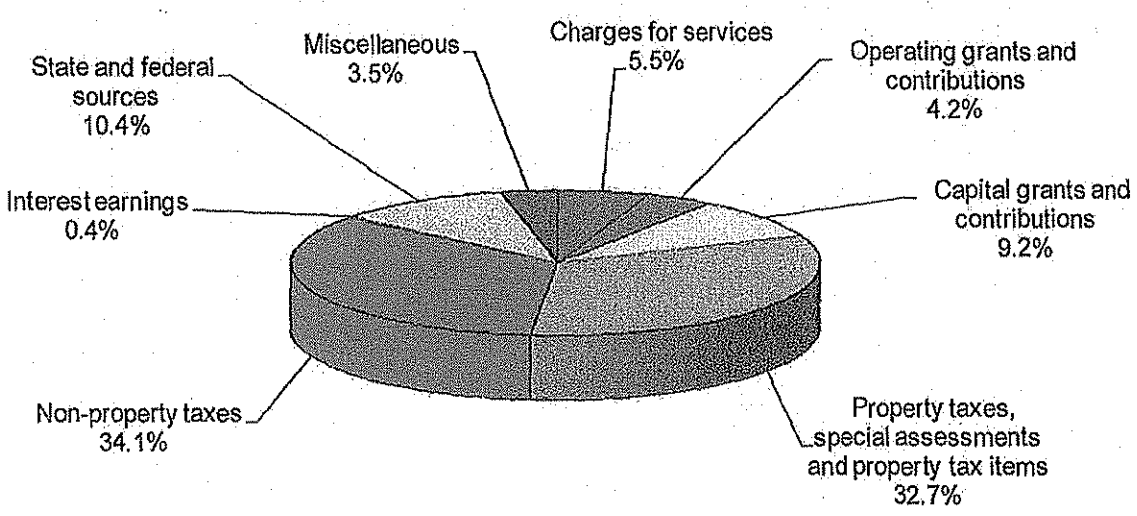


Exhibit 6

Expenses for Governmental Activities
Fiscal Year 2013

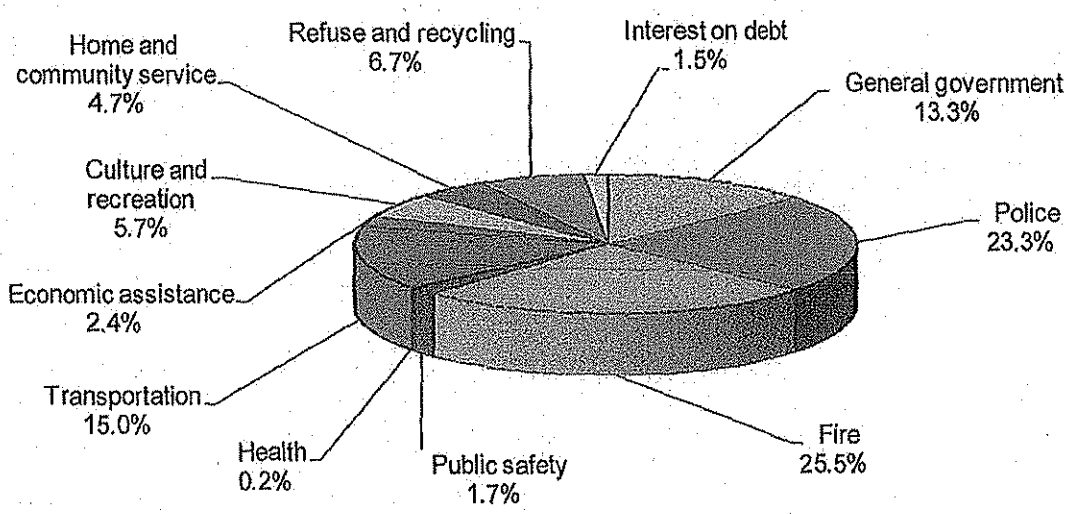
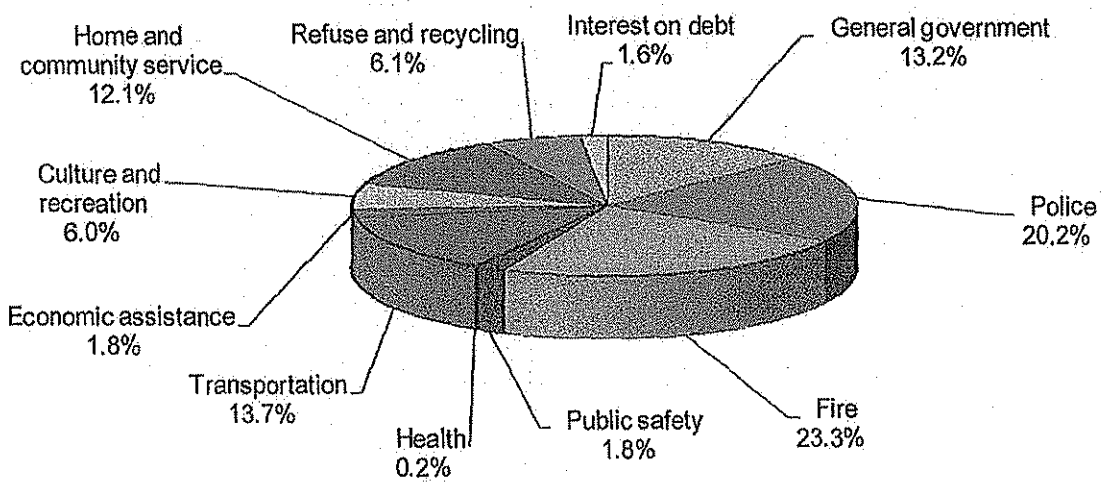


Exhibit 6

Expenses for Governmental Activities
Fiscal Year 2012



Governmental Activities

The following table presents the cost of eleven major City activities: general government, police, fire, public safety, health, transporation, 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.

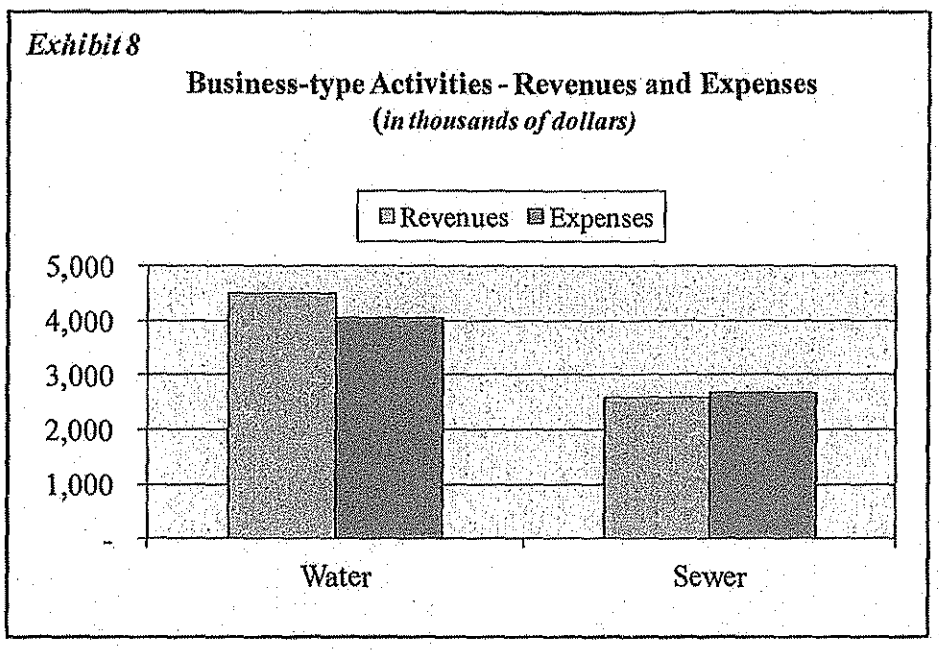
Exhibit 7

Net Cost of Governmental Activities
(in thousands of dollars)

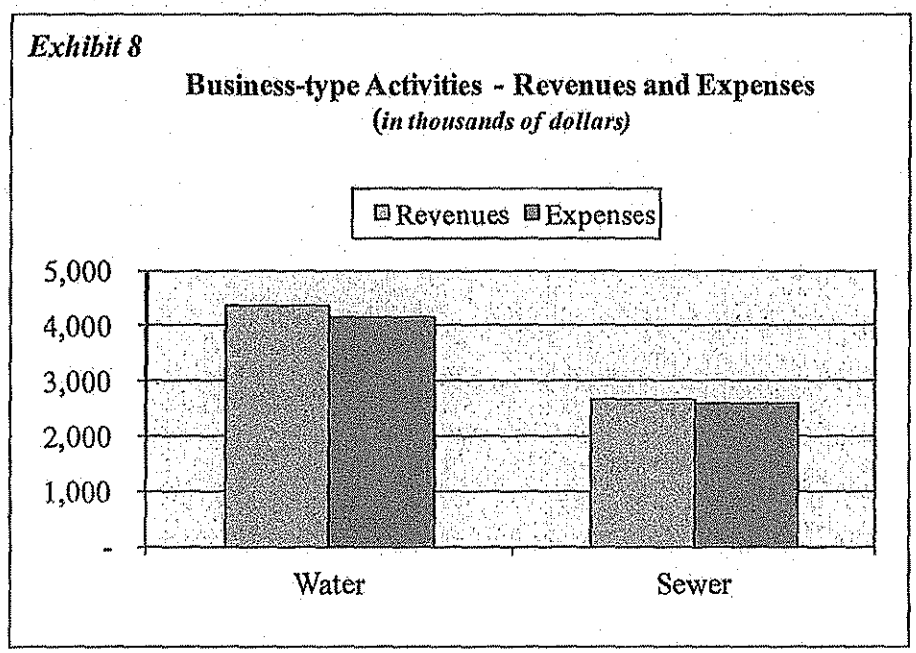
	Total Cost of Services		Total Percentage Change	Net Cost of Services		Total Percentage Change
	2013	2012		2013	2012	
General government	$ 2,105	$ 2,276	-7.51%	$ 1,814	$ 1,876	-3.30%
Police	3,678	3,489	5.42%	3,500	3,266	7.16%
Fire	4,027	4,036	-0.22%	4,027	4,036	-0.22%
Public safety	275	315	-12.70%	189	217	-12.90%
Health	31	34	-8.82%	(1)	1	-200.00%
Transportation	2,371	2,371	0.00%	1,741	1,686	3.26%
Economic assistance	375	309	21.36%	(267)	(19)	1305.26%
Culture & recreation	893	1,029	-13.22%	796	888	-10.36%
Home & community service	742	2,100	-64.67%	566	579	-2.25%
Refuse & recycling	1,066	1,052	1.33%	1,065	1,052	1.24%
Interest on debt	245	295	-16.95%	245	295	-16.95%
Total	$ 15,808	$ 17,306	-8.66%	$ 13,675	$ 13,877	-1.46%

Business-Type Activities

2013



2012



Financial Analysis of the City's Funds

The fiscal year ending March 31, 2013 concluded with an unassigned fund balance of $1,344,950 exclusive of restrictions and assignments for encumbrances, insurance, employee benefits accrued liability and capital reserves. This is the fifth 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, 2013. This increase is shown mainly in cash and cash equivalent which increased $440,320 over the prior year, of which $196,238 is attributed to the increase in reserve balances.

Revenues for the general fund decreased compared to last year by $611,173. The decrease in real property taxes and property tax items is due to less delinquent tax revnue being collected and accounts for a majority of this decrease. Specific changes in revenues were as follows:

- Property tax and property tax items decreased 8.3% or $481,835 and 45.7% or $241,331, respectively, over the prior year.
- Sales and other taxes increased $164,370 or 2.7% over the prior year.

Expenditures for the general fund increased $1,070,910 compared to the prior year. Areas that experienced increases included:

- Fire department expenses increased by $725,891 due to the purchase of a new fire engine and a considerable amount of compensated absence pay outs due to retirements.
- Police department expenses increased by $449,817 due to retro active payments and increased wages from settling the police contract.
- Employee benefits increased $103,234 compared to the prior year.

Water Fund

The water fund, including depreciation, had a current year change in net position of $436,844, compared to last year's change of $202,695. Contractual expense accounts for the biggest change from last year within the Fund's net position, decreasing $99,005 over the prior year indicating that the City's efforts to decrease unaccounted for water is improving as the City distribution system is becoming more efficient and we are purchasing less water from the County.

Sewer Fund

The sewer fund, including depreciation, has experienced a negative change in net position of $87,607, compared to last year. From a cash standpoint the sewer fund's net cash position increased by $239,603. This change is attributed to the completion of the North/Ross sewer project as well as the increase in installment purchase debt proceeds of $204,276 due to the municipal lease for the purchase of the sewer vacuum truck.

Workers Comp. Fund

This year's workers compensation fund balance decreased by $28,166. Workers comp premiums and other costs associated with premium based workers comp insurance increased by $71,158 over the prior year. This was due to increased worker compensation rates in general as well as an increase in police wages due to the settlement of the police contract. 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 $41,513 compared to the prior year.

Capital Projects Fund

Cedar Street Reconstruction and Summit Street Reconstruction projects are still in the design phase at March 31, 2013. Cedar Street construction begain August 2013. Summit Street construction is expected spring 2015.

Exhibit 9

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

	2013		
	Revenues	Expenditures/ Expenses	Fund Balance/ Net Assets
General Fund	$ 16,059	$ 15,764	$ 5,807
Water Fund	4,499	4,062	8,911
Sewer Fund	2,585	2,673	25,269

	2012		
	Revenues	Expenditures/ Expenses	Fund Balance/ Net Assets
General Fund	$ 17,906	$ 16,000	$ 5,512
Water Fund	4,362	4,160	8,474
Sewer Fund	2,668	2,602	25,357

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 previousely 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 enabled the City to move 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 increased 3.7% or $221,981. Sales tax revenue levels have currently increased over prior year, however the City continues to budget conservatively as sales taxes accounts for more than a third of general fund revenue and remains an elastic revenue subject to fluctuation based on the economy.
- Gross utility receipts tax decreased 19.1% or $49,404. Similar to sales tax, this revenue is budgeted conservatively and subject to change based on the economy.
- Mortgage tax remained flat with no change over the prior year.
- All of the above revenues with the exception of sales tax are less than received in fiscal year ending March 31, 2009.

In addition to conservative revenue budgeting and the utilization of one-time revenues to fund capital acquisitions, the City continued the practice of conservative spending and strict expense monitoring.

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 the unassigned fund balance. 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, 2013, the City funded reserves with an additional $1,040,000. 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 $600,533 of the reserve funds to purchase a fire truck, a dump truck, a bucket truck, a police cruiser and install sidewalks, thereby utilizing reserve funding instead of property tax increases or issuance of debt for these types of improvements.

Exhibit 10

Capital Assets Net of Depreciation
(in thousands of dollars)

	Governmental Activities		Business -Type Activities	
	2013	2012	2013	2012
Land	$ 1,135	$ 1,140	$ 42	$ 42
Construction work in progress	6,676	6,463	593	1,848
Buildings	6,981	7,224	18,351	19,394
Machinery & equipment	2,117	1,598	707	447
Infrastructure	945	1,131	8,156	7,230
Total	$ 17,854	$ 17,556	$ 27,849	$ 28,961

Long-Term Obligations

For the year ending March 31, 2013, the City's constitutional debt limit was $36,518,610. Outstanding bonds totaled $7,495,450. Of this total, $5,846,450 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 acknowledged a modest financial position by specifically identifying City management's ability to restore financial health, establish a Retirement, Health Insurance and Employee Benefits Reserves and negotiated manageable settlements with three of its unions, which included wage freezes and healthcare concessions.

In July 2012 Moody's Investors Service upgraded the City's bond rating from "A2" to "A1". The upgrade reflected the City's improved financial position marked by five consecutive years of operating surpluses as well as the City's practice of conservative budgeting of both revenues and expenditures. The rating also factors the City's moderately sized tax base, below average wealth levels and average direct debt level.

Exhibit 11

Outstanding Long-Term Obligations
(in thousands of dollars)

	Governmental Activities		Business-Type Activities	
	2013	2012	2013	2012
General obligation debt backed by the City	$ 4,966	$ 5,308	$ 1,649	$ 1,847
Installment purchase debt	678	688	416	233
Other debt	881	978	-	-
Compensated absences	2,276	2,788	387	397
Other post employment benefits	2,709	2,501	329	316
Total	$ 11,510	$ 12,263	$ 2,781	$ 2,793

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) and fire union contract expired March 31, 2013. The City's negotiations are focused on manageable benefit packages that will not significantly impact future property tax levels. 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, 2013 had a 3.7%, or $221,981 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 not so distant 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 affect on the City's budget. Currently a 1% decrease in sales tax receipts equals a 1.5% 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, 2013, the City utilized $1,024,229 of reserve funding to purchase needed equipment and offset liabilities as they came due. Planning for these improvements/liabilities 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. Due to a high number of retirements/terminations the City depleted its Employee Accrued Liability Reserve in the fiscal year ending March 31, 2013. 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. In 2012/13 the City's retirement costs increased 45.7% ($548,032) over the prior year. 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. Retiree healthcare will continue to increase in the future. In the fiscal year ending March 31, 2012 post employment health insurance cost for the City's 34 retirees was $257,664. In year ending March 31, 2013 post employment health insurance cost for the City's for 38 retirees was $365,588. This was is a 41.9% increase, or $107,924 over the prior year. For this reason, the City will continue to aggressively negotiate with unions to discontinue this benefit moving forward.

- *Taxable Assessed Value Decline* – The City's taxable assessed value has increased very little since 2010. On average the tax base growth has been about 1.5% annually, however 2011 showed a .01% increase in taxable assess value over 2010, and a .48% increase in 2012 over the prior year. 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 since 2010 the City's taxable assessed value has shown little to no growth. 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 stable 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 commerical 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 four 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 further limits 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 Council's Strategic Plan emphasizes Financal 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. 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 POSITION
MARCH 31, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	$ 7,043,050	$ 7,464,585	$ 14,507,635
Property taxes receivable	1,589,616	-	1,589,616
Accounts receivable, net	445,313	1,746,985	2,192,298
State and federal receivables	196,974	-	196,974
Loans receivable, net	267,048	-	267,048
Due from other governments	1,563,622	526,667	2,090,289
Capital assets not being depreciated	7,810,302	634,308	8,444,610
Capital assets, net of accumulated depreciation	10,044,171	27,214,983	37,259,154
Total assets	28,960,096	37,587,528	66,547,624
LIABILITIES:			
Accounts payable	854,938	132,974	987,912
Accrued liabilities	450,405	492,520	942,925
Due to other governments	575,255	-	575,255
Unearned revenues	1,513,724	-	1,513,724
Long-term liabilities			
Due and payable within one year	741,473	227,010	968,483
Due and payable after one year	10,768,129	2,554,351	13,322,480
Total liabilities	14,903,924	3,406,855	18,310,779
NET POSITION:			
Net investment in capital assets	12,209,993	25,783,944	37,993,937
Restricted for:			
Insurance	888,736	-	888,736
Capital projects	1,603,596	3,345,929	4,949,525
Retirement contribution	376,109	-	376,109
Other purposes	27,479	-	27,479
Special grant	339,193	-	339,193
Employee benefit accrued liability	37	-	37
Unrestricted (deficit)	(1,388,971)	5,050,800	3,661,829
Total net position	$ 14,056,172	$ 34,180,673	$ 48,236,845

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2013

		Program Revenues			Net (Expense) Revenue and Changes in Net Postion		
Functions/Programs:	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	$ 2,105,186	$ 278,081	$ 12,964	$ -	$ (1,814,141)	$ -	$ (1,814,141)
Police	3,678,310	145,866	32,066	-	(3,500,378)	-	(3,500,378)
Fire	4,026,563	-	-	-	(4,026,563)	-	(4,026,563)
Public safety	275,453	72,482	13,950	-	(189,021)	-	(189,021)
Health	30,697	32,055	-	-	1,358	-	1,358
Transportation	2,370,839	18,643	401,210	209,489	(1,741,497)	-	(1,741,497)
Economic assistance	375,154	130,905	511,460	-	267,211	-	267,211
Culture and recreation	893,044	75,702	20,918	-	(796,424)	-	(796,424)
Home and community services	741,545	36,017	29,119	109,895	(566,514)	-	(566,514)
Refuse and recycling	1,065,484	-	-	-	(1,065,484)	-	(1,065,484)
Interest on debt	244,671	-	-	-	(244,671)	-	(244,671)
Total governmental activities	15,806,946	789,751	1,021,687	319,384	(13,676,124)	-	(13,676,124)
Business-type activities:							
Sewer	2,645,296	2,497,349	82,874	-	-	(65,073)	(65,073)
Water	3,725,993	2,505,564	1,982,696	-	-	762,267	762,267
Total business-type activities	6,371,289	5,002,913	2,065,570	-	-	697,194	697,194

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2013
(Continued)

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Total governmental and business-type activities	$ 22,178,235	$ 5,792,664	$ 3,087,257	$ 319,384	(13,676,124)	697,194	(12,978,930)
General revenues:							
Real property taxes and tax items					5,708,856	-	5,708,856
Non-property taxes					6,354,806	-	6,354,806
Interest earnings					59,028	15,683	74,711
State aid not restricted for a specific purpose					1,851,751	-	1,851,751
Other miscellaneous revenues					390,637	(1,600)	389,037
Gain on sale of capital asset					108,190	-	108,190
Transfers:							
Sewer					26,120	(26,120)	-
Capital					335,920	(335,920)	-
Total general revenues and transfers					14,835,308	(347,957)	14,487,351
Change in net position					1,159,184	349,237	1,508,421
Net position - beginning					12,896,988	33,831,436	46,728,424
Net position - ending					$ 14,056,172	$ 34,180,673	$ 48,236,845

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2013

	General	Non-Major Governmental Funds	Total Governmental Funds
ASSETS:			
Cash and cash equivalents	$ 6,418,645	$ 624,405	$ 7,043,050
Receivables:			
Property tax	1,589,616	-	1,589,616
Accounts receivable	372,206	73,107	445,313
State and federal receivables	11,815	185,159	196,974
Loan receivables (net of allowance for uncollectible accounts of $25,129 in the Small Cities Fund and $42,054 in the Special Grant Fund)	-	267,048	267,048
Due from other governments	1,563,622	-	1,563,622
Due from other funds	10,000	8,755	18,755
Total assets	$ 9,965,904	$ 1,158,474	$ 11,124,378
LIABILITIES:			
Accounts payable	$ 708,390	$ 146,548	$ 854,938
Accrued liabilities	408,749	41,656	450,405
Unearned revenues	1,513,724	-	1,513,724
Due to other governments	575,255	-	575,255
Due to other funds	8,755	10,000	18,755
Total liabilities	3,214,873	198,204	3,413,077
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenue-property taxes	944,488	-	944,488
Total deferred inflows of resources	944,488	-	944,488

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2013
(Continued)

	General	Non-Major Governmental Funds	Total Governmental Funds
FUND BALANCES:			
Restricted	2,956,615	468,757	3,425,372
Committed	345,000	-	345,000
Assigned	1,159,978	491,513	1,651,491
Unassigned	1,344,950	-	1,344,950
Total fund balances	5,806,543	960,270	6,766,813
Total liabilities, deferred inflows of resources and fund balances	$ 9,965,904	$ 1,158,474	

Amounts reported for governmental activities in the statement of net position 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	17,854,473
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	(11,509,602)
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds	944,488
Net position	$ 14,056,172

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2013

	General	Non-Major Governmental Funds	Total Governmental Funds
REVENUES:			
Real property taxes	$ 5,341,105	$ -	$ 5,341,105
Real property tax items	286,927	-	286,927
Special assessments	-	130,905	130,905
Sales and other taxes	6,354,806	-	6,354,806
Departmental income	257,045	-	257,045
Use of money and property	51,665	7,363	59,028
Licenses and permits	100,329	-	100,329
Fines and forfeitures	105,871	-	105,871
Sale of property and compensation for loss	211,424	64,397	275,821
Miscellaneous local sources	470,314	7,207	477,521
Federal and state sources	2,528,623	658,045	3,186,668
Total revenues	15,708,109	867,917	16,576,026
EXPENDITURES:			
General government	1,535,247	415,724	1,950,971
Police	3,365,398	-	3,365,398
Fire	3,979,195	-	3,979,195
Public safety	249,352	-	249,352
Health	16,373	-	16,373
Transportation	2,132,726	281,040	2,413,766
Economic assistance and opportunity	208,313	166,841	375,154
Culture and recreation	718,608	-	718,608
Home and community services	213,972	570,939	784,911
Refuse and recycling	1,066,420	-	1,066,420
Employee benefits	1,279,389	37,406	1,316,795
Debt service:			
Principal	480,903	-	480,903
Interest	244,671	-	244,671
Total expenditures	15,490,567	1,471,950	16,962,517

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2013
(Continued)

	General	Non-Major Governmental Funds	Total Governmental Funds
Excess (deficit) of revenues over expenditures	217,542	(604,033)	(386,491)
OTHER FINANCING SOURCES (USES):			
Interfund transfers in	350,030	335,505	685,535
Interfund transfers out	(273,465)	(50,030)	(323,495)
Installment purchase debt proceeds	-	51,069	51,069
Total other financing sources (uses)	76,565	336,544	413,109
Net change in fund balances	294,107	(267,489)	26,618
Fund balances - beginning	5,512,436	1,227,759	6,740,195
Fund balances - ending	$ 5,806,543	$ 960,270	$ 6,766,813

See notes to basic financial statements.

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, 2013

Net change in fund balances - total governmental funds	$	26,618
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays ($1,040,518) exceeded depreciation ($689,362) in the current period.		351,156
The net effect of various miscellaneous transactions involving capital assets (i.e. sales and trade-ins) is to decrease net position.		(52,760)
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.		80,824
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.		500,241
Proceeds of long-term debt is recorded as an other financing source for governmental funds but it is not recorded in the statement of activities. This is the amount of proceeds from long-term debt received in the current year.		(51,069)
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.		(208,185)
(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.		512,359
Change in net position of governmental activities	$	1,159,184

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF NET POSITION - ENTERPRISE FUNDS
MARCH 31, 2013

	Sewer	Water	Total
ASSETS:			
Cash and cash equivalents	$ 2,741,910	$ 4,722,675	$ 7,464,585
Accounts receivable	736,527	1,010,458	1,746,985
Due from other governments	-	526,667	526,667
Capital assets not being depreciated	20,505	613,803	634,308
Capital assets, net of accumulated depreciation	23,619,659	3,595,324	27,214,983
Total assets	$ 27,118,601	$ 10,468,927	$ 37,587,528
LIABILITIES:			
Accounts payable	$ 63,348	$ 69,626	$ 132,974
Accrued liabilities	26,640	465,880	492,520
Long-term liabilities			
Due and payable within one year	168,739	58,271	227,010
Due and payable after one year	1,590,415	963,936	2,554,351
Total liabilities	1,849,142	1,557,713	3,406,855
NET POSITION:			
Net investment in captial assets	22,127,787	3,656,157	25,783,944
Restricted for capital projects	995,195	2,350,734	3,345,929
Unrestricted	2,146,477	2,904,323	5,050,800
Total net position	25,269,459	8,911,214	34,180,673
Total liabilities and net position	$ 27,118,601	$ 10,468,927	$ 37,587,528

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - ENTERPRISE FUNDS
FOR THE YEAR ENDED MARCH 31, 2013

	Sewer	Water	Total
OPERATING REVENUES:			
Charges for services	$ 2,497,349	$ 2,505,564	$ 5,002,913
County water agreement charges	-	1,362,404	1,362,404
Rental of real property	-	550,000	550,000
Other operating revenue	82,874	70,292	153,166
Total operating revenues	2,580,223	4,488,260	7,068,483
OPERATING EXPENSES:			
Salaries, wages and employee benefits	809,120	1,083,067	1,892,187
Contractual expense	496,409	2,486,722	2,983,131
Depreciation	1,309,138	136,380	1,445,518
Total operating expenses	2,614,667	3,706,169	6,320,836
Operating income (loss)	(34,444)	782,091	747,647
NON-OPERATING REVENUES (EXPENSES):			
Investment income	5,086	10,597	15,683
Interest expense	(30,629)	(19,824)	(50,453)
Loss on sale of fixed assets	(1,500)	(100)	(1,600)
Operating subsidy to governmental funds	(26,120)	(335,920)	(362,040)
Total non-operating expenses	(53,163)	(345,247)	(398,410)
Change in net position	(87,607)	436,844	349,237
Net position - beginning	25,357,066	8,474,370	33,831,436
Net position - ending	$ 25,269,459	$ 8,911,214	$ 34,180,673

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED MARCH 31, 2013

	Sewer	Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 2,494,840	$ 2,354,762	$ 4,849,602
Cash payments for contractual expenses	(542,052)	(2,610,730)	(3,152,782)
Cash payments to employees for services	(799,129)	(1,090,291)	(1,889,420)
Other operating revenue	82,874	1,982,696	2,065,570
Net cash provided by operating activities	1,236,533	636,437	1,872,970
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating subsidy to governmental funds	(26,120)	(335,920)	(362,040)
Net cash used by noncapital financing activities	(26,120)	(335,920)	(362,040)
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(307,012)	(28,372)	(335,384)
Principal payments on debt	(842,531)	(28,153)	(870,684)
Installment purchase debt proceeds	204,276	28,371	232,647
Interest paid on debt	(30,629)	(19,824)	(50,453)
Net cash used by capital and financing activities	(975,896)	(47,978)	(1,023,874)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest on cash and investments	5,086	10,597	15,683
Net cash provided by investing activities	5,086	10,597	15,683
Net increase in cash	239,603	263,136	502,739
Cash - beginning	2,502,307	4,459,539	6,961,846
Cash - ending	$ 2,741,910	$ 4,722,675	$ 7,464,585
Reconciliation of income from operations to net cash provided (used) by operating activities:			
Income (loss) from operations	$ (34,444)	$ 782,091	$ 747,647
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:			
Depreciation	1,309,138	136,380	1,445,518
Change in assets and liabilities			
Decrease (increase) in:			
Accounts receivable	(2,509)	(150,802)	(153,311)
Due from other governments	-	7,217	7,217
Increase (decrease) in:			
Accounts payable	35,990	(126,758)	(90,768)
Accrued liabilities	(81,633)	(4,467)	(86,100)
Compensated absences	4,283	(14,487)	(10,204)
Other post employment benefit	5,708	7,263	12,971
Net cash provided by operating activities	$ 1,236,533	$ 636,437	$ 1,872,970

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
MARCH 31, 2013

	Private Purpose Trusts	Agency
ASSETS:		
Cash and cash equivalents	$ -	$ 263,321
Cash and cash equivalents - restricted	21,252	-
Total assets	$ 21,252	$ 263,321
LIABILITIES AND NET POSITION:		
LIABILITIES:		
Agency liabilities	$ -	$ 263,321
Total liabilities	-	263,321
NET POSITION:		
Restricted trust funds	21,252	-
Total liabilities and net position	$ 21,252	$ 263,321

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUND
FOR THE YEAR ENDED MARCH 31, 2013

	Private Purpose Trusts
ADDITIONS:	
Interest	$ 10
Total additions	10
Change in net position	10
Net position - beginning	21,242
Net position - ending	$ 21,252

See 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 Position 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.

The Statement of Activities presents a comparison between direct expenses and direct revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Direct or program revenues include fees, fines and charges paid by the recipients of goods or services offered by the programs. Operating grants include program-specific and discretionary grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues that are not classified as direct revenues, including property taxes, non-property taxes, investment earnings, and general state aid are presented as general revenues.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. FUND FINANCIAL STATEMENTS

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

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

b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The City has elected to apply all GASB pronouncements, applicable Financial Accounting Standards Board (FASB) 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 Position for due to and due from other funds represent 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, or significantly reconstructed or improved 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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has no deferred outflows as of March 31, 2013.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of fund balance that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category. It is deferred tax revenue and is reported only in the governmental fund balance sheet.

H. 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.

I. LONG-TERM LIABILITIES

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

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

J. COMPENSATED ABSENCES

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

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

Compensated absences for governmental fund type employees are reported as a fund liability and expenditure in the government-wide financial statements. A portion of the compensated absences liability recognized is attributed to the value of sick leave converted to pay the employees' share of post-employment health insurance premiums. The compensated absences liability for the Governmental and Enterprise funds at the year-end totaled $2,275,667 and $329,269, respectively.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. POST EMPLOYMENT BENEFITS

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

L. INTERFUND TRANSFERS

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

M. FUND EQUITY

Government-wide statements:

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

a. Net investment in capital assets - 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 position - Consists of net positions 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 position - Reports all other net positions 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 fund balances to be reported including nonspendable, restricted, committed, assigned and unassigned. These classes are explained further in Note 3.,C.

N. 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".

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2012-13 year, the five-year average full valuation was $521,694,433 allowing for a maximum tax limit of $10,433,888 (includes allowance exclusions). The City tax levy was $5,712,674 for the year ended March 31, 2013.

O. 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.

P. 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.

Q. NEW ACCOUNTING PRONOUCEMENTS

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, which establishes standards for reporting deferred outflows and deferred inflows of resources and net position. The statement requires reporting of deferred outflows of resources (consumption of net position applicable to future periods) and deferred inflows of resources (acquisition of net position applicable to future periods) in separate sections of the balance sheet following assets and liabilities. The difference between assets plus deferred outflows of resources less liabilities plus deferred inflows of resources equals net position and net position should be displayed in three components as: net investment in capital assets, restricted and unrestricted. GASB Statement No. 63 is effective for financial statement periods beginning after December 15, 2011. The City adopted the provisions of the statement in 2013 on a retroactive basis by renaming certain balance sheet elements for all periods presented. The adoption of GASB Statement No. 63 did not materially affect the City's financial statements.

Additionally, during the year ended March 31, 2013, the City completed the process of evaluating the impact that will result from adopting GASB Statements No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, effective for the year ending March 31, 2013. GASB Statements No. 57, 60, 62 and 64 did not have a material impact on the City's financial position or results from operations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The GASB has issued the following new statements:

- 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. 65, *Items Previously Reported as Assets and Liabilities*, which will be effective for the year ending March 31, 2014;
- *Statement No. 66,* Technical Corrections—*2012*—an amendment of GASB Statements No. 10 and 62, *which will be effective for the year ending March 31, 2014;*
- Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25,* which will be effective for the year ending March 31, 2015;
- Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27,* which will be effective for the year ending March 31, 2016;
- Statement No. 69, *Government Combinations and Disposals of Government Operations,* which will be effective for the year ending March 31, 2015; and
- Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* effective for the year ending March 31, 2015.

The City is currently reviewing 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, 2013	$ 6,766,813
Deduct outstanding encumbrances	99,978
BUDGETARY BASIS - Fund balance - March 31, 2013	$ 6,666,835

NOTE 3 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. ASSETS

1. CASH AND INVESTMENTS

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

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

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

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.

2. RECEIVABLES

Major revenues accrued by the City, include the following:

a. Accounts Receivables - Amounts accrued at March 31, 2013:

General Fund:	
Franchise fees	$ 210,307
Gross utilities	31,256
Fines and forfeitures	10,057
Insurance recoveries	5,190
Other miscellaneous receivables	115,396
Total governmental activities accounts receivable	$ 372,206

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

Sewer Fund:	
Sewer rents	$ 734,123
Other miscellaneous revenues	2,404
Total accounts receivable	$ 736,527
Water Fund:	
Water rents	$ 1,008,722
Other miscellaneous revenues	1,736
Total accounts receivable	$ 1,010,458
Total business-type activities accounts receivable	$ 1,746,985

b. State and Federal Receivables - represents amounts due primarily from New York State and the federal government. Amounts accrued at March 31, 2013 consist of:

Capital Fund:	
Summit Street reimbursement	$ 11,728
Cedar Street reimbursement	161,639
Total state and federal receivables	$ 173,367

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, 2013, consist of:

General Fund:	
NYS sales tax	$ 1,411,058
Planning BOA grant	152,564
Total governmental activities due from other governments	$ 1,563,622
Water Fund:	
City/County water agreement	$ 526,667

3. 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, 2013, under both programs amounted to $109,784, net of an allowance of $25,129 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, 2013, amounted to $157,264, net of an allowance of $42,054 for uncollectable loans.

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

4. INTERFUND ACTIVITY

Interfund activity balances at March 31, 2013, are as follows:

	Interfund Receivable	Interfund Payable	Interfund Revenues	Interfund Expenditures
General Fund	$ 10,000	$ 8,755	$ 350,030	$ 273,465
Water Fund	-	-	-	335,920
Sewer Fund	-	-	-	26,120
Capital Projects Fund	1,406	-	8,955	50,030
Special Grant Fund	-	10,000	-	-
Self-Insurance Fund	-	-	326,550	-
Small Cities Fund	2,986	-	-	-
Mall Fund	4,363	-	-	-
Total	$ 18,755	$ 18,755	$ 685,535	$ 685,535

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.

5. CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2013, was as follows:

	Balance 04/01/12	Additions	Disposals	Balance 03/31/13
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 1,140,338	$ 1	$ 5,751	$ 1,134,588
Construction work in progress	6,462,809	212,905	-	6,675,714
Total capital assets, not being depreciated	$ 7,603,147	$ 212,906	$ 5,751	$ 7,810,302
Capital assets, being depreciated:				
Buildings and building improvements	$ 9,781,357	$ -	$ -	$ 9,781,357
Machinery, equipment and vehicles	5,345,534	827,612	430,904	5,742,242
Infrastructure	3,789,051	-	-	3,789,051
Total capital assets, being depreciated	18,915,942	827,612	430,904	19,312,650
Less accumulated depreciation:				
Buildings and building improvements	2,556,787	243,179	-	2,799,966
Machinery, equipment and vehicles	3,747,802	261,507	383,895	3,625,414
Infrastructure	2,658,423	184,676	-	2,843,099
Total accumulated depreciation	8,963,012	689,362	383,895	9,268,479
Total capital assets, being depreciated - net	9,952,930	138,250	47,009	10,044,171

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

	Balance 04/01/12	Additions	Disposals	Balance 03/31/13
Governmental activities capital assets, net	$ 17,556,077	$ 351,156	$ 52,760	$ 17,854,473
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 41,500	$ -	$ -	$ 41,500
Construction work in progress	1,848,197	1,314	1,256,703	592,808
Total capital assets, not being depreciated	$ 1,889,697	$ 1,314	$ 1,256,703	$ 634,308
Capital assets, being depreciated:				
Buildings and building improvements	$ 41,427,000	$ -	$ -	$ 41,427,000
Machinery, equipment and vehicles	994,955	334,070	52,450	1,276,575
Infrastructure	12,550,027	1,256,703	-	13,806,730
Total capital assets, being depreciated	54,971,982	1,590,773	52,450	56,510,305
Less accumulated depreciation:				
Buildings and building improvements	22,032,827	1,043,299	-	23,076,126
Machinery, equipment and vehicles	547,717	72,760	50,850	569,627
Infrastructure	5,320,110	329,459	-	5,649,569
Total accumulated depreciation	27,900,654	1,445,518	50,850	29,295,322
Total capital assets, being depreciated - net	27,071,328	145,255	1,600	27,214,983
Business-type capital assets, net	$ 28,961,025	$ 146,569	$ 1,258,303	$ 27,849,291

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	$ 167,237
Police	53,887
Fire	60,007
Health	12,977
Transportation	280,165
Culture and recreation	108,697
Home and community	6,392
Total governmental activities depreciation expense	689,362

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

Business-type activities:	
Water	136,380
Sewer	1,309,138
Total business-type activities depreciation expense	1,445,518
Total depreciation expense	$ 2,134,880

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 System after July 27, 1976 who contribute 3.0% to 3.5% of their salary. With the exception of ERS tier V and VI employees, employees in the system more than ten years are no longer required to contribute. In addition, employees contribution rates under ERS tier VI vary based on a sliding salary scale. For the New York State and Local Employees' Retirement System, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulated 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:

	ERS	PFRS
2013	$ 606,689	$1,156,334
2012	$ 469,774	$ 740,124
2011	$ 358,990	$ 891,418

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, 2012 and received an overall discount of $15,866.

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

2. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

a. PLAN DESCRIPTION

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

b. FUNDING POLICY

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

c. ACCOUNTING POLICY

The accrual basis of accounting is used. The fair market value of assets, if any, is determined by the market value of assets, if any, paid by a willing buyer to a willing seller.

d. ANNUAL OPEB COST AND NET OPEB OBLIGATION

The City's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The City has engaged an actuary to calculate the ARC and related information per the provisions of GASB Statement No. 45 for employers in plans with less than two 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, 2013:

Annual OPEB Cost and Net OPEB Obligation	Fiscal Year Ending 3/31/13
Normal Cost	$ 213,081
Amortization of UAL	397,470
Interest	24,422
ARC	634,973
Interest on OPEB Obligation	112,685
Adjustment to ARC	(162,915)
OPEB Expense	584,743
Net OPEB contributions made during the fiscal year	(365,588)
Net OPEB obligation at beginning of year	2,817,119
Net OPEB obligation at end of year	$ 3,038,274
Percentage of expense contributed	62.5%

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

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 38 retirees was $365,588 for the year ended March 31, 2013.

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 A35, 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-six years.

g. ALLOCATION OF POST EMPLOYMENT BENEFITS

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

Governmental activities:	
General government	$ 15,570
Police	6,192
Fire	64,967
Public safety	77,832
Transportation	23,759
Culture and recreation	15,158
Home and community service	4,707
Total governmental activities OPEB expense	$ 208,185
Business-type activities:	
Home and community service	$ 12,970
Total business-type activities OPEB expense	$ 221,155

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

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 $10,168 of expenditures for their Bond Anticipation Notes interest and capitalized $3,918 of interest in the Sewer Fund.

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

	Interest Rate	Balance 04/01/12	Issued	Redeemed	Balance 03/31/13
BAN maturing 06/14/12	0.80%	$ 978,000	$ -	$ 978,000	$ -
BAN maturing 06/14/12	0.80%	165,000	-	165,000	-
BAN maturing 06/14/12	0.80%	624,000	-	624,000	-
		$ 1,767,000	$ -	$ 1,767,000	$ -

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 $255,395 of expenditures for serial bond interest.

b. CHANGES IN LONG-TERM LIABILITIES - The following is a summary of changes in long-term liabilities for the year ended March 31, 2013:

	Balance 04/01/12	Additions	Payments	Balance 3/31/13	Due within One year
Governmental activities:					
General obligation debt:					
Serial Bonds	$ 5,308,000	$ -	$ 342,000	$ 4,966,000	$ 346,000
Other long-term liabilities:					
Due to other governments -Courthouse	431,250	-	78,000	353,250	82,500
Due to other governments -Dwyer Stadium	201,328	-	5,000	196,328	5,000
Due to other governments -Landfill	345,210	-	14,338	330,872	16,544
Installment purchase debt	688,314	51,069	60,903	678,480	63,862
Compensated absences	2,788,026	1,053,110	1,565,469	2,275,667	227,567
Other post employment benefits	2,500,820	550,448	342,263	2,709,005	-
Total governmental activities	$ 12,262,948	$ 1,654,627	$ 2,407,973	$ 11,509,602	$ 741,473

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

	Balance 04/01/12	Additions	Payments	Balance 3/31/13	Due within One year
Business-type activities:					
General obligation debt:					
Serial Bonds	$ 1,847,000	$ -	$ 198,000	$ 1,649,000	$ 139,000
Other long-term liabilities:					
Installment purchase debt	232,384	232,647	48,684	416,347	49,335
Compensated absences	396,948	103,771	113,974	386,745	38,675
Other post employment benefits	316,299	34,295	21,325	329,269	-
Total business-type activities	$ 2,792,631	$ 370,713	$ 381,983	$ 2,781,361	$ 227,010

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

Issue Description	Original Date Issued	Amount of Original Issue	Interest Rate	Date of Final Maturity	Balance
Governmental Funds:					
Serial bonds					
Dwyer and BID-Refunding	08/11	$1,200,000	2.000-3.125%	08/20	$1,065,000
Landfill	11/05	1,360,000	4.000-5.000%	11/21	670,529
Equipment	11/05	100,000	4.000-5.000%	11/21	49,304
Dwyer Stadium	11/05	110,000	4.000-5.000%	11/21	54,234
City Centre	11/05	225,000	4.000-5.000%	11/21	110,933
City Centre	11/05	3,580,000	4.000-5.000%	11/36	3,016,000
Installment purchase debt	11/06	923,454	3.84%	11/21	634,074
Installment purchase debt vacuum truck	11/12	51,069	1.819%	04/19	44,406
Enterprise Funds:					
Sewer Fund:					
Serial bonds					
State clean water and drinking water	07/99	2,165,590	3.480-5.430%	10/19	895,000
City Centre	11/05	447,500	4.250%	11/36	377,000
Installment purchase debt	11/06	91,407	1.850%	11/21	62,763
Installment purchase debt vacuum truck	11/12	204,275	1.819%	04/19	177,614
Water Fund:					
Serial bond					
City Centre	11/05	447,500	4.250%	11/36	377,000
Installment purchase debt	11/06	220,364	3.84%	11/21	151,308
Installment purchase debt vacuum truck	11/12	28,372	1.819%	04/19	24,662
GRAND TOTAL					$7,709,827

c. OTHER LONG-TERM LIABILITIES

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

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

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%. The City has also entered into an agreement to purchase a vacuum truck; principal and interest payments are made annually. The first payment was made in November 2012. The interest rate is 1.819%. During the current year, the City recognized $17,033 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 $330,872 as of March 31, 2013 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, 2013 was $353,250 and $196,328, respectively.

d. MATURITY - The following table summarizes the City's future serial bonds and installment purchase debt requirements as of March 31, 2013:

Fiscal Year	Serial Bonds	Interest	Installment Purchase Debt	Interest
2014	$ 485,000	$ 243,633	$ 113,197	$ 19,424
2015	485,000	229,308	117,491	17,929
2016	515,000	213,474	122,540	15,763
2017	525,000	196,434	127,768	13,505
2018	505,000	179,387	133,182	11,150
2019-2023	1,765,000	655,209	480,649	20,846
2024-2028	970,000	417,137	-	-
2029-2033	1,215,000	191,889	-	-
2034-2036	150,000	12,150	-	-
Total	$ 6,615,000	$2,338,621	$1,094,827	$ 98,617

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 $521,694,423 allowing the City to incur debt up to $36,518,610. Currently, the City has $5,846,450 in debt chargeable against the debt limit, leaving an available margin of $30,672,160.

C. FUND BALANCES

As of March 31, 2013, 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. As of March 31, 2013, the City had no nonspendable fund balances.

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.

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

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.

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, 2013 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, 2013, fund balances were classified as follows:

	General	Non-Major Funds	Total
Restricted:			
Insurance-general liability	$ 888,736	$ -	$ 888,736
Employee benefit	37	-	37
Retirement contribution	376,109	-	376,109
Repairs	60,658	-	60,658
Other-EMS	27,479	-	27,479
Capital projects	1,603,596	-	1,603,596
Small cities	-	129,564	129,564
Special grant	-	339,193	339,193
Committed:			
Improvements	345,000	-	345,000
Assigned:			
Encumbrances-			
General government	50,797	-	50,797
Public safety	14,461	-	14,461
Transportation	7,192	-	7,192
Culture and recreation	18,050	-	18,050
Home and community	9,478	-	9,478
Fire	50,000	-	50,000
Facilities	550,000	-	550,000
Sidewalks	100,000	-	100,000
Employee benefit accrued liability reserve	50,000	-	50,000
South Jackson/Ottis resurfacing	150,000	-	150,000
Subsequent years' expenditures	160,000	-	160,000
Capital projects fund	-	79,513	79,513
Self insurance	-	326,552	326,552
Mall maintenance	-	85,448	85,448
Unassigned:			
General fund	1,344,950	-	1,344,950
Total	$ 5,806,543	$ 960,270	$ 6,776,813

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 $441,162. 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 $330,872. As of March 31, 2013, a liability has been recorded in the Governmental activities funds for future maintenance and operation costs.

B. COUNTY WATER AGREEMENT

During the year ended March 31, 2001, the City entered into an agreement with Genesee County whereby the County has assumed responsibility for the production, treatment, operation, maintenance and/or supply of municipal water. Under the terms of the agreement, the County has agreed to lease the City's water supply and treatment facilities for a term not to exceed 10 years. The agreement also calls for the transfer of title to, access to, and/or rights to the County for certain machinery and equipment used in connection with the water supply and treatment facility. In addition, the City entered into an operational agreement with the County to operate and maintain the facilities. In exchange, the City has agreed to purchase water from the County on a wholesale basis. The rate in effect for the fiscal year ended March 31, 2013 was $4.44 per 1,000 gallons for the first 300,000 gallons and $3.70 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, 2013, the City recorded liabilities in the amounts of $106,642, $10,364 and $7,867 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.

NOTE 4 - COMMITMENTS AND CONTINGENCIES (Continued)

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, 2013, the City has recorded a liability for future costs associated with open claims of $41,513. The City has not consulted an actuary and has not estimated a liability for incurred but not reported claim liabilities.

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 has entered into construction contracts in the amount of $300,000 for the Richmond Avenue road project, $424,000 for the Cedar Street reconstruction project and $138,000 for the Summit Street reconstruction project. The project costs as of March 31, 2013 for the Cedar Street project and the Summit Street project total $329,911 and $97,101, respectively. The Richmond Avenue project is scheduled to begin in the summer of 2013.

NOTE 5 - STEWARDSHIP, COMPLIANCE, ACCOUNTABILITY

A. OVERDRAWN APPROPRIATIONS

Expenditures for the year ended March 31, 2013 materially exceeded appropriations in the General Fund for public safety, economic assistance and opportunity and home and community services by $363,736, $159,852 and $26,968, respectively, however actual expenditures in total for the general fund did not exceed appropriations.

NOTE 6 - SUBSEQUENT EVENTS

A purchase order was issued March 27, 2013, to Vendor #100572, Allstate Power Vac Inc., for cast in place pipe lining, encumbering funds for this sewer project. It was competitively bid previous to the encumbrance and council approved the bid award. The City has designated reserve funds (restricted fund balance) as a funding source in the 2012/2013 budget.

On May 16, 2013 the City issued a bond anticipation note for sewer and highway improvement projects in the amount of $3,700,000. This bond anticipation note has a maturity date of May 15, 2014 and an interest rate of 0.55%.

At the April 8, 2013 meeting, City Council approved a resolution authorizing the issuance of refunding bonds in the amount of $4,050,000 to advance refund the remaining outstanding 2005 Series A and 2005 Series B general obligation serial bonds.

CITY OF BATAVIA, NEW YORK
SCHEDULE OF FUNDING PROGRESS FOR RETIREE HEALTH PLAN
FOR THE YEAR ENDED MARCH 31, 2013

Schedule of Funding Progress	Actuarial Valuation Date 04/01/10	04/01/08
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	2,987,081	4,524,455
4. Actuarial Accrued Liability	7,147,986	9,222,599
5. Actuarial Value of Assets	-	-
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

Schedule of Employer Contributions	Fiscal Year Ending
March 31, 2010	$ 205,746
March 31, 2011	$ 193,373
March 31, 2012	$ 257,664
March 31, 2013	$ 365,858

CITY OF BATAVIA, NEW YORK
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2013

	Original Budget	Modified Budget	Actual	Variance From Modified Budget
REVENUES:				
Real property taxes	$ 5,712,674	$ 5,712,674	$ 5,341,105	$ (371,569)
Real property tax items	253,000	253,000	286,927	33,927
Sales and other taxes	5,935,000	5,935,000	6,354,806	419,806
Departmental income	216,063	368,087	257,045	(111,042)
Use of money and property	52,280	52,280	51,665	(615)
Licenses and permits	56,180	56,180	100,329	44,149
Fines and forfeitures	168,744	47,500	105,871	58,371
Sale of property and compensation for loss	3,500	3,500	211,424	207,924
Miscellaneous local sources	189,060	189,060	470,314	281,254
State and federal sources	2,171,318	2,319,043	2,528,623	209,580
Total revenues	14,757,819	14,936,324	15,708,109	771,785
EXPENDITURES:				
General government	2,348,849	1,697,651	1,535,247	162,404
Public safety	7,647,478	7,230,209	7,593,945	(363,736)
Health	17,120	16,424	16,373	51
Transportation	2,130,168	2,254,043	2,132,726	121,317
Economic assistance and opportunity	35,000	48,461	208,313	(159,852)
Culture and recreation	794,251	758,492	718,608	39,884
Home and community services	323,672	187,004	213,972	(26,968)
Refuse and recycling	1,249,822	1,215,552	1,066,420	149,132
Employee benefits	-	1,631,500	1,279,389	352,111
Debt service:				
Principal	474,242	480,904	480,903	1
Interest	244,671	244,671	244,671	-
Total expenditures	15,265,273	15,764,911	15,490,567	274,344
Excess (deficit) of revenues over expenditures	(507,454)	(828,587)	217,542	1,046,129
OTHER FINANCING SOURCES (USES):				
Interfund transfers in	815,400	921,140	350,030	(571,110)
Interfund transfers out	(451,636)	(451,636)	(273,465)	178,171
Appropriated fund balance	143,690	359,083	-	(359,083)
Total other financing sources (uses)	507,454	828,587	76,565	(752,022)
Net change in fund balance	-	-	294,107	294,107
Fund balance - beginning of year	-	-	5,512,436	5,512,436
Fund balance - end of year	$ -	$ -	$ 5,806,543	$ 5,806,543

SECTION B
SUPPLEMENTAL SCHEDULES

CITY OF BATAVIA, NEW YORK
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
MARCH 31, 2013

	Self Insurance	Mall Maintenance Fund	Small Cities Fund	Capital Projects	Special Grant Fund	Total Non-Major Governmental Funds
ASSETS:						
Cash and cash equivalents	$ 316,860	$ 68,398	$ 16,794	$ 18,266	$ 204,087	$ 624,405
Accounts receivable	51,940	21,167	-	-	-	73,107
Loan receivables (net of allowance for uncollectible accounts of $25,129 in the Small Cities Fund and $42,054 in the Special Grant Fund)	-	-	109,784	-	157,264	267,048
State and federal receivables	-	-	-	173,367	11,792	185,159
Due from other funds	-	4,363	2,986	1,406	-	8,755
Total assets	$ 368,800	$ 93,928	$ 129,564	$ 193,039	$ 373,143	$ 1,158,474
LIABILITIES:						
Accounts payable	$ 735	$ 8,337	$ -	$ 113,526	$ 23,950	$ 146,548
Accrued liabilities	41,513	143	-	-	-	41,656
Due to other funds	-	-	-	-	10,000	10,000
Total liabilities	42,248	8,480	-	113,526	33,950	198,204
FUND BALANCE:						
Restricted	-	-	129,564	-	339,193	468,757
Assigned	326,552	85,448	-	79,513	-	491,513
Total fund balance	326,552	85,448	129,564	79,513	339,193	960,270
Total liabilities and fund balance	$ 368,800	$ 93,928	$ 129,564	$ 193,039	$ 373,143	$ 1,158,474

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, 2013

	Self Insurance	Mall Maintenance Fund	Small Cities Fund	Capital Projects	Special Grant Fund	Total Non-Major Governmental Funds
REVENUES:						
Special assessments	$ -	$ 130,905	$ -	$ -	$ -	$ 130,905
Use of money and property	879	348	1,790	225	4,121	7,363
Sale of property and compensation for loss	61,640	-	2,757	-	-	64,397
Federal and state sources	-	-	29,119	209,489	419,437	658,045
Miscellaneous local sources	-	-	-	-	7,207	7,207
Total revenues	62,519	131,253	33,666	209,714	430,765	867,917
EXPENDITURES:						
General government	379,829	-	-	35,895	-	415,724
Transportation	-	-	-	281,040	-	281,040
Economic assistance and opportunity	-	166,841	-	-	-	166,841
Home and community services	-	-	73,432	-	497,507	570,939
Employee benefits	37,406	-	-	-	-	37,406
Total expenditures	417,235	166,841	73,432	316,935	497,507	1,471,950
Deficit of revenues over expenditures	(354,716)	(35,588)	(39,766)	(107,221)	(66,742)	(604,033)
OTHER FINANCING SOURCES (USES):						
Interfund transfers in	326,550	-	-	8,955	-	335,505
Interfund transfers out	-	-	-	(50,030)	-	(50,030)
Installment purchase debt proceeds	-	-	-	51,069	-	51,069
Total other financing sources (uses)	326,550	-	-	9,994	-	336,544
Net change in fund balances	(28,166)	(35,588)	(39,766)	(97,227)	(66,742)	(267,489)
Fund balances - beginning	354,718	121,036	169,330	176,740	405,935	1,227,759
Fund balances - ending	$ 326,552	$ 85,448	$ 129,564	$ 79,513	$ 339,193	$ 960,270

SECTION C
INTERNAL CONTROL AND COMPLIANCE

FreedMaxick CPAs, P.C.

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*

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 15, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

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

Freed Maxick CPAs, P.C.

Batavia, New York
July 15, 2013