AUDITED
BASIC FINANCIAL STATEMENTS

CITY OF BATAVIA, NEW YORK

MARCH 31, 2014

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, 2014, 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, 2014, 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 schedule and schedule of funding progress for retiree health plan on pages 1-22, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and the schedule of state transportation and assistance expended, as required by Draft Part 43 of NYCRR, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information, consisting of the supplemental schedules, the schedule of expenditures of federal awards and the schedule of state transportation and assistance expended is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2014 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
August 25, 2014

Management's Discussion and Analysis
City of Batavia, New York
Fiscal Year ended March 31, 2014

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, 2014. 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, 2014, the City continued to move forward cautiously in a positive direction towards a healthy and stable financial condition. This is the sixth consecutive year the City has maintained a positive unassigned fund balance; however, short and long-term challenges such as healthcare costs, a slow 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 and cash growth in water and sewer funds
- 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, Investment Policy, revised Purchasing Manual and monthly financial monitoring

These efforts along with continued expense monitoring and revenue improvements have assisted in maintaining 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 after transfers in the amount of $1,468,472 at March 31, 2014. This was largely related to several one-time revenues, under budget retirement contributions and healthcare expenditures, and conservative budgeting practices.
- Factors contributing to the general funds surplus are primarily due to one-time revenue receipts above budget, or lower than expected expenses. For example:
    - Sales tax receipts were $243,528 over budget.
    - Retirement contributions were $530,462 under budget.
    - Healthcare expenditures were $233,982 under budget.

While the City has experienced a positive surplus from these specific budget lines, it should be noted that these three budget areas have and are subject to significant changes from year to year. Consistent with the City budgeting practices of the past, the City should committ these surplus funds to decreasing debt or increasing reserve fund balances for future liabiliites suchas equipment, facility and infrastructure improvements.

- The City utilized over $794,000 of reserve funding for capital equipment, compensated absence pay outs, infrastructure and insurance matters. The general fund budgeted and generated over $980,000 to further build reserves for anticipated liabilities/costs in future years.

- The City's Purchasing Manual revision and the increase in financial reporting to the City Council, supports the City's commitment to strong fiscal planning.

- New York State AIM (Aid and Incentives for Municipalities) stayed flat in the fiscal year ending March 31, 2014. However, 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 42.57% or $405,653 since fiscal year ending March 31, 2009.

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

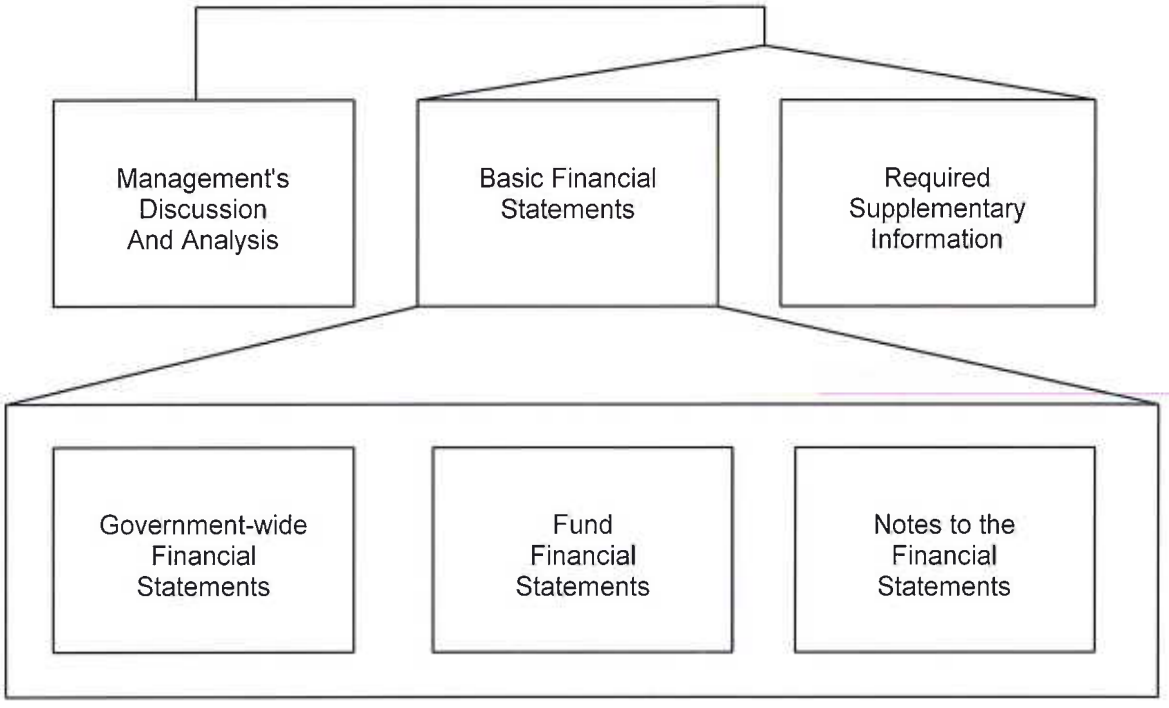


Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each 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 financial management and strategic planning emphasizing the City's financial health with specific measured results reviewed every month and quarterly. Through these efforts and with multi-year financial planning, the City has committed to and prepared for long-term financial stability and investments.

- The Annual budget. In reflecting on the City's multi-year financial plan, the City has maintained 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, assist in purchasing equipment and improving infrastructure. The City remains cautiously optimistic and budgetarily conservative as major revenue sources such as sales tax and State aid, and expenses such as retirement contributions and healthcare costs continue to be inconsistent.

- Bond Rating Upgrade. A bond rating upgrade was is 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 in 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, 2014 was another year of success because the City achieved nearly all of its identified Key Intended Outcomes. There are plans to re-evaluate strategic priorities with City Council during the 2014/15 fiscal year. In May 2014 the City was awarded the 2014 Strategic Leadership & Governance Program Excellence Award by the International City/County Management Association. The award recognized the City's Strategic Business Plan as an innovative and successful local government program and process that has significantly affected a local government's organizational strategic direction.

- 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 $2 million of equipment utilizing a combination of operating funds, reserve funds and municipal leasing, with no additional debt service. The City has also adopted a Parking Lot and Sports Surface Management Plan that provides a 10 year outline of annual investments for City parking lots and sport surface improvements. 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 increase tax, water and sewer rates and/or debt service levels to meet service demands.

- State Comptroller's Fiscal Stress Initiative. In May 2014 the New York State Comptroller Thomas P. DiNapoli announced the completion of the initial scoring for all local governments and school districts in New York in the Fiscal Stress Monitoring System. Batavia was issued a fiscal stress score of 0% for 2013, the lowest possible score. This further indicates the prorgress made resulting from the City's planning and budgeting and good fiscal management decisions.

Capital Projects

The Cedar Street Reconstruction project began construction in fiscal year ending March 31, 2014, and will be completed by summer 2014. The Summit Street Reconstruction was in final design, when in December 2013, funding was revoked by New York State. In response, the City committed unassigned fund balance to resurfacing the street in 2014; however, reconstruction is still needed to preserve the long-term life of the street. Summit Street Reconstruction project was expected to begin in the spring of 2015. Depending on federal and state funding allocations in fall 2015, the City may be able to acquire the necessary funding to complete the reconstruction at a later date.

Condensed Statement of Net Position
(in thousands of dollars)

	Governmental Activities		Total Percentage Change	Business-Type Activities		Total Percentage Change
	2014	2013		2014	2013	
Current and other assets	$ 14,703	$ 11,106	32.39%	$ 11,200	$ 9,738	15.01%
Capital assets, net	19,299	17,854	8.09%	27,245	27,849	-2.17%
Total assets	$ 34,002	$ 28,960	17.41%	$ 38,445	$ 37,587	2.28%
Long-term liabilities	$ 11,264	$ 11,510	-2.14%	$ 2,590	$ 2,781	-6.87%
Other liabilities	6,382	3,394	88.04%	1,462	625	133.92%
Total liabilities	17,646	14,904	18.40%	4,052	3,406	18.97%
Net investment in capital assets	11,905	12,210	-2.50%	25,190	25,784	-2.30%
Restricted for:						
Insurance	896	889	0.79%	-	-	0.00%
Capital projects	2,015	1,604	25.62%	3,573	3,346	6.78%
Retirement contributions	387	376	2.93%	-	-	0.00%
Other purposes	33	27	100.00%	-	-	0.00%
Special grant	368	339	8.55%	-	-	0.00%
Small cities	139	-	100.00%	-	-	0.00%
Repairs	56	-	100.00%	-	-	0.00%
Employee benefit accrued liability	41	-	100.00%	-	-	0.00%
Unrestricted (deficit)	516	(1,389)	137.15%	5,630	5,051	11.46%
Total net position	16,356	14,056	16.36%	34,393	34,181	0.62%
Total liabilities and and net position	$ 34,002	$ 28,960	17.41%	$ 38,445	$ 37,587	2.28%

Governmental Activities

Governmental activities increased the City's net position by $2,299,712. Key elements of this increase are as follows:

- Revenues increased by 1.84% and expenses decreased by 5.57% when compared to prior year.
- Capital Grant and contributions increased significantly due to reimbursements received for the Cedar and Summit Street Reconstrution projects.
- Non property taxes increased by 1.22% due to unaniticipated increase in sales tax revenue.
- Police, fire and general government expenses were down due to vacancies in staffing due to retirements through the year.
- A significant reduction in expenses was due to the elimination of the refuse and recycling service, reducing expenses by 78.89% or $841,669.

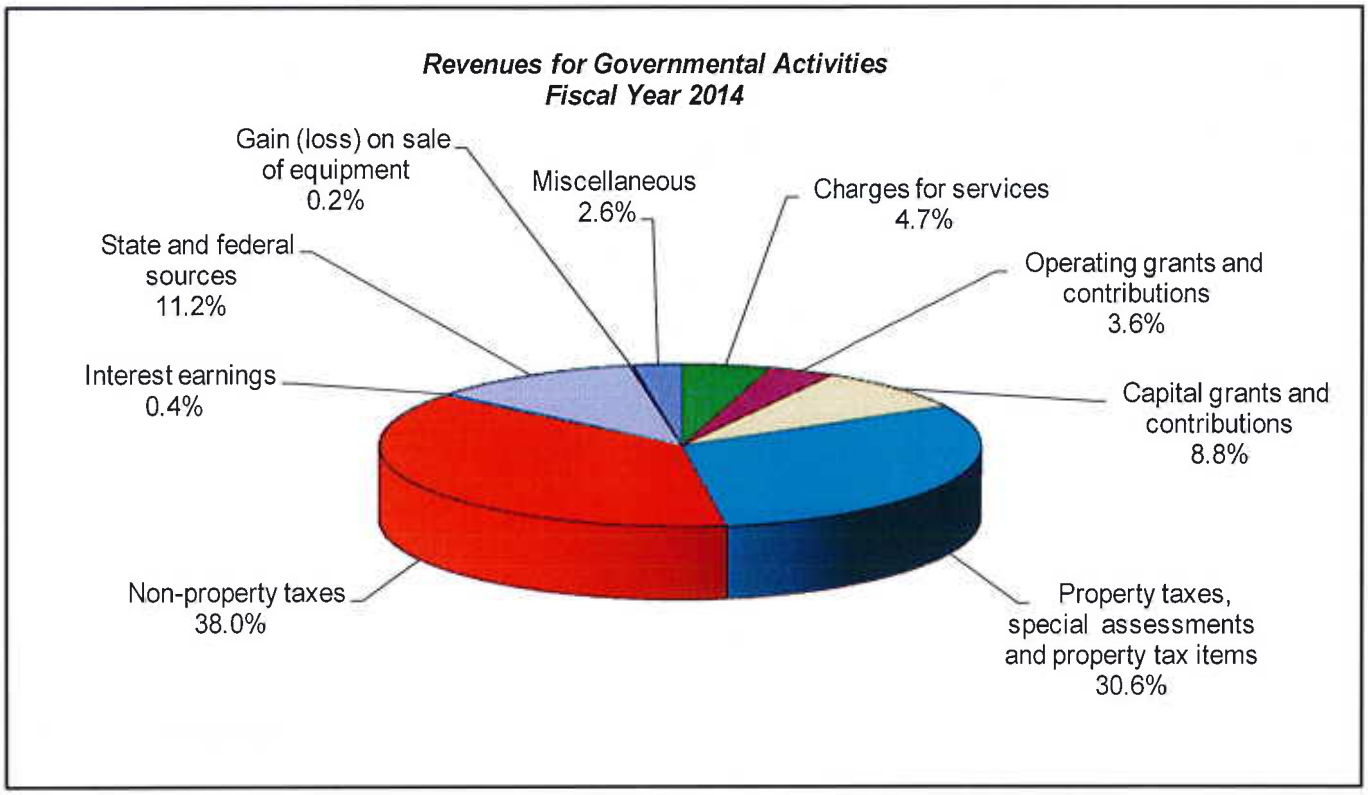
Business-Type Activities

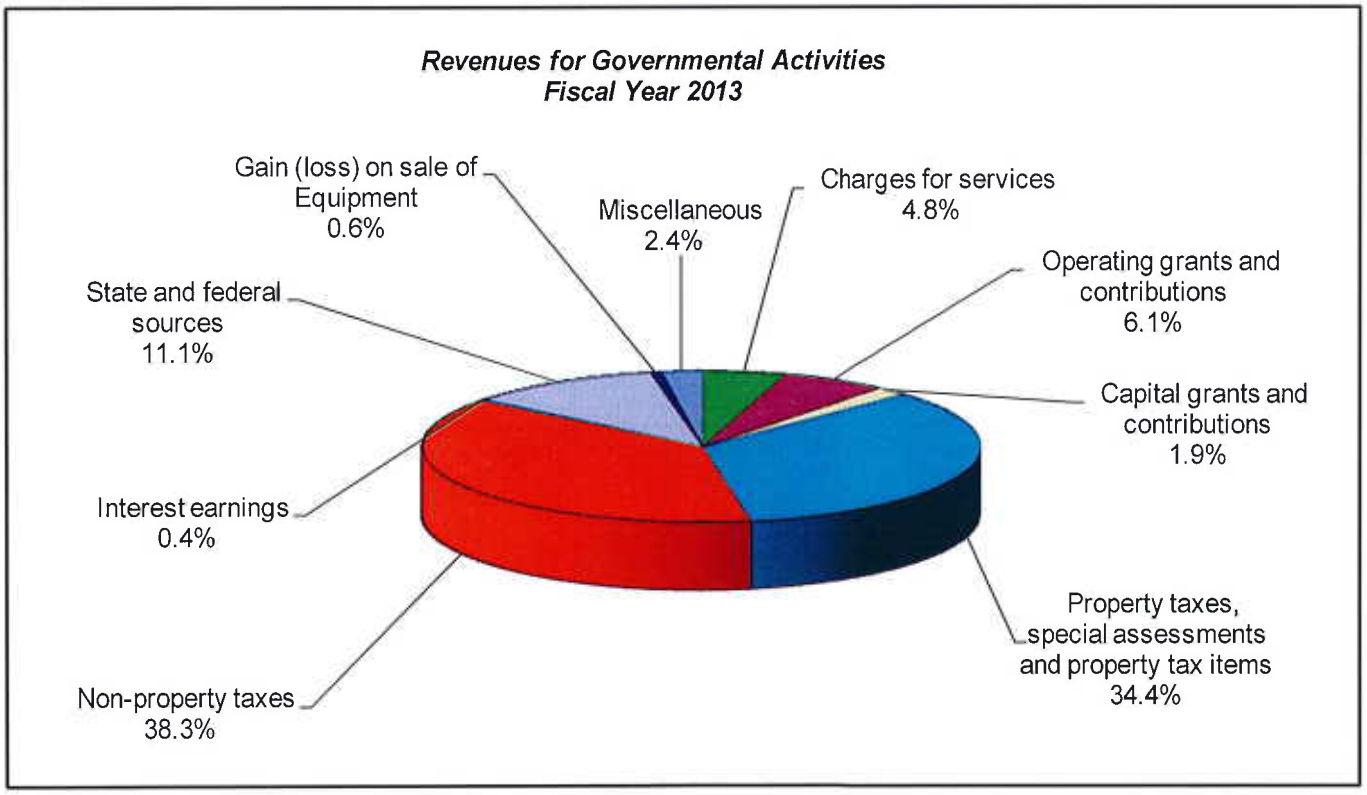
Business-type activities increased the City's net position by $211,979. Key elements of this increase are as follows:

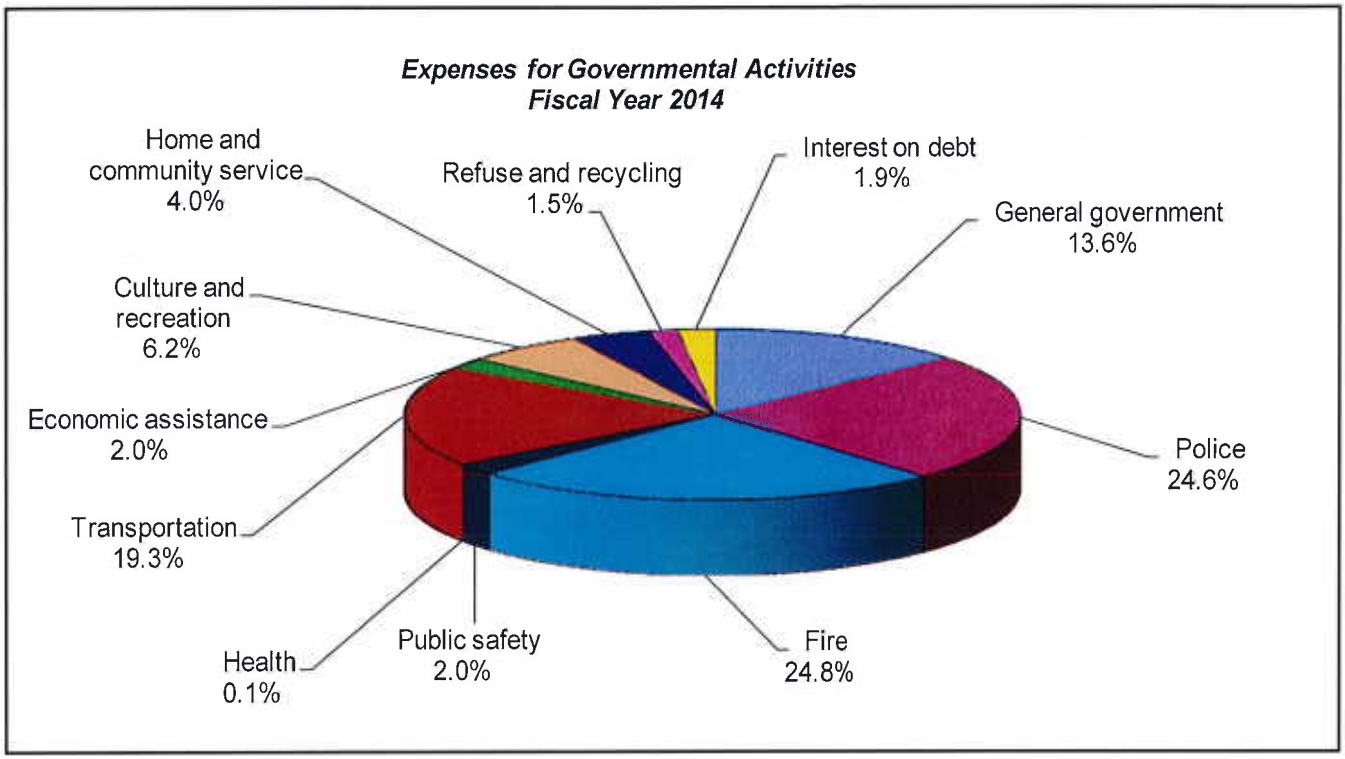
- Sewer rents increased $131,137 when compared to prior year due to increased sewer flows from the Genesee Agri-Business Park.
- Water rents decreased $129,933 when compared to prior year due to lower water consumption than prior year from larger volume users.

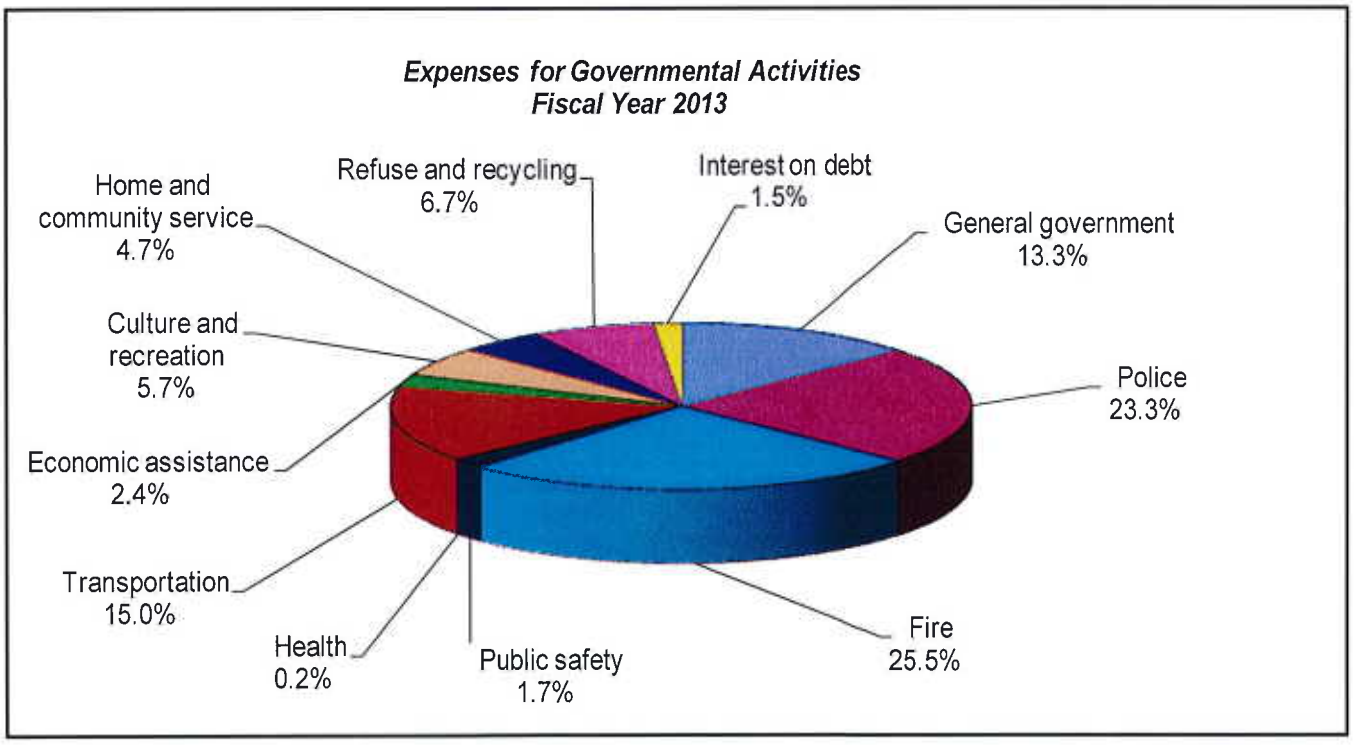
Changes in Net Position from Operating Results
(in thousands of dollars)

	Governmental Activities		Total Percentage Change	Business-Type Activities		Total Percentage Change
	2014	2013		2014	2013	
Program Revenues:						
Charges for services	$ 798	$ 792	0.76%	$ 5,004	$ 5,003	0.02%
Operating grants and contributions	601	1,020	-41.08%	2,171	2,066	5.08%
Capital grants and contributions	1,483	319	364.89%	-	-	0.00%
General Revenues:						
Property taxes, special assessments and property tax items	5,170	5,709	-9.44%	-	-	0.00%
Non-property taxes	6,426	6,355	1.12%	-	-	0.00%
Interest earnings	68	59	15.25%	13	16	-18.75%
State and federal sources	1,892	1,851	2.22%	-	-	0.00%
Gain (loss) on sale of equipment	38	108	100.00%	-	(2)	0.00%
Miscellaneous	434	392	10.71%	-	-	0.00%
Total revenues	16,910	16,605	1.84%	7,188	7,083	1.48%
Program Expenses:						
General government	2,029	2,105	-3.61%	-	-	0.00%
Police	3,661	3,678	-0.46%	-	-	0.00%
Fire	3,696	4,027	-8.22%	-	-	0.00%
Public safety	302	275	9.82%	-	-	0.00%
Health	20	31	-35.48%	-	-	0.00%
Transportation	2,874	2,371	21.21%	-	-	0.00%
Economic assistance	300	375	-20.00%	-	-	0.00%
Culture and recreation	929	893	4.03%	-	-	0.00%
Home and community service	603	742	-18.73%	6,659	6,371	4.52%
Refuse and recycling	225	1,066	-78.89%	-	-	0.00%
Interest on debt	288	245	17.55%	-	-	0.00%
Total expenses	14,927	15,808	-5.57%	6,659	6,371	4.52%
Increase in net position before transfers	1,983	797	148.81%	529	712	-25.70%
Transfers	317	362	12.43%	(317)	(362)	-12.43%
Increase in net position	2,300	1,159	98.45%	212	350	-39.43%
Net position-beginning	14,056	12,897	8.99%	34,181	33,831	1.03%
Net position-ending	$ 16,356	$ 14,056	16.36%	$ 34,393	$ 34,181	0.62%


Revenues for Governmental Activities
Fiscal Year 2014
Gain (loss) on sale of equipment 0.2%
Miscellaneous 2.6%
Charges for services 4.7%
State and federal sources 11.2%
Operating grants and contributions 3.6%
Interest earnings 0.4%
Capital grants and contributions 8.8%
Non-property taxes 38.0%
Property taxes, special assessments and property tax items 30.6%


Revenues for Governmental Activities
Fiscal Year 2013
Gain (loss) on sale of Equipment 0.6%
Miscellaneous 2.4%
Charges for services 4.8%
State and federal sources 11.1%
Operating grants and contributions 6.1%
Capital grants and contributions 1.9%
Interest earnings 0.4%
Property taxes, special assessments and property tax items 34.4%
Non-property taxes 38.3%


Expenses for Governmental Activities
Fiscal Year 2014
Home and community service 4.0%
Refuse and recycling 1.5%
Interest on debt 1.9%
General government 13.6%
Culture and recreation 6.2%
Economic assistance 2.0%
Police 24.6%
Transportation 19.3%
Health 0.1%
Public safety 2.0%
Fire 24.8%


Expenses for Governmental Activities
Fiscal Year 2013
Refuse and recycling 6.7%
Interest on debt 1.5%
Home and community service 4.7%
General government 13.3%
Culture and recreation 5.7%
Police 23.3%
Economic assistance 2.4%
Transportation 15.0%
Fire 25.5%
Health 0.2%
Public safety 1.7%

Governmental Activities

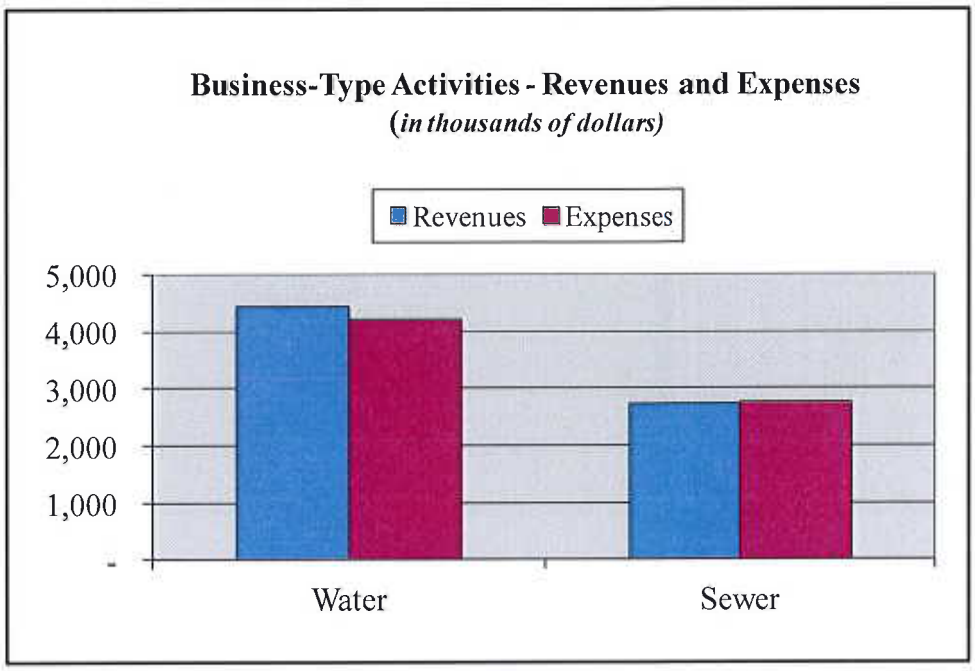
The following table presents the cost of eleven major City activities: general government, police, fire, public safety, health, transporation, economic assistance, culture and recreation, home and community service, refuse and recycling and interest on debt. The table also shows each activity's net cost (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.

Net Cost of Governmental Activities
(in thousands of dollars)

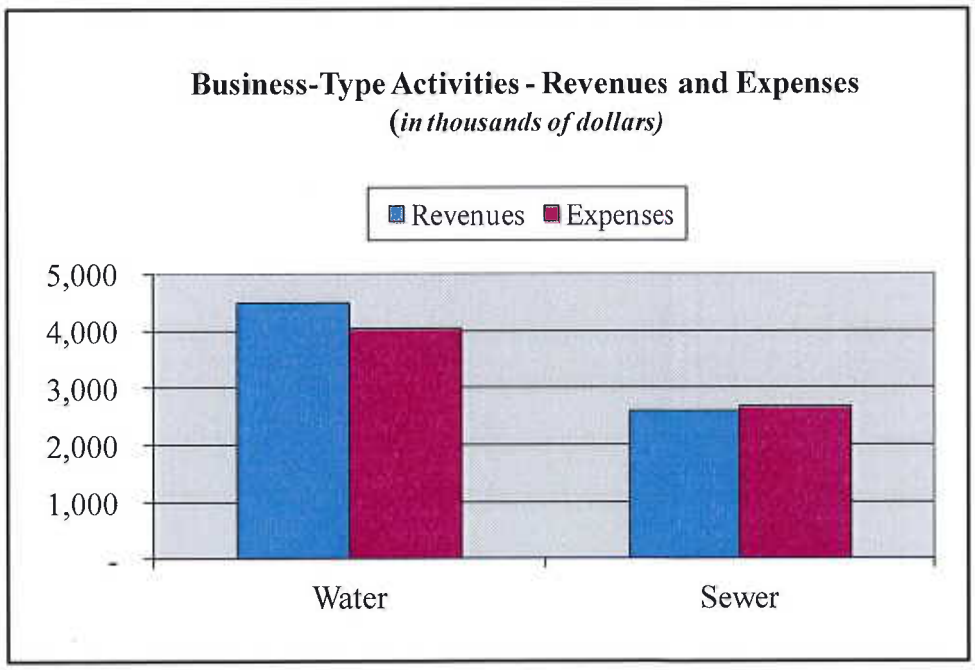
	Total Cost of Services		Total Percentage Change	Net Cost of Services		Total Percentage Change
	2014	2013		2014	2013	
General government	$ 2,029	$ 2,105	-3.61%	$ 1,718	$ 1,814	-5.29%
Police	3,661	3,678	-0.46%	3,503	3,500	0.09%
Fire	3,696	4,027	-8.22%	3,644	4,027	-9.51%
Public safety	302	275	9.82%	3	189	-98.41%
Health	20	31	-35.48%	(14)	(1)	1300.00%
Transportation	2,874	2,371	21.21%	1,399	1,741	-19.64%
Economic assistance	300	375	-20.00%	73	(267)	-127.34%
Culture & recreation	929	893	4.03%	839	796	5.40%
Home & community service	603	742	-18.73%	367	566	-35.16%
Refuse & recycling	225	1,066	-78.89%	225	1,065	-78.87%
Interest on debt	288	245	17.55%	288	245	17.55%
Total	$ 14,927	$ 15,808	-5.57%	$ 12,045	$ 13,675	-11.92%

Business-Type Activities

2014



2013



Financial Analysis of the City's Funds

The fiscal year ending March 31, 2014 concluded with an unassigned fund balance of $2,898,505 exclusive of restrictions and assignments for encumbrance, reserves and other fund balance committments. This is the sixth 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, 2014. This increase is shown mainly in cash and cash equivalent which increased $1,525,790 over the prior year, of which $240,000 is attributed to the increase in reserve balances.

Revenues for the general fund increased compared to last year by $137,043. Specific changes in revenues were as follows:

- Real Property taxes decreased by 2.86% or $152,703, over the prior year.
- Property tax items, increased 93.87% or $269,329, over the prior year. Payments of prior years taxes due accounts for the majority of this increase.
- Sales and other taxes increased $71,468 or 1.12% over the prior year.

Expenditures for the general fund decreased $1,1567,734 compared to the prior year. Areas that experienced decreases included:

- Refuse and recycling experienced the largest decrease over the prior due to the elmination of the refuse and recycling service, expenses decreased by $841,668.
- Fire department expenses decreased by $962,515. $725,891 is due to the purchase of a new fire engine in the prior fiscal year along with compensated absence pay outs due to retirements. In addition, several personnel vacancies existed throughout the year .
- Police department expenses decreased by $296,722 personnel vacancies throughout the year and lower than expected retirement contributions.
- Employee benefits, specifically healthcare costs increased $251,325 compared to the prior year.

Water Fund

The water fund, including depreciation, had a current year change in net position of $232,770, compared to last year's change of $436,844. Contractual expense accounts for the biggest change from last year within the Fund's net position, increasing $147,471, due to equipment purchases and increases in the County contract expenses. It appears County contract expenses for the prior year (fiscal year ending March 31, 2013) were low when compared to prior years trends due to the deferment of some equipment purchases.

Sewer Fund

The sewer fund, including depreciation, has experienced a negative change in net position of $20,791, when compared to last year. From a cash standpoint the sewer fund's net cash position increased by $992,891. This change is attributed to an increase in cash received from customers as well as BAN proceeds for completing North/Ross Street sewer replacement.

Workers Comp. Fund

This year's workers compensation fund balance decreased by $5,100. Workers comp premiums and other costs associated with premium based workers comp insurance increased by $7,989 over the prior year. Anticipated future payments due to 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.

Capital Projects Fund

Cedar Street Reconstruction is currently in final construction phase and Summit Street Reconstruction is in the design phase at March 31, 2014. Cedar Street construction began August 2013. While the design phase is near completion, the construction funding for Summit Street Reconstruction was revoked in December 2013 and has not yet been restored. The project is on hold until construction funding is reinstated.

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

	2014		
	Revenues	Expenditures/ Expenses	Fund Balance/ Net Assets
General Fund	$ 16,103	$ 14,634	$ 7,275
Water Fund	4,448	4,215	9,144
Sewer Fund	2,740	2,761	25,248

	2013		
	Revenues	Expenditures/ Expenses	Fund Balance/ Net Assets
General Fund	$ 16,059	$ 15,764	$ 5,806
Water Fund	4,499	4,062	8,911
Sewer Fund	2,585	2,673	25,269

Revenues and Expenditures/Expenses include other financing sources or uses.

General Fund Budgetary Highlights

Amendments to the budget occur throughout the year for a variety of reasons. Possible factors include encumbrances from the 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 department. All transfers between departments and 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.

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 questionable. Other one-time revenues include:

- Sales tax revenue increased 1.12% or $71,468. Sales tax revenue levels have increased over the 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 remained relatively flat, only increasing $5,767. Similar to sales tax, this revenue is budgeted conservatively and is subject to change based on the economy. The last five year average of utility receipts tax is approximately $246,000 annually.
- Mortgage tax increased $39,983. This may be the result of continually lower mortgage interest rates causing a higher number of property refinancing. This will be monitored closely in future years.
- 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 revenue changes, this fiscal year had several lower than expected expenditures. These include:

- General fund personnel vacancies in general government and public safety, when combined with lower than budgeted retirement contributions equaled $184,460 and $955,122 respectively. The City has had continual discussions with the New York Retirement System regarding significant fluctuations in actual retirement contributions when compared to projections provided by the retirement system. These fluctuations have been due to the City having large retroactive salary payments due to delayed collective bargaining agreement settlements. Now that all contracts are current, it is expected that the City will experience more consistency in retirement contributions projections.

- Healthcare expenditures were $232,636 less than budgeted. Considering this is not a consistent trend, it is hard to predict the primary cause, however the City has experienced smaller increases in healthcare expenditures than most municipalitieis over the past several years. This will continue to be monitored closely in future years.

Aside from conservative budgeting and the utilization of one-time revenues to fund capital acquisitions, the City continued the practice of conservative spending and strict expense monitoring throughout the year.

The City's prudent revenue budgeting and expense monitoring has resulted in general fund surpluses needed to eliminate prior fund balance deficits, grow reserve balances and 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, 2014, the City funded general fund reserves with an additional $980,000. 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 utilized $522,000 of the reserve funds in the general fund to purchase multiple public works and police vehicles and install sidewalks, thereby utilizing reserve funding instead of property tax increases or issuance of debt for these types of improvements.

Capital Assets Net of Depreciation
(in thousands of dollars)

	Governmental Activities		Business -Type Activities	
	2014	2013	2014	2013
Land	$ 1,135	$ 1,135	$ 42	$ 42
Construction work in progress	8,438	6,676	1,205	593
Buildings	6,738	6,981	17,308	18,351
Machinery & equipment	2,219	2,117	681	707
Infrastructure	769	945	8,009	8,156
Total	$ 19,299	$ 17,854	$ 27,245	$ 27,849

Long-Term Obligations

For the year ending March 31, 2014, the City's constitutional debt limit was $36,965,102. Outstanding bonds totaled $6,912,943. Of this total, $5,402,943 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.

Outstanding Long-Term Obligations
(in thousands of dollars)

	Governmental Activities		Business-Type Activities	
	2014	2013	2014	2013
General obligation debt backed by the City	$ 4,620	$ 4,966	$ 1,510	$ 1,649
Installment purchase debt	615	678	367	416
Other debt	783	881	-	-
Compensated absences	2,325	2,276	371	387
Other post employment benefits	2,921	2,709	342	329
Total	$ 11,264	$ 11,510	$ 2,590	$ 2,781

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* – All contracts are current, however, negoations for renewing the CSEA contract will begin fall 2014. The City's negotiations will be 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, 2014 had a slight 1.12%, or $71,468 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. For example, the last three fiscal quarters have experienced a decrease in sales tax revenue when compared to prior quarters in the prior year. This decrease in sales tax revenue comes after almost three years (since June 2011) of consecutive growth quarters. Because sales tax makes up more than one-third of the City's general fund revenue, any slight change in receipts may have a significant effect on the City's budget. Currently a 1% decrease in sales tax receipts equals a 1.5% 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, infrastructure and facility improvements has been and will continue to be critical in avoiding larger tax burdens in future years. In the fiscal year ending March 31, 2014, the City utilized $794,000 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. In 2013/14 the City's retirement costs decreased 22.3% ($389,118) from 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 projected retirement contributions for the past four years have not been consistent with actual retirement payments, it is prudent to assume retirement costs will increase 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.

- *Retiree Healthcare Costs* – 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 the fiscal year ending March 31, 2013 post employment health insurance cost for the City's for 38 retirees was $365,588. This was a 41.9% increase, or $107,924 increase over the prior year. In the fiscal year ending March 31, 2014 post employment health insurance cost for the City's for 40 retirees was $537,269. This was a 47.96% increase, or $171,681 increase over the prior year. While this cost is increasing annually, recent union contract settlements have discontinued this benefit for future hires, and as existing employees retire, the liabilities in retiree healthcare should eventually slow.

- *Taxable Assessed Value Decline* – The City's taxable assessed value has increased very little since 2010. Prior to 2010 the average the tax base growth was about 1.5% annually, however since 2010 the average tax base growth is approximately 1% annually. 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. It will be critical that the City continue to invest in economic development initiatives and activates to support further redevelopment and growth in tax base.

- *Police Station* – For the past two years City Council has committed surplus revenues to the City's Facility Reserve in preparation of needed improvements to the City's Police Station. Currently the City is completing a space needs assessment of the Police Department. The space needs assessment will evaluate the current Police Station and/or other facility options for housing the Police Department. In addition, this assessment will include cost estimates for design and construction for an upgrade of the current facility or proposed new facility. In preparation of this upcoming expenditure, additional commitment of reserve funding will provide the City with greater financial capacity to handle future improvements with the facility.

Long-Term Factors

- *Taxable Assessed Value Decline* – 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 approximately a 1% annually. As the housing market continues to show slow signs of recovery, the City should expect similar trends over the next several years. In addition, 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. 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 commercial and industrial redevelopment throughout the City's Central Corridor.

- *Post Employment Benefits (GASB 45) & Retiree Healthcare* – The City's liability for post employment benefits, as of the actuarial valuation date of April 1, 2013, amounted to $9,225,643. Aggressive labor negotiations to reduce future retiree costs will be essential for maintaining a long term decrease of this liability.

- *Employee costs & retirement costs* – Retirement costs have increased significantly. In the same manner, employee benefit costs continue to increase. Significant fluctuations in retirement costs have been due to the City having large retroactive salary payments due to delayed collective bargaining agreement settlements. Now that all contracts are current, it is expected that the City will experience more consistency in retirement contributions projections. However, maintaining reasonable employee benefits will be a major determining factor in the City's ability to provide quality services.

- *Police Station* – Improvements are needed to the City's Police Station. Whether an upgrade of the current facility or a proposed new facility is considered, the City needs to continue to make a targeted commitment to funding the Facility Reserve in upcoming years. Strong facility planning and financial management, specifically debt management, will provide the City with greater financial capacity to handle future improvements with the facility.

Over the past five 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, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	$ 9,261,731	$ 8,851,128	$ 18,112,859
Cash - restricted	1,450,562	178,504	1,629,066
Property taxes receivable, net	1,191,538	-	1,191,538
Accounts receivable, net	474,347	1,613,544	2,087,891
State and federal receivables	687,334	-	687,334
Loans receivable, net	277,481	-	277,481
Due from other governments	1,360,097	556,490	1,916,587
Capital assets not being depreciated	9,572,825	1,246,743	10,819,568
Capital assets, net of accumulated depreciation	9,725,865	25,998,513	35,724,378
Total assets	$ 34,001,780	$ 38,444,922	$ 72,446,702
LIABILITIES:			
Accounts payable	736,494	124,579	861,073
Accrued liabilities	438,238	637,560	1,075,798
Bond anticipation notes payable	3,000,000	700,000	3,700,000
Due to other governments	703,176	-	703,176
Unearned revenues	1,503,935	-	1,503,935
Long-term liabilities:			
Due and payable within one year	747,705	232,567	980,272
Due and payable after one year	10,516,348	2,357,564	12,873,912
Total liabilities	17,645,896	4,052,270	21,698,166
NET POSITION:			
Net investment in capital assets	11,905,352	25,189,741	37,095,093
Restricted for:			
Insurance	895,602	-	895,602
Capital projects	2,014,865	3,572,575	5,587,440
Retirement contribution	386,783	-	386,783
Other purposes	32,620	-	32,620
Special grant	368,590	-	368,590
Small cities	139,415	-	139,415
Repairs	55,758	-	55,758
Employee benefit accrued liability	40,814	-	40,814
Unrestricted	516,085	5,630,336	6,146,421
Total net position	$ 16,355,884	$ 34,392,652	$ 50,748,536

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2014

		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	$ 2,029,611	$ 284,622	$ 26,372	$ -	$ (1,718,617)	$ -	$ (1,718,617)
Police	3,660,561	136,120	21,193	-	(3,503,248)	-	(3,503,248)
Fire	3,695,556	-	51,271	-	(3,644,285)	-	(3,644,285)
Public safety	301,932	81,629	217,773	-	(2,530)	-	(2,530)
Health	20,030	34,247	-	-	14,217	-	14,217
Transportation	2,874,042	18,423	166,400	1,290,519	(1,398,700)	-	(1,398,700)
Economic assistance	300,387	130,180	97,106	-	(73,101)	-	(73,101)
Culture and recreation	929,423	69,345	20,876	-	(839,202)	-	(839,202)
Home and community services	603,024	43,724	-	192,088	(367,212)	-	(367,212)
Refuse and recycling	224,845	-	-	-	(224,845)	-	(224,845)
Interest on debt	287,564	-	-	-	(287,564)	-	(287,564)
Total governmental activities	14,926,975	798,290	600,991	1,482,607	(12,045,087)	-	(12,045,087)
Business-type activities:							
Sewer	2,732,914	2,628,486	107,103	-	-	2,675	2,675
Water	3,925,812	2,375,631	2,063,622	-	-	513,441	513,441
Total business-type activities	6,658,726	5,004,117	2,170,725	-	-	516,116	516,116

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2014
(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	$ 21,585,701	$ 5,802,407	$ 2,771,716	$ 1,482,607	(12,045,087)	516,116	(11,528,971)
General revenues:							
Real property taxes and tax items					5,169,951	-	5,169,951
Non-property taxes					6,426,274	-	6,426,274
Interest earnings					68,109	13,093	81,202
State aid not restricted for a specific purpose					1,891,734	-	1,891,734
Other miscellaneous revenues					433,612	-	433,612
Gain on sale of capital asset					37,889	-	37,889
Transfers:							
Sewer					28,310	(28,310)	-
Water					288,920	(288,920)	-
Total general revenues and transfers					14,344,799	(304,137)	14,040,662
Change in net position					2,299,712	211,979	2,511,691
Net position - beginning					14,056,172	34,180,673	48,236,845
Net position - ending					$ 16,355,884	$ 34,392,652	$ 50,748,536

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2014

	General	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	$ 7,913,360	$ 766,797	$ 581,574	$ 9,261,731
Cash - restricted	-	1,450,562	-	1,450,562
Receivables (net of allowance for uncollectible receivables)				
Property taxes receivable	1,191,538	-	-	1,191,538
Accounts receivable	390,034	-	84,313	474,347
Loan receivables	-	-	277,481	277,481
State and federal receivables	109,916	575,387	2,031	687,334
Due from other governments	1,360,097	-	-	1,360,097
Due from other funds	10,000	111,247	-	121,247
Total assets	$ 10,974,945	$ 2,903,993	$ 945,399	$ 14,824,337
LIABILITIES:				
Accounts payable	$ 615,230	$ 106,765	$ 14,499	$ 736,494
Accrued liabilities	396,561	-	41,677	438,238
Unearned revenues	1,503,935	-	-	1,503,935
Bond anticipation note payable	-	3,000,000	-	3,000,000
Due to other governments	703,176	-	-	703,176
Due to other funds	111,247	-	10,000	121,247
Total liabilities	3,330,149	3,106,765	66,176	6,503,090
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue-property taxes	369,781	-	-	369,781
Total deferred inflows of resources	369,781	-	-	369,781

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2014
(Continued)

	General	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
FUND BALANCES:				
Restricted	3,426,442	-	508,005	3,934,447
Committed	530,423	-	-	530,423
Assigned	419,645	-	371,218	790,863
Unassigned (deficit)	2,898,505	(202,772)	-	2,695,733
Total fund balances	7,275,015	(202,772)	879,223	7,951,466
Total liabilities, deferred inflows of resources and fund balances	$ 10,974,945	$ 2,903,993	$ 945,399	

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	19,298,690
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	(11,264,053)
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds	369,781
Net position	$ 16,355,884

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, 2014

	General	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
REVENUES:				
Real property taxes	$ 5,188,402	$ -	$ -	$ 5,188,402
Real property tax items	556,256	-	-	556,256
Special assessments	-	-	130,180	130,180
Sales and other taxes	6,426,274	-	-	6,426,274
Departmental income	272,480	-	-	272,480
Use of money and property	56,258	4,168	7,683	68,109
Licenses and permits	87,200	-	-	87,200
Fines and forfeitures	103,480	-	-	103,480
Sale of property and compensation for loss	99,052	-	65,781	164,833
Miscellaneous local sources	563,025	-	20,813	583,838
Federal and state sources	2,492,725	1,290,519	192,088	3,975,332
Total revenues	15,845,152	1,294,687	416,545	17,556,384
EXPENDITURES:				
General government	1,634,042	11,851	404,668	2,050,561
Police	3,068,676	-	-	3,068,676
Fire	3,016,680	-	-	3,016,680
Public safety	254,635	-	-	254,635
Health	17,012	-	-	17,012
Transportation	2,232,129	1,857,438	-	4,089,567
Economic assistance	134,098	-	166,289	300,387
Culture and recreation	771,159	-	-	771,159
Home and community services	259,010	-	305,326	564,336
Refuse and recycling	224,752	-	-	224,752
Employee benefits	1,530,714	-	20,556	1,551,270
Debt service:		-		
Principal	492,362	-	-	492,362
Interest	287,564	-	-	287,564
Total expenditures	13,922,833	1,869,289	896,839	16,688,961

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, 2014
(Continued)

	General	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
Excess (deficit) of revenues over expenditures	1,922,319	(574,602)	(480,294)	867,423
OTHER FINANCING SOURCES (USES):				
Interfund transfers in	257,683	300,000	478,760	1,036,443
Interfund transfers out	(711,530)	(7,683)	-	(719,213)
Total other financing sources (uses)	(453,847)	292,317	478,760	317,230
Net change in fund balances	1,468,472	(282,285)	(1,534)	1,184,653
Fund balances - beginning	5,806,543	79,513	880,757	6,766,813
Fund balances (deficit) - ending	$ 7,275,015	$ (202,772)	$ 879,223	$ 7,951,466

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, 2014

Net change in fund balances - total governmental funds	$	1,184,653
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 ($2,198,211) exceeded depreciation ($684,605) in the current period.		1,513,606
The net effect of various miscellaneous transactions involving capital assets (i.e. sales and trade-ins) is to decrease net position.		(69,389)
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.		(574,707)
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. This amount is the net effect of these differences in the treatment of long-term debt and related items.		507,369
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.		(212,096)
(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.		(49,724)
Change in net position of governmental activities	$	2,299,712

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF NET POSITION - ENTERPRISE FUNDS
MARCH 31, 2014

	Sewer	Water	Total
ASSETS:			
Cash and cash equivalents	$ 3,734,801	$ 5,116,327	$ 8,851,128
Cash - restricted	178,504	-	178,504
Accounts receivable	706,912	906,632	1,613,544
Due from other governments	-	556,490	556,490
Capital assets not being depreciated	541,497	705,246	1,246,743
Capital assets, net of accumulated depreciation	22,523,461	3,475,052	25,998,513
Total assets	$ 27,685,175	$ 10,759,747	$ 38,444,922
LIABILITIES:			
Accounts payable	$ 56,242	$ 68,337	$ 124,579
Accrued liabilities	59,228	578,332	637,560
Bond anticipation note payable	700,000	-	700,000
Long-term liabilities:			
Due and payable within one year	175,968	56,599	232,567
Due and payable after one year	1,445,069	912,495	2,357,564
Total liabilities	2,436,507	1,615,763	4,052,270
NET POSITION:			
Net investment in capital assets	21,533,086	3,656,655	25,189,741
Restricted for capital projects	1,099,520	2,473,055	3,572,575
Unrestricted	2,616,062	3,014,274	5,630,336
Total net position	25,248,668	9,143,984	34,392,652
Total liabilities and net position	$ 27,685,175	$ 10,759,747	$ 38,444,922

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, 2014

	Sewer	Water	Total
OPERATING REVENUES:			
Charges for services	$ 2,628,486	$ 2,375,631	$ 5,004,117
County water agreement charges	-	1,437,423	1,437,423
Rental of real property	-	550,000	550,000
Other operating revenue	107,103	76,199	183,302
Total operating revenues	2,735,589	4,439,253	7,174,842
OPERATING EXPENSES:			
Salaries, wages and employee benefits	810,691	1,121,661	1,932,352
Contractual expense	546,087	2,634,193	3,180,280
Depreciation	1,334,812	144,946	1,479,758
Total operating expenses	2,691,590	3,900,800	6,592,390
Operating income	43,999	538,453	582,452
NON-OPERATING REVENUES (EXPENSES):			
Investment income	4,844	8,249	13,093
Interest expense	(41,324)	(25,012)	(66,336)
Operating subsidy to governmental funds	(28,310)	(288,920)	(317,230)
Total non-operating expenses	(64,790)	(305,683)	(370,473)
Change in net position	(20,791)	232,770	211,979
Net position - beginning	25,269,459	8,911,214	34,180,673
Net position - ending	$ 25,248,668	$ 9,143,984	$ 34,392,652

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED MARCH 31, 2014

	Sewer	Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 2,658,101	$ 2,449,634	$ 5,107,735
Cash payments for contractual expenses	(520,605)	(2,523,030)	(3,043,635)
Cash payments to employees for services	(789,799)	(1,145,447)	(1,935,246)
Other operating revenue	107,103	2,063,622	2,170,725
Net cash provided by operating activities	1,454,800	844,779	2,299,579
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating subsidy to governmental funds	(28,310)	(288,920)	(317,230)
Net cash used by noncapital financing activities	(28,310)	(288,920)	(317,230)
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:			
Proceeds from bond anticipation notes	700,000	-	700,000
Acquisition and construction of capital assets	(759,606)	(116,118)	(875,724)
Principal payments on debt	(337,513)	(29,326)	(366,839)
Interest paid on debt	(41,324)	(25,012)	(66,336)
Net cash used by capital and financing activities	(438,443)	(170,456)	(608,899)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest on cash and investments	4,844	8,249	13,093
Net cash provided by investing activities	4,844	8,249	13,093
Net increase in cash and cash equivalents	992,891	393,652	1,386,543
Cash and cash equivalents - beginning	2,741,910	4,722,675	7,464,585
Cash and cash equivalents - ending	$ 3,734,801	$ 5,116,327	$ 8,851,128
Reconciliation of income from operations to net cash provided by operating activities:			
Income from operations	$ 43,999	$ 538,453	$ 582,452
Adjustments to reconcile income from operations to net cash provided by operating activities:			
Depreciation	1,334,812	144,946	1,479,758
Change in assets and liabilities			
Decrease (increase) in:			
Accounts receivable	29,615	103,826	133,441
Due from other governments	-	(29,823)	(29,823)
Increase (decrease) in:			
Accounts payable	(7,106)	(1,289)	(8,395)
Accrued liabilities	32,588	112,452	145,040
Compensated absences	13,626	(29,321)	(15,695)
Other post employment benefits	7,266	5,535	12,801
Net cash provided by operating activities	$ 1,454,800	$ 844,779	$ 2,299,579

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
MARCH 31, 2014

	Private Purpose Trusts	Agency
ASSETS:		
Cash and cash equivalents	$ -	$ 132,798
Cash and cash equivalents - restricted	21,262	-
Total assets	$ 21,262	$ 132,798
LIABILITIES:		
Agency liabilities	$ -	$ 132,798
Total liabilities	-	132,798
NET POSITION:		
Restricted trust funds	21,262	-
Total liabilities and net position	$ 21,262	$ 132,798

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, 2014

	Private Purpose Trusts
ADDITIONS:	
Interest	$ 10
Total additions	10
Change in net position	10
Net position - beginning	21,252
Net position - ending	$ 21,262

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 as amended by GASB Statement No. 61 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 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 adjustments 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 appropriation, is employed as a control in preventing over-expenditure of established appropriations.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

E. RESTRICTED ASSETS

Certain assets are classified on the balance sheet as restricted because their use is limited. The proceeds of bond or bond anticipation note (BAN) sales can only be used for the stated purpose of the borrowing and are restricted specifically for that purpose.

F. RECEIVABLES

Receivables are shown net for financial statement presentation purposes. Generally accepted accounting principles require the establishment of an allowance for uncollectible accounts which has been provided for loans in the Small Cities and Special Grant Funds and taxes in the General Fund. (See Note 3.,A.,2 and 3).

G. 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., 4.

H. CAPITAL ASSETS

Government-wide statements:

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

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

	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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

I. 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, 2014.

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 unavailable tax revenues and is reported only in the governmental fund balance sheet.

J. 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.

K. 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 principal and interest is reported as expenditures.

L. 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 as an 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 $2,325,391 and $371,049, respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

M. 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.

N. 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.

O. 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.

P. 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 2013-14 year, the five-year average full valuation was $528,072,892 allowing for a maximum tax limit of $10,561,458 (includes allowance exclusions). The City tax levy was $4,981,181 for the year ended March 31, 2014.

Q. 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.

R. 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.

S. NEW ACCOUNTING PRONOUCEMENTS

During the year ended March 31, 2014, the City completed the process of evaluating the impact that will result from adopting GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, and Statement No. 66, *Technical Corrections—2012*—an amendment of GASB Statements No. 10 and 62, effective for the year ending March 31, 2014. GASB Statements No. 61 and 66 have been adopted, as applicable, for the year ended March 31, 2014, and did not have a material impact on the City's financial position or results from operations.

The GASB has issued the following new statements:

- 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;
- Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* effective for the year ending March 31, 2015; and
- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date,* which should be applied simultaneously with the provisions of Statement No. 68.

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 the General Fund's fund balance computed on a GAAP basis and budgetary basis.

GAAP BASIS:	
Fund Balance - March 31, 2014	$ 7,275,015
Deduct outstanding encumbrances	219,645
BUDGETARY BASIS - Fund balance - March 31, 2014	$ 7,055,370

NOTE 3 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. ASSETS

1. CASH AND INVESTMENTS

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

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

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

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

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

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.

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

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, 2014:

General Fund:	
Franchise fees	$ 197,612
Health care	73,406
Assessments receivable	29,789
Other miscellaneous receivable	89,227
Total governmental activities accounts receivable	$ 390,034
Tax sale certificates	$ 836,166
Taxes receivable current	62,854
Taxes receivable overdue	59,957
City School taxes receivable	656,976
Property acquired for taxes	173,262
Allowance for uncollectible taxes	(597,677)
Total taxes receivable	$ 1,191,538
Sewer Fund:	
Sewer rents	$ 703,920
Other miscellaneous revenues	2,992
Total accounts receivable	$ 706,912
Water Fund:	
Water rents	$ 904,277
Other miscellaneous revenues	2,355
Total accounts receivable	$ 906,632
Total business-type activities accounts receivable	$ 1,613,544

b. State and Federal Receivables - represents amounts due primarily from New York State and the federal government. Amounts accrued at March 31, 2014 consist of:

Capital Fund:	
Walnut Street reimbursement	$ 7,457
Cedar Street reimbursement	567,930
Total state and federal receivables	$ 575,387

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

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, 2014, consist of:

General Fund:	
NYS sales tax	$ 1,335,774
Planning BOA grant	16,599
Fines and forfeitures	7,724
Total governmental activities due from other governments	$ 1,360,097
Water Fund:	
City/County water agreement	$ 556,490

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, 2014, under both programs amounted to $84,228, net of an allowance of $29,251 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, 2014, amounted to $193,253, net of an allowance of $52,241 for uncollectable loans.

4. INTERFUND ACTIVITY

Interfund activity balances at March 31, 2014, are as follows:

	Interfund Receivable	Interfund Payable	Interfund Revenues	Interfund Expenditures
General Fund	$ 10,000	$ 111,247	$ 257,683	$ 711,530
Water Fund	-	-	-	288,920
Sewer Fund	-	-	-	28,310
Capital Projects Fund	111,247	-	300,000	7,683
Special Grant Fund	-	10,000	125,000	-
Self-Insurance Fund	-	-	353,760	-
Total	$ 121,247	$ 121,247	$ 1,036,443	$ 1,036,443

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.

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

5. CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2014, was as follows:

	Balance 04/01/13	Additions	Disposals	Balance 03/31/14
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 1,134,588	$ -	$ -	$ 1,134,588
Construction work in progress	6,675,714	1,762,523	-	8,438,237
Total capital assets, not being depreciated	$ 7,810,302	$ 1,762,523	$ -	$ 9,572,825
Capital assets, being depreciated:				
Buildings and building improvements	$ 9,781,357	$ -	$ -	$ 9,781,357
Machinery, equipment and vehicles	5,742,242	435,688	327,211	5,850,719
Infrastructure	3,789,051	-	-	3,789,051
Total capital assets, being depreciated	19,312,650	435,688	327,211	19,421,127
Less accumulated depreciation:				
Buildings and building improvements	2,799,966	243,177	-	3,043,143
Machinery, equipment and vehicles	3,625,414	264,149	257,822	3,631,741
Infrastructure	2,843,099	177,279	-	3,020,378
Total accumulated depreciation	9,268,479	684,605	257,822	9,695,262
Total capital assets, being depreciated - net	10,044,171	(248,917)	69,389	9,725,865
Governmental activities capital assets, net	$ 17,854,473	$ 1,513,606	$ 69,389	$ 19,298,690
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 41,500	$ -	$ -	$ 41,500
Construction work in progress	592,808	612,939	504	1,205,243
Total capital assets, not being depreciated	$ 634,308	$ 612,939	$ 504	$ 1,246,743

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

	Balance 04/01/13	Additions	Disposals	Balance 03/31/14
Capital assets, being depreciated:				
Buildings and building improvements	$ 41,427,000	$ -	$ -	$ 41,427,000
Machinery, equipment and vehicles	1,276,575	63,288		1,339,863
Infrastructure	13,806,730	200,000	-	14,006,730
Total capital assets, being depreciated	56,510,305	263,288	-	56,773,593
Less accumulated depreciation:				
Buildings and building improvements	23,076,126	1,043,301	-	24,119,427
Machinery, equipment and vehicles	569,627	88,787		658,414
Infrastructure	5,649,569	347,670	-	5,997,239
Total accumulated depreciation	29,295,322	1,479,758	-	30,775,080
Total capital assets, being depreciated - net	27,214,983	(1,216,470)	-	25,998,513
Business-type capital assets, net	$ 27,849,291	$ (603,531)	$ 504	$ 27,245,256

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	$ 158,942
Police	42,648
Fire	76,552
Transportation	287,598
Culture and recreation	109,027
Home and community	9,838
Total governmental activities depreciation expense	684,605
Business-type activities:	
Water	144,946
Sewer	1,334,812
Total business-type activities depreciation expense	1,479,758
Total depreciation expense	$ 2,164,363

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

B. LIABILITIES

1. PENSION PLANS

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

FUNDING POLICIES

The Systems are noncontributory except for employees who 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 Systems 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
2014	$ 692,924	$ 677,447
2013	$ 606,689	$1,156,334
2012	$ 469,774	$ 740,124

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, 2013 and received an overall discount of $12,332.

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 Health Benefits Plan (the Plan) as a single-employer defined benefit Other Post Employment Benefit plan (OPEB). The Plan provides for continuation of health 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.

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

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, 2014:

Annual OPEB Cost and Net OPEB Obligation	Fiscal Year Ending 3/31/14
Normal Cost	$ 273,830
Amortization of UAL	513,000
Interest	31,473
ARC	818,303
Interest on OPEB Obligation	121,451
Adjustment to ARC	(177,588)
OPEB Expense	762,166
Net OPEB contributions made during the fiscal year	(537,269)
Net OPEB obligation at beginning of year	3,038,274
Net OPEB obligation at end of year	$ 3,263,171
Percentage of expense contributed	70.3%

e. FUNDED STATUS AND FUNDING PROGRESS

As of the actuarial valuation dated April 1, 2013, the actuarial accrued liability for benefits was $9,225,643, 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 40 retirees was $537,269 for the year ended March 31, 2014.

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

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, 2014 actuarial valuation, with a valuation date of April 1, 2013, 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 19 percent initially, reduced by decrements to an ultimate rate of 5 percent after 4 years for participants under age 65 and 7 percent initially reduced by decrements to an ultimate rate of 5 percent after 4 years for participants over age 65. 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	$ 18,249
Police	66,666
Fire	72,121
Public safety	6,807
Transportation	27,332
Culture and recreation	16,082
Home and community service	4,839
Total governmental activities OPEB expense	212,096
Business-type activities:	
Home and community service	12,801
Total business-type activities OPEB expense	12,801
Total OPEB expense	$ 224,897

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.

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

	Interest Rate	Balance 04/01/13	Issued	Redeemed	Balance 03/31/14
BAN maturing 05/15/14	.55%	$ -	$ 3,000,000	$ -	$ 3,000,000
BAN maturing 05/15/14	.55%	-	700,000	-	700,000
		$ -	$ 3,700,000	$ -	$ 3,700,000

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 $287,564 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, 2014:

	Balance 04/01/13	Additions	Payments	Balance 3/31/14	Due within One year
Governmental activities:					
General obligation debt:					
Serial bonds	$ 4,966,000	$ -	$ 346,000	$ 4,620,000	$ 340,000
Other long-term liabilities:					
Due to other governments -Courthouse	353,250	-	82,500	270,750	86,250
Due to other governments -Dwyer Stadium	196,328	-	5,000	191,328	5,000
Due to other governments -Landfill	330,872	-	10,007	320,865	16,888
Installment purchase debt	678,480	-	63,862	614,618	67,028
Compensated absences	2,275,667	1,521,218	1,471,494	2,325,391	232,539
Other post employment benefits	2,709,005	719,052	506,956	2,921,101	-
Total governmental activities	$ 11,509,602	$ 2,240,270	$ 2,485,819	$ 11,264,053	$ 747,705

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

	Balance 04/01/13	Additions	Payments	Balance 3/31/14	Due within One year
Business-type activities:					
General obligation debt:					
Serial bonds	$ 1,649,000	$ -	$ 139,000	$ 1,510,000	$ 145,000
Other long-term liabilities:					
Installment purchase debt	416,347	-	49,335	367,012	50,462
Compensated absences	386,745	71,730	87,426	371,049	37,105
Other post employment benefits	329,269	43,113	30,312	342,070	-
Total business-type activities	$ 2,781,361	$ 114,843	$ 306,073	$ 2,590,131	$ 232,567

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	$ 930,000
Landfill	11/05	1,360,000	4.000-5.000%	11/21	583,398
Equipment	11/05	100,000	4.000-5.000%	11/21	42,897
Dwyer Stadium	11/05	110,000	4.000-5.000%	11/21	47,187
City Centre	11/05	225,000	4.000-5.000%	11/21	96,518
City Centre	11/05	3,580,000	4.000-5.000%	11/36	2,920,000
Installment purchase debt	11/06	923,454	3.84%	11/21	576,796
Installment purchase debt vacuum truck	11/12	51,069	1.819%	04/19	37,822
Enterprise Funds:					
Sewer Fund:					
Serial bonds:					
State clean water and drinking water	07/99	2,165,590	3.480-5.430%	10/19	780,000
City Centre	11/05	447,500	4.250%	11/36	365,000
Installment purchase debt	11/06	91,407	1.850%	11/21	57,094
Installment purchase debt vacuum truck	11/12	204,275	1.819%	04/19	151,274
Water Fund:					
Serial bond:					
City Centre	11/05	447,500	4.250%	11/36	365,000
Installment purchase debt	11/06	220,364	3.84%	11/21	137,640
Installment purchase debt vacuum truck	11/12	28,372	1.819%	04/19	21,004
GRAND TOTAL					$7,111,630

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 and purchase of a vacuum truck. During the current year, the City recognized $19,423 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 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.

d. MATURITY - The following table summarizes the City's future serial bonds and installment purchase debt requirements as of March 31, 2014:

	Serial Bonds		Installment Purchase Debt	
Fiscal Year	Principal	Interest	Principal	Interest
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	515,000	162,174	138,787	8,695
2020-2024	1,430,000	592,272	341,862	12,151
2025-2029	1,010,000	375,912	-	-
2030-2034	1,045,000	140,252	-	-
2035-2036	100,000	6,375	-	-
Total	$ 6,130,000	$2,095,588	$ 981,630	$ 79,193

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 $528,072,892 allowing the City to incur debt up to $36,965,102. Currently, the City has $5,402,943 in debt chargeable against the debt limit, leaving an available margin of $31,562,159.

C. FUND BALANCES

As of March 31, 2014, 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, 2014, 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, 2014 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, 2014, fund balances were classified as follows:

	General	Capital Projects	Non-Major Funds	Total
Restricted:				
Retirement contribution	$ 386,783	$ -	$ -	$ 386,783
Employee benefit accrued liability	40,814	-	-	40,814
Insurance	895,602	-	-	895,602
Capital projects	2,014,865	-	-	2,014,865
Repairs	55,758			55,758
Other-EMS	32,620	-	-	32,620
Small cities	-	-	139,415	139,415
Special grant	-	-	368,590	368,590
Committed:				
Vibrant Batavia	55,423	-	-	55,423
South Jackson and multi-model	150,000	-	-	150,000
Summit Street	325,000	-	-	325,000
Assigned:				
Encumbrances-				
General government	40,132	-	-	40,132
Public safety	56,002	-	-	56,002
Transportation	108,835	-	-	108,835
Culture and recreation	13,347	-	-	13,347
Home and community	1,329	-	-	1,329
Fire	225,000	-	-	225,000
Facilities	500,000	-	-	500,000
Sidewalks	200,000	-	-	200,000
Employee benefits accrued liability reserves	50,000	-	-	50,000
DPW equipment	120,000	-	-	120,000
Dwyer Stadium repair	30,000	-	-	30,000
Retirement contribution	25,000	-	-	25,000
Comprehensive Plan update	100,000	-	-	100,000
Subsequent years' expenditures	200,000	-	-	200,000
Self insurance	-	-	321,452	321,452
Mall maintenance	-	-	49,766	49,766
Unassigned:				
General fund	1,648,505	-	-	1,648,505
Capital projects	-	(202,772)	-	(202,772)
Total	$7,275,015	$ (202,772)	$ 879,223	$7,951,466

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

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.

Encumbrances are recorded at the time a purchase order, construction contract or a service agreement is finalized and are reported as assignments of fund balances since they do not constitute expenditures or liabilities. Encumbrances material to the financial statements are considered significant. As of March 31, 2014 there were no encumbrances considered to be significant.

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 $427,820. 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 $320,865. As of March 31, 2014, 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, 2008, 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 City rate for city water customers rate in effect for the fiscal year ended March 31, 2014 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, 2014, the City recorded liabilities in the amounts of $96,104, $8,565 and $6,563 in the General, Water and Sewer Funds, respectively, for incurred but not reported insured events.

NOTE 4 - COMMITMENTS AND CONTINGENCIES (Continued)

Workers' Compensation Plan

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

Since actual claim costs depend on complex factors, the process of computing claim liabilities does not necessarily result in an exact amount. Such liabilities are based on the ultimate cost of claims (including future claim adjustment expenses) that have been incurred but not charged or credited to expense in the periods in which they are made. As of March 31, 2014, 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 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, $3,851,000 for the Cedar Street reconstruction project and $138,000 for the Summit Street road project. The project costs as of March 31, 2014 for the Richmond Avenue Project, the Cedar Street project and the Summit Street project total $299,566, $1,867,534 and $97,251, respectively.

NOTE 5 - STEWARDSHIP, COMPLIANCE, ACCOUNTABILITY

A. OVERDRAWN APPROPRIATIONS

Expenditures for the year ended March 31, 2014 materially exceeded appropriations in the General Fund for economic assistance and debt service interest expense by $99,630 and $64,685, respectively, however actual expenditures in total for the general fund did not exceed appropriations.

NOTE 6 - SUBSEQUENT EVENTS

Subsequent to year end, the City began the process of refunding serial bonds related to the City Centre under the United States Department of Agriculture – Rural Development. The total of the debt outstanding as of March 31, 2014 related to the City is $2,920,000 which is recorded in the General fund, and $730,000, which is recorded in the Water and Sewer funds.

CITY OF BATAVIA, NEW YORK
SCHEDULE OF FUNDING PROGRESS FOR RETIREE HEALTH PLAN
FOR THE YEAR ENDED MARCH 31, 2014

Schedule of Funding Progress	Actuarial Valuation Date 04/01/13	04/01/10
1. Currently retired liability	$ 5,230,510	$ 2,042,911
2. Actives eligible to retire	1,166,602	2,117,994
3. Actives not yet eligible	2,828,531	2,987,081
4. Actuarial Accrued Liability	9,225,643	7,147,986
5. Actuarial Value of Assets	-	-
6. Unfunded Actuarial Accrued Liability	9,225,643	7,147,986
7. Funded Ratio (5. divided by 4.)	0%	0%
8. Annual Covered Payroll	Not Available	Not Available
9. Ratio of Unfunded Actuarial Accrued Liability to Covered Payroll	Not Available	Not Available

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
March 31, 2014	$ 537,269

CITY OF BATAVIA, NEW YORK
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2014

	Original Budget	Modified Budget	Actual	Variance From Modified Budget
REVENUES:				
Real property taxes	$ 4,981,182	$ 4,981,182	$ 5,188,402	$ 207,220
Real property tax items	245,900	245,900	556,256	310,356
Sales and other taxes	6,213,000	6,213,000	6,426,274	213,274
Departmental income	393,920	393,920	272,480	(121,440)
Use of money and property	48,100	48,100	56,258	8,158
Licenses and permits	69,880	69,880	87,200	17,320
Fines and forfeitures	35,500	35,500	103,480	67,980
Sale of property and compensation for loss	3,500	3,500	99,052	95,552
Miscellaneous local sources	202,110	202,110	563,025	360,915
State and federal sources	2,229,902	2,357,394	2,492,725	135,331
Total revenues	14,422,994	14,550,486	15,845,152	1,294,666
EXPENDITURES:				
General government	2,389,888	1,818,502	1,634,042	184,460
Public safety	8,064,154	7,295,113	6,339,991	955,122
Health	17,700	17,070	17,012	58
Transportation	2,292,760	2,274,192	2,232,129	42,063
Economic assistance	35,000	34,468	134,098	(99,630)
Culture and recreation	906,010	827,080	771,159	55,921
Home and community services	386,680	335,176	259,010	76,166
Refuse and recycling	249,900	252,703	224,752	27,951
Employee health benefits	7,440	1,763,350	1,530,714	232,636
Debt service:				
Principal	492,303	492,362	492,362	-
Interest	222,879	222,879	287,564	(64,685)
Total expenditures	15,064,714	15,332,895	13,922,833	1,410,062
Excess (deficit) of revenues over expenditures	(641,720)	(782,409)	1,922,319	2,704,728
OTHER FINANCING SOURCES (USES):				
Interfund transfers in	891,750	929,750	257,683	(672,067)
Interfund transfers out	(410,030)	(835,030)	(711,530)	123,500
Appropriated fund balance	160,000	687,689	-	(687,689)
Total other financing sources (uses)	641,720	782,409	(453,847)	(1,236,256)
Net change in fund balance	-	-	1,468,472	1,468,472
Fund balance - beginning of year	-	-	5,806,543	5,806,543
Fund balance - end of year	$ -	$ -	$ 7,275,015	$ 7,275,015

SECTION B
SUPPLEMENTAL SCHEDULES

CITY OF BATAVIA, NEW YORK
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
MARCH 31, 2014

	Self Insurance	Mall Maintenance Fund	Small Cities Fund	Special Grant Fund	Total Non-Major Governmental Funds
ASSETS:					
Cash and cash equivalents	$ 297,396	$ 43,654	$ 55,187	$ 185,337	$ 581,574
Accounts receivable	65,781	18,532	-	-	84,313
Loan receivables (net of allowance for uncollectible accounts)	-	-	84,228	193,253	277,481
State and federal receivables	-	-	-	2,031	2,031
Total assets	$ 363,177	$ 62,186	$ 139,415	$ 380,621	$ 945,399
LIABILITIES:					
Accounts payable	$ 212	$ 12,256	$ -	$ 2,031	$ 14,499
Accrued liabilities	41,513	164	-	-	41,677
Due to other funds	-	-	-	10,000	10,000
Total liabilities	41,725	12,420	-	12,031	66,176
FUND BALANCES:					
Restricted	-	-	139,415	368,590	508,005
Assigned	321,452	49,766	-	-	371,218
Total fund balances	321,452	49,766	139,415	368,590	879,223
Total liabilities and fund balances	$ 363,177	$ 62,186	$ 139,415	$ 380,621	$ 945,399

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, 2014

	Self Insurance	Mall Maintenance Fund	Small Cities Fund	Special Grant Fund	Total Non-Major Governmental Funds
REVENUES:					
Special assessments	$ -	$ 130,180	$ -	$ -	$ 130,180
Sale of property and compensation for loss	65,781	-	-	-	65,781
Use of money and property	583	427	1,794	4,879	7,683
Miscellaneous local sources	-	-	20,774	39	20,813
Federal and state sources	-	-	-	192,088	192,088
Total revenues	66,364	130,607	22,568	197,006	416,545
EXPENDITURES:					
General government	404,668	-	-	-	404,668
Economic assistance and opportunity	-	166,289	-	-	166,289
Home and community services	-	-	12,717	292,609	305,326
Employee benefits	20,556	-	-	-	20,556
Total expenditures	425,224	166,289	12,717	292,609	896,839
Excess (deficit) of revenues over expenditures	(358,860)	(35,682)	9,851	(95,603)	(480,294)
OTHER FINANCING SOURCES:					
Interfund transfers in	353,760	-	-	125,000	478,760
Total other financing sources	353,760	-	-	125,000	478,760
Net change in fund balances	(5,100)	(35,682)	9,851	29,397	(1,534)
Fund balances - beginning	326,552	85,448	129,564	339,193	880,757
Fund balances - ending	$ 321,452	$ 49,766	$ 139,415	$ 368,590	$ 879,223

SECTION C
FEDERAL FINANCIAL ASSISTANCE

CITY OF BATAVIA, NEW YORK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Disbursements/ Expenditures
U.S. Department of Transportation			
Pass-Through New York State:			
Highway Planning and Construction	20.205	D024533/475340322	$ 7,850
Highway Planning and Construction	20.205	D032451	1,239,550
Highway Planning and Construction	20.205	D032449	150
			1,247,550
U.S. Department of Justice			
Passed through New York State:			
Bulletproof Vest Partnership Program	16.607	2009BUBX09046584	2,712
U.S. Department of Homeland Security			
Assistance to Firefighters Grant	97.044	EMW-2012-FO-04868	51,271
Total Expenditures of Federal Awards			$1,301,533

See notes to Schedule of Expenditures of Federal Awards.

CITY OF BATAVIA, NEW YORK
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2014

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the federal financial assistance programs administered by the City of Batavia (the City), an entity as defined in Note 1 to the City's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Federal awards received directly from federal agencies as well as federal awards passed through from other government agencies are included in the schedule. Because the schedule presents only a selected portion of the operations of the City, it is not intended and does not present the financial position, changes in net assets, or cash flows of the City.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting. The amounts reported as federal expenditures were obtained from the City's financial reporting system, which is the source of the City's basic financial statements.

NOTE 3 - PASS-THROUGH GRANTOR

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

NOTE 4 - MAJOR PROGRAM DETERMINATION

Major program determination is a risk based assessment which classifies programs as either a Type A program or a Type B program. All federal programs with expenditures exceeding the greater of 3% of the total federal awards or $300,000 are considered Type A programs and all other programs are considered Type B programs. The Type B federal programs with expenditures which do not exceed the greater of .3% of the total federal awards or $100,000 are considered insignificant and were not further evaluated. All other programs were then further assessed based on risk and major programs were selected.

SECTION D
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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 25, 2014.

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
August 25, 2014

FreedMaxick CPAs, P.C.

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

We have audited the City of Batavia, New York's (the City) compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended March 31, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2014.

Report on Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular-A133. Accordingly, this report is not suitable for any other purpose.

Freed Maxick CPAs, P.C.

Batavia, New York
August 25, 2014

CITY OF BATAVIA, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2014

I. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ____Yes __√No
- Significant deficiency(ies) identified? ____Yes __√No

Noncompliance material to financial statements noted? ____Yes __√No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ____Yes __√No
- Significant deficiency(ies) identified? ____Yes __√No

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

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

Identification of major programs:

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

Dollar threshold used to distinguish between type A and type B programs $300,000

Auditee qualified as low-risk auditee? ____Yes __√No

II. FINDINGS - FINANCIAL STATEMENT AUDIT

There were no financial statement findings noted in the current year.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

There were no findings or questioned costs related to federal awards noted in the current year.

CITY OF BATAVIA, NEW YORK
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2014

I. FINDINGS - FINANCIAL STATEMENT AUDIT

There were no financial statement findings noted in the prior year.

II. FEDERAL AWARD FINDINGS AND QUESTIONED COST SECTION

There were no findings or questioned costs related to federal awards noted in the prior year.

SECTION E
NYSDOT STATE SINGLE AUDIT PROGRAM

FreedMaxick CPAs, P.C.

REPORT ON COMPLIANCE AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE OVER STATE TRANSPORTATION ASSISTANCE EXPENDED BASED ON AN AUDIT OF BASIC 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

Report On Compliance For Each Major Federal Program

We have audited the City of Batavia, New York's, (the City) compliance with the types of compliance requirements described in the preliminary Draft Part 43 of the New York State Codification of Rules and Regulations (NYCRR) that could have a direct and material effect on the major state transportation assistance program tested for the year ended March 31, 2014. The program tested is identified in the summary of audit results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its major state transportation assistance program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major state transportation assistance program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Draft Part 43 of NYCRR. Those standards and Draft Part 43 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state transportation assistance program tested has occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

Opinion on Each Major State Transportation Assistance Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state transportation assistance program for the year ended March 31, 2014.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with requirements types of requirements that could have a direct and material effect on each major state transportation assistance program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state transportation assistance program and to test and report on the internal control over compliance in accordance with Draft Part 43 of NYCRR, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Draft Part 43 of NYCRR. Accordingly, this report is not suitable for any other purpose.

Freed Maxick CPAs, P.C.

Batavia, New York
August 25, 2014

CITY OF BATAVIA, NEW YORK
SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED
FOR THE YEAR ENDED MARCH 31, 2014

Grantor/Program Title	NYSDOT Contract/Reference Number	Expenditures
U.S. Department of Transportation		
Passed through New York State Department of Transportation:		
Consolidated Local Street and Highway Improvement Program (CHIPS)	-------	$ 227,532

CITY OF BATAVIA, NEW YORK
NOTES TO SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED
FOR THE YEAR ENDED MARCH 31, 2014

NOTE 1 - BASIS OF PRESENTATION

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

NOTE 2 - BASIS OF ACCOUNTING

The accompanying schedule of state transportation assistance expended is presented using the modified accrual basis of accounting.

CITY OF BATAVIA, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR STATE TRANSPORTATION ASSISTANCE EXPENDED
FOR THE YEAR ENDED MARCH 31, 2014

I. SUMMARY OF AUDIT RESULTS

Internal control over State Transportation Assistance Expended:

- Material weakness(es) identified? ____Yes __√No
- Significant deficiency(ies) identified? ____Yes __√No

Type of auditor's report issued on compliance for program tested: Unmodified

Identification of State Transportation Assistance Program tested:

Name of Project

Consolidated Local Street and Highway Improvement Program (CHIPS)

II. COMPLIANCE FINDINGS AND QUESTIONED COSTS

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