

**CITY OF BATAVIA, NEW YORK  
FINANCIAL STATEMENTS  
MARCH 31, 2011**

**CITY OF BATAVIA, NEW YORK**  
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**SECTION A**  
**FINANCIAL SECTION**



### Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Batavia, New York (the City) as of and for the year ended March 31, 2011, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of March 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 21, 2011, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, schedule of funding progress for retiree health plan and budgetary comparison schedules on pages 1 through 24, A44, and A45 through A46 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

*Freed Maxick & Battaglia, CPAs, PC*

Batavia, New York  
July 21, 2011



Freed Maxick & Battaglia, CPAs, PC



## **Management Discussion and Analysis**

### **City of Batavia, New York**

### **Fiscal Year ended March 31, 2011**

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, 2011. 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, 2011, the City has continued to move forward cautiously yet effectively in a positive direction towards a more healthy and stable financial condition. This is the third year in a row the City has a positive undesignated fund balance; however, short and long-term challenges such as, police retroactive pay, increasing retirement costs, and state mandates such as the property tax cap will be problematic.

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

- The City has continued with a general fund surplus
- The City has eliminated old inter-fund loan balances
- The general, water, and sewer funds have had a year of healthy operations

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

#### **Financial Highlights**

- As shown on page A8, there was a general fund surplus before transfers in the amount of \$1,033,615 at March 31, 2011. This was largely a result of the City's continued efforts to exercise conservative budget methods, the use of one-time revenues to build fund balance, consistent monitoring of expenses and cash flows, and future planning related to fiscal management.



- City Council again supported funding reserves for anticipated costs in order to avoid larger tax burdens in future years. Considering that retirement costs increased \$472,779 from the year ending March 31, 2010 to the year ending March 31, 2011 and the City anticipates seeing double digit percent increases in retirement costs over the next several years; the City's Other Post Employment Benefit (OPEB) liability for the year ending March 31, 2011 was \$2,484,102, up \$404,520 from the previous year; and the City's compensated absences liability ended the year at \$2,964,119 with \$894,950 potentially payable immediately due to the high number of employees currently eligible to retire.
- Walnut Street Reconstruction and Ellicott Streetscape projects, though construction is complete, continue to remain open for state reimbursement payments. A consolidated BAN was issued in June 2010 in the amount of \$3,547,000 at an interest rate of 1.14%, to finance the continuation of these projects along with water and sewer improvements as planned for in the City's Water & Sewer Capital Infrastructure Plan adopted by City Council in the previous fiscal year.
- New York State AIM (Aid and Incentives for Municipalities) decreased by 2.2%, or \$40,774, in the year ending March 31, 2011. The state reduced funding streams overall for the City of Batavia Youth Bureau by 25% for 2011 following a 12% reduction in 2010. The Youth Bureau's funding level dropped from \$29,735 for 2010 to \$22,710 for 2011. The State also enacted a 5.8% or \$1,241 reduction in Assessment Parcel Reimbursement for 2011. In 2012, New York State eliminated all Assessment Parcel Reimbursement to municipalities. In total, the reduction in State aid from 2010 to 2011 will equal approximately \$64,700.
- In December 2010 the City Council entered into an Inter-municipal Youth Bureau Agreement with Genesee County to share the Genesee County Youth Bureau Director position. The cost savings from the joint effort is approximately \$15,000 in personnel costs.

### **Overview of the Financial Statements**

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

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

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

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

**Figure A-1**

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

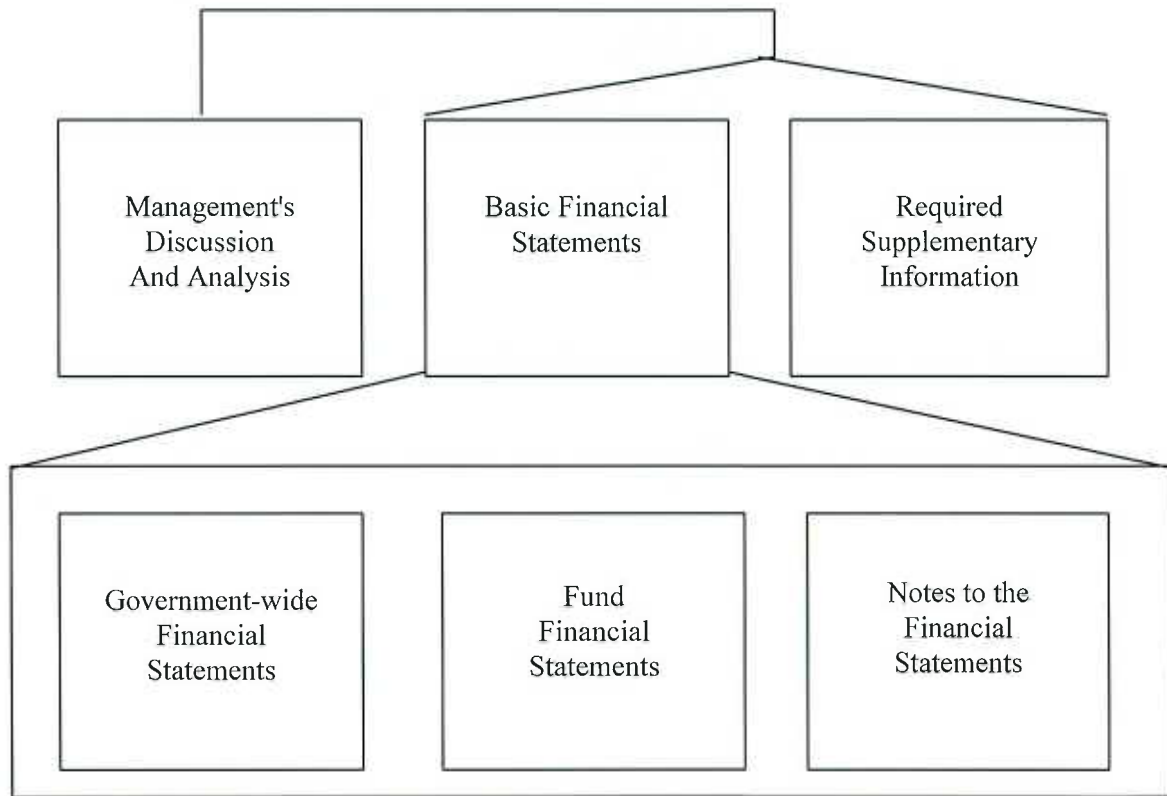


Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each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

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

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

## Government-wide Statements

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

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

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

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

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

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

## **Fund Financial Statements**

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

The City has three kinds of funds:

- **Governmental Funds:** Most of the City's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information 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 year efforts have turned towards proactive planning versus reactionary responses to budgetary challenges. Through multi-year financial planning efforts, the City is committing to and preparing for long-term financial stability. These plans include:

- **The Annual budget.** Over the past several years the City has reduced staffing levels while continuing to provide core services to the community. In reflecting on the City's multi-year financial plan, the City strives to maintain a responsible tax rate. With the new legislative enforced tax cap enacted by New York State effective in the City's fiscal year beginning April 1, 2012, the City will continue to closely monitor expenses and conservatively budget revenue. In addition, the City will continue to eliminate/prevent fund deficits and increase fund balance and reserves.
- **Continuing to improve cash flow and discontinue borrowing for operational needs.** Over the past several years the City has limited expenses and increased revenues to improve the City's cash position. Historically the City had borrowed \$2 million, \$2.5 million and \$1.5 million in annual revenue anticipation notes (RAN) in fiscal years ending from March 31, 2007 through 2009 in order to cover current operations, however in the fiscal year ending March 31, 2010 the City discontinued RAN borrowings to support operations. The fiscal year 2010/11 budget no longer included a provision for deficit elimination with the City having a positive fund balance. In addition, the City used one-time revenues such as Video Lottery Terminal aid (VLT) to offset capital project expenses and build fund balance and reserves. The City remains cautiously optimistic and budgetarily conservative as major revenue sources such as sales tax and State aid continue to be stagnant and show little signs of growth.

- The City's new Strategic Plan. The intent of developing a Strategic Plan was to allocate our available resources to best meet the needs of our residents, while balancing the environmental factors that may affect us in the future. During the fiscal year ending March 31, 2011, the City Council created the plan beginning 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 has developed a performance measurement system to monitor the City Council's 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.
- Invest in and maintain City vehicles, equipment, infrastructure and facilities and establish a sound replacement program. Our fleet is in poor shape and infrastructure and facilities, including the police station, have been neglected and need to be maintained with the necessary improvements. As mentioned above a Water & Sewer Capital Infrastructure Plan was developed and adopted by City Council in the fiscal year ending March 31, 2010 to plan and budget for future water and sewer infrastructure expenses. An equipment replacement plan has also been developed to assist with investing in and replacing the City's fleet of vehicles and equipment. 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 rates and debt service levels to meet service demands.
- The City's sales tax revenue, which traditionally accounts for approximately 34% - 36% of the City's general fund revenue, has increased each quarter in the fiscal year ending March 31, 2011 when compared to the prior year. Sales tax revenue for the year ending March 31, 2011 increased 7% or \$353,574 compared to the prior year. However, sales tax receipts are still \$145,990 lower than they were in the fiscal year ending March 31, 2009 making sales tax levels similar to 2008 levels.
- New York State has continued to reduce AIM (Aid and Incentives for Municipalities) allocations for communities across the state. The impact on the City of Batavia in the year ending March 31, 2011 amounted to a decrease of 2.2% or \$47,740 in AIM funding. The State has passed additional decreases in AIM funding to the City for the year ending March 31, 2012 by another 4.8%, or \$74,215. Accompanied with prior decreases in Assessment Parcel Reimbursement and Youth Bureau aid, the City will have experienced a decrease of approximately \$191,000 in State aid from the year ending March 31, 2009 to the year ending March 31, 2012.

- Most recently the State passed legislation implementing a property tax cap which will cap year-to-year growth in the tax levy at the lesser of 2% or CPI, whichever is lower, effective for the City's next fiscal year ending March 31, 2013. The tax cap is accompanied by the following exclusions: legal settlements exceeding 5% of the prior year levy, increases in the average actuarial contribution rates for ERS & PFRS in excess of 2% of payroll, and a tax base growth factor. There has been no significant mandate relief to coincide with the passage of this bill. The tax cap can be overridden by a 60% majority of the City Council which is in the form of adopting a one year local law.

In addition to the continuing poor economic climate in Western New York and the Nation, the recent adoption of the NYS Property Tax Cap legislation may cause unforeseen negative impacts and challenges for the City in future budgets. The City continues to closely monitor these effects in order to be proactive in making the necessary changes to counter act any negative impact to the City's bottom line.

### **Capital Projects**

The Walnut Street Reconstruction project was completed and the project will be closed out in the City's next fiscal year along with the Ellicott Streetscape project. The City's Bank Street Water and Sewer Infrastructure Improvement project is coming to a close and Cedar Street Reconstruction project and the Summit Street Reconstruction project is in the beginning stages of the design phase.



**Exhibit 3**

**Condensed Statement of Net Assets**  
*(in thousands of dollars)*

|   | Governmental<br>Activities |                  | Total<br>Percentage<br>Change | Business-Type<br>Activities |                  | Total<br>Percentage<br>Change |
|---|----------------------------|------------------|-------------------------------|-----------------------------|------------------|-------------------------------|
|   | 2011                       | 2010             |                               | 2011                        | 2010             |                               |
| Current and other assets                          | \$ 11,348                  | \$ 11,042        | 2.77%                         | \$ 9,366                    | \$ 7,134         | 31.29%                        |
| Capital assets, net                               | 17,636                     | 17,814           | -1.00%                        | 29,330                      | 29,429           | -0.34%                        |
| Total assets                                      | <u>\$ 28,984</u>           | <u>\$ 28,856</u> | <u>0.44%</u>                  | <u>\$ 38,696</u>            | <u>\$ 36,563</u> | <u>5.83%</u>                  |
| Long-term liabilities                             | \$ 12,202                  | \$ 13,047        | -6.48%                        | \$ 2,953                    | \$ 3,298         | -10.46%                       |
| Other liabilities                                 | 5,069                      | 6,290            | -19.41%                       | 2,180                       | 484              | 350.41%                       |
| Total liabilities                                 | 17,271                     | 19,337           | -10.68%                       | 5,133                       | 3,782            | 35.72%                        |
| Invested in capital assets<br>net of related debt | 9,338                      | 9,479            | -1.49%                        | 28,142                      | 27,871           | 0.97%                         |
| Restricted for:                                   |                            |                  |                               |                             |                  |                               |
| Insurance   | 584                        | 677              | -13.74%                       | -                           | -                | 0.00%                         |
| Capital projects                                  | 878                        | 520              | 68.85%                        | 3,355                       | 3,329            | 0.78%                         |
| Employee benefit accrued liability                | 190                        | 268              | 100.00%                       | -                           | -                | 0.00%                         |
| Unrestricted                                      | 723                        | (1,425)          | 150.74%                       | 2,066                       | 1,581            | -30.68%                       |
| Total net assets                                  | <u>11,713</u>              | <u>9,519</u>     | <u>23.05%</u>                 | <u>33,563</u>               | <u>32,781</u>    | <u>2.39%</u>                  |
| Total liabilities and<br>and net assets           | <u>\$ 28,984</u>           | <u>\$ 28,856</u> | <u>0.44%</u>                  | <u>\$ 38,696</u>            | <u>\$ 36,563</u> | <u>5.83%</u>                  |

### Governmental Activities

Governmental activities increased the City's net assets by \$2,194,603. Key elements of this increase are as follows:

- The main element of this increase is a general overall decrease in expenses. Expenses decreased overall by \$377,876 or 2.6%.
- The City completed most of the work for Walnut Street and there were no significant state reimbursements for capital projects. The current year Capital Grants and Contributions was \$4,367,342 less than the prior year.
- Lastly, in the previous fiscal year, the City absorbed \$593,488 in one-time expense transferred from the Ambulance Fund as a result of those operations being discontinued.

### Business-Type Activities

Business-type activities increased the City's net assets by \$782,671. Key elements of this increase are as follows:

- The City received a CDBG – NYS Housing Trust Grant in the amount of \$411,000 for the Bank Street Water and Sewer Infrastructure Improvement project.
- The City discontinued ambulance operations in the fiscal year ending March 31, 2010 and losses related to those operations are no longer being realized.
- The City's water service contract included a final O & M payment along with incrementally increased quarterly revenues and a distribution leakage payment. This resulted in an increase of approximately \$400,000 in Water Fund revenues over the prior year.

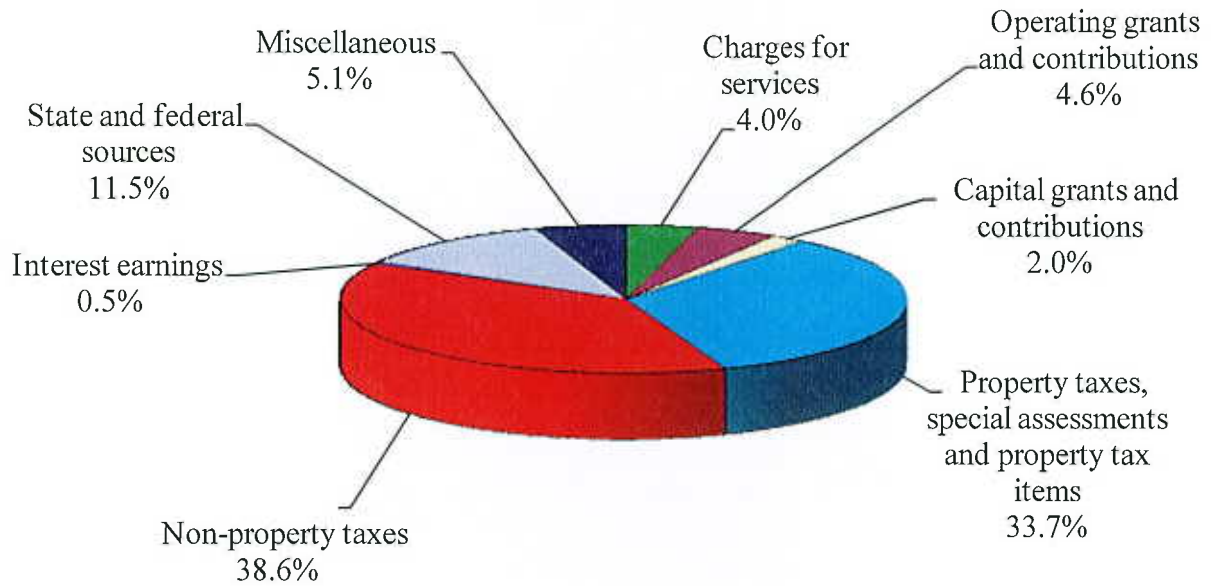
**Exhibit 4**

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

|   | Governmental<br>Activities |          | Total<br>Percentage<br>Change | Business-Type<br>Activities |           | Total<br>Percentage<br>Change |
|---|----------------------------|----------|-------------------------------|-----------------------------|-----------|-------------------------------|
|   | 2011                       | 2010     |                               | 2011                        | 2010      |                               |
| <b>Program Revenues:</b>                                      |                            |          |                               |                             |           |                               |
| Charges for services  | \$ 716                     | \$ 717   | -0.14%                        | \$ 4,625                    | \$ 5,687  | -18.67%                       |
| Operating grants and contributions                            | 750                        | 802      | -6.48%                        | 2,788                       | 2,175     | 28.18%                        |
| Capital grants and contributions                              | 316                        | 4,686    | -93.26%                       | -                           | -         | 0.00%                         |
| <b>General Revenues:</b>                                      |                            |          |                               |                             |           |                               |
| Property taxes, special assessments<br>and property tax items | 5,460                      | 5,300    | 3.02%                         | -                           | -         | 0.00%                         |
| Non-property taxes  | 6,248                      | 5,891    | 6.06%                         | -                           | -         | 0.00%                         |
| Interest earnings   | 75                         | 83       | -9.64%                        | 27                          | 16        | 68.75%                        |
| State and federal sources                                     | 1,861                      | 1,902    | -2.16%                        | -                           | -         | 0.00%                         |
| Miscellaneous   | 825                        | 452      | 82.52%                        | 3                           | -         | 0.00%                         |
| Total revenues  | 16,251                     | 19,833   | -18.06%                       | 7,443                       | 7,878     | -5.52%                        |
| <b>Program Expenses:</b>                                      |                            |          |                               |                             |           |                               |
| General government  | 2,013                      | 2,087    | -3.55%                        | -                           | -         | 0.00%                         |
| Police  | 3,592                      | 3,675    | -2.26%                        | -                           | -         | 0.00%                         |
| Fire  | 3,696                      | 3,611    | 2.35%                         | -                           | -         | 0.00%                         |
| Public safety   | 244                        | 441      | -44.67%                       | -                           | -         | 0.00%                         |
| Health  | 32                         | 32       | 0.00%                         | -                           | -         | 0.00%                         |
| Transportation  | 2,012                      | 1,965    | 2.39%                         | -                           | -         | 0.00%                         |
| Economic assistance   | 160                        | 275      | -41.82%                       | -                           | -         | 0.00%                         |
| Culture and recreation  | 919                        | 1,041    | -11.72%                       | -                           | -         | 0.00%                         |
| Home and community service                                    | 417                        | 249      | 67.47%                        | 6,326                       | 7,617     | -16.95%                       |
| Refuse and recycling  | 974                        | 990      | -1.62%                        | -                           | -         | 0.00%                         |
| Interest on debt  | 334                        | 406      | -17.73%                       | -                           | -         | 0.00%                         |
| Total expenses  | 14,393                     | 14,772   | -2.57%                        | 6,326                       | 7,617     | -16.95%                       |
| Increase in net assets<br>before transfers                    | 1,858                      | 5,061    | -63.29%                       | 1,117                       | 261       | 327.97%                       |
| Transfers   | 335                        | (2,015)  | 116.63%                       | (335)                       | 2,015     | -116.63%                      |
| Increase in net assets  | 2,193                      | 3,046    | -28.00%                       | 782                         | 2,276     | -65.64%                       |
| Net assets beginning of year                                  | 9,519                      | 6,473    | 47.06%                        | 32,781                      | 30,505    | 7.46%                         |
| Net assets-end of year  | \$ 11,712                  | \$ 9,519 | 23.04%                        | \$ 33,563                   | \$ 32,781 | 2.39%                         |

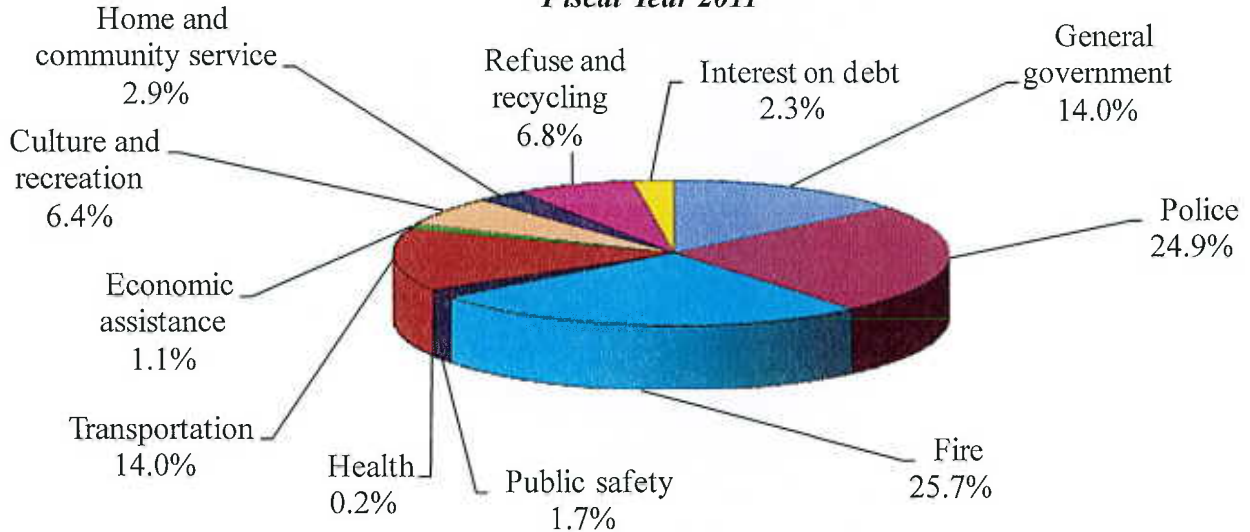
**Exhibit 5**

***Revenues for Governmental Activities  
Fiscal Year 2011***



**Exhibit 6**

***Expenses for Governmental Activities  
Fiscal Year 2011***



## Governmental Activities

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

### Exhibit 7

#### *Net Cost of Governmental Activities* (in thousands of dollars)

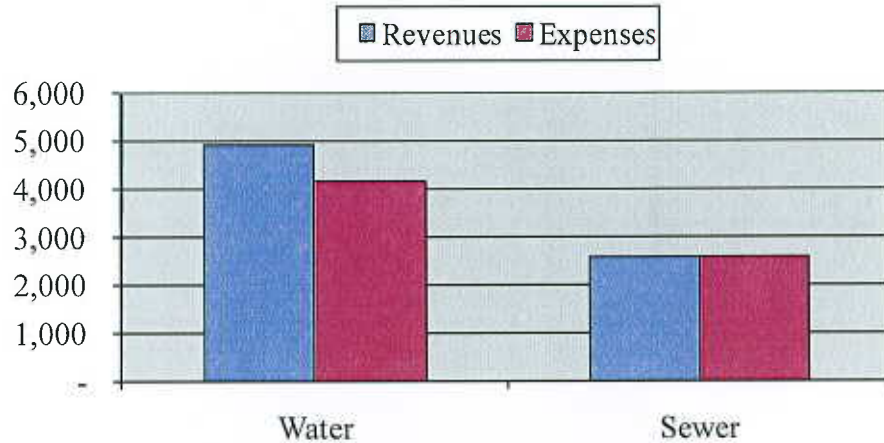
|                          | Total Cost<br>of Services |                  | Total<br>Percentage<br>Change | Net Cost<br>of Services |                 | Total<br>Percentage<br>Change |
|--------------------------|---------------------------|------------------|-------------------------------|-------------------------|-----------------|-------------------------------|
|                          | 2011                      | 2010             |                               | 2011                    | 2010            |                               |
| General government       | \$ 2,013                  | \$ 2,087         | -3.55%                        | \$ 1,828                | \$ 1,951        | -6.30%                        |
| Police                   | 3,592                     | 3,675            | -2.26%                        | 3,208                   | 3,113           | 3.05%                         |
| Fire                     | 3,696                     | 3,611            | 2.35%                         | 3,696                   | 3,611           | 2.35%                         |
| Public safety            | 244                       | 441              | -44.67%                       | 178                     | 329             | -45.90%                       |
| Health                   | 32                        | 32               | 0.00%                         | (5)                     | (9)             | -44.44%                       |
| Transportation           | 2,012                     | 1,965            | 2.39%                         | 1,256                   | (2,995)         | -141.94%                      |
| Economic assistance      | 160                       | 275              | -41.82%                       | (20)                    | 121             | -116.53%                      |
| Culture & recreation     | 919                       | 1,041            | -11.72%                       | 836                     | 949             | -11.91%                       |
| Home & community service | 417                       | 249              | 67.47%                        | 326                     | 101             | 222.77%                       |
| Refuse & recycling       | 974                       | 990              | -1.62%                        | 974                     | 990             | -1.62%                        |
| Interest on debt         | 334                       | 406              | -17.73%                       | 334                     | 406             | -17.73%                       |
| Total                    | <u>\$ 14,393</u>          | <u>\$ 14,772</u> | <u>-2.57%</u>                 | <u>\$ 12,611</u>        | <u>\$ 8,567</u> | <u>47.20%</u>                 |

## Business-Type Activities

2011

*Exhibit 8*

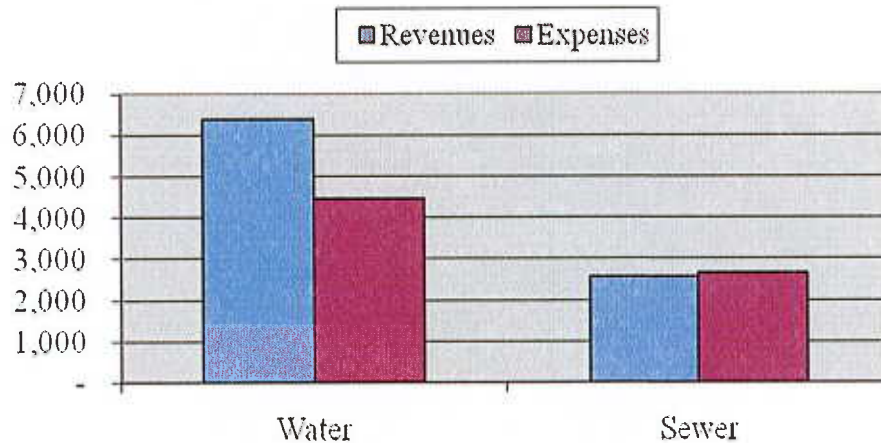
### Business-type Activities - Revenues and Expenses (in thousands of dollars)



2010

*Exhibit 8*

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





## **Financial Analysis of the City's Funds**

The fiscal year ending March 31, 2011 concluded with an undesignated fund balance of \$493,273 exclusive of reserves for encumbrances, insurance, employee benefits accrued liability and capital reserves. This is the third year in a row since 2005 the City has maintained a positive fund balance.

### **The General Fund**

The general fund's assets increased in the fiscal year ending March 31, 2011. This is attributed to the Property tax receivable that increased \$445,170 over the prior year, indicating fewer timely payments of property taxes. Likewise, the general fund's liabilities decreased as a result of the elimination of prior year inter-fund loans.

Revenues for the general fund increased compared to last year by \$181,574. The increase in sales tax revenue mentioned previously accounts for the majority of this increase. Revenues increased in some areas and decreased in others for various reasons, for instance real property taxes decreased due to fewer timely payments made by tax payers but sales tax increased due to higher gas prices. Specific changes in revenues include:

- Property tax collections decreased \$138,209 or 2.6% over the prior year.
- Federal and State sources of revenue decreased \$88,902 over the prior year. Specific types of this revenue include:
  - VLT Aid
  - Sidewalk grant
  - Public safety grants

Expenditures for the general fund increased \$495,625 compared to the prior year. Areas that experienced increases included:

- Police and Fire department expenses increased approximately \$718,165 due to retirements, employee benefit payouts, which were funded by the City's employee benefit accrued liability reserve, and increased state pension costs. In addition the Police department experienced an increase in expenses associated with grants received.



### **Water Fund**

The water fund, including depreciation, has a current year change in net assets of \$743,894, compared to last year's change of \$1,916,245. From a cash standpoint the water fund's net cash position increased \$2,403,012 over 2010. This increase is related to the transfer of the Water Filtration Reserve that had previously been accounted for in the capital fund in the amount of \$2,037,121. This also accounts for the decrease in Due From Other Funds of \$2,161,193 on the water fund's balance sheet. A BAN (Bond Anticipation Note) was issued in the fiscal year ending March 31, 2011, in which \$165,000 was allocated to finance water capital improvements as put forth in the City's Water & Sewer Capital Infrastructure Plan. In addition, the water fund benefited from only transferring \$300,000 to the general fund out of the \$400,000 budgeted. The full transfer was not necessary due to one-time revenues received in the general fund. With the development of the Water & Sewer Capital Infrastructure Plan, the transfer to the general fund is expected to decrease by \$50,000 a year in order to fund water infrastructure and facility projects.

### **Sewer Fund**

The sewer fund, including depreciation, has a current year change in net assets of \$38,777, compared to last year's deficit of (\$85,312). From a cash standpoint the sewer fund's net cash position increased by \$1,480,492. This change is attributed to a BAN issued in the fiscal year ending March 31, 2011, in which \$1,435,000 was allocated to the sewer fund to fund capital improvements as put forth in the City's Water & Sewer Capital Infrastructure Plan. The more significant change in this year's financial position for the sewer fund is the decrease in salary expense of approximately \$157,813. The decrease is associated with retirement expenses paid out in the previous year and realignment of positions in the current year.

### **Workers Comp. Fund**

This year's workers compensation fund ended with a surplus of \$436,607. This was primarily due to the decrease in anticipated future payments due on open claims from when the City was self insured. The City shifted from a self insured plan to a fully insured plan as of February 2010. This decrease in liabilities created a related increase in revenues of \$185,465. In addition, a workers comp reserve was funded in the amount of \$200,000 in the event any future unexpected workers comp payments are realized.

### **Capital Fund**

The Walnut Street Reconstruction project, Ellicott Streetscape project, and Bank Street Water and Sewer Infrastructure project are expected to be closed by March 31, 2012. New projects currently in the design stage include Cedar Street Reconstruction project and Summit Street Reconstruction project.

**Exhibit 9**

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

|                       | <b>2011</b>     |                                   |                                     |
|-----------------------|-----------------|-----------------------------------|-------------------------------------|
|                       | <u>Revenues</u> | <u>Expenditures/<br/>Expenses</u> | <u>Fund Balance/<br/>Net Assets</u> |
| General Fund          | \$ 15,557       | \$ 14,748                         | \$ 3,606                            |
| Capital Projects Fund | 424             | 351                               | 146                                 |
| Water Fund            | 4,904           | 4,160                             | 8,272                               |
| Sewer Fund            | 2,551           | 2,513                             | 25,291                              |
| <b>2010</b>           |                 |                                   |                                     |
|                       | <u>Revenues</u> | <u>Expenditures/<br/>Expenses</u> | <u>Fund Balance/<br/>Net Assets</u> |
| General Fund          | \$ 15,336       | \$ 14,860                         | \$ 2,797                            |
| Capital Projects Fund | 5,343           | 6,654                             | 73                                  |
| Water Fund            | 6,388           | 4,471                             | 7,528                               |
| Sewer Fund            | 2,566           | 2,651                             | 25,253                              |

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

## General Fund Budgetary Highlights

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

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

- Sales tax revenue, which increased 7% or \$353,574 and exceeded budget by approximately \$244,127. Sales tax revenue levels have currently increased over prior year, however they are only \$123,148 above the levels that were experienced in the fiscal year ending March 31, 2008 and are \$145,990 below March 31, 2009.
- Gross utility receipts tax increased 15.5% or \$35,602 and exceeded budget by \$44,949, however these revenues are still \$36,884 below the levels that were experienced in the fiscal year ending March 31, 2008.
- Mortgage tax increased 3.4% or \$3,842 and was a deficit to budget by \$4,252, however these revenues are still \$41,171 below the levels that were experienced in the fiscal year ending March 31, 2008.
- Interest and earnings revenue rose slightly and exceeded budget by approximately \$1,747 or 15.9% due to better cash flows levels and a slight increase in interest rates, however interest revenues are still \$24,561 below the levels that were experienced in the fiscal year ending March 31, 2008.
- Interest and penalties on taxes exceeded budget by \$122,118. This is due to an increase in untimely property tax payments resulting in an increase in penalty payments.

Although revenues have increased slightly in the year ending March 31, 2011 compared to the prior year, the City is still a total of \$225,764 below revenues levels that were experienced in the fiscal year ending March 31, 2008. That type of growth is not currently anticipated.

In addition to conservative revenue budgeting and the utilization of one-time revenues to fund capital acquisitions, the City has continued its practice of conservative spending and strict expense monitoring. As a result the City experienced a surplus of funds in contingency and healthcare budgets equaling \$121,004 and \$153,097 respectively.

The City's prudent revenue budgeting and expense monitoring has resulted in the necessary operational general fund surpluses needed to eliminate prior fund balance deficits, grow reserves and undesignated fund balance. However, while the City has experienced several unexpected one-time revenues, these one-time revenues are short lived and will not continue in future years. Furthermore, depending on the severity of change, revenue declines and expenditure increases, such as police back pay and retirement costs, the City may experience challenges in building the financial resources necessary to gain financial stability. Also 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, 2011, the City increased equipment reserves by \$395,000. The City continued to make an effort to plan and fund for future equipment and infrastructure improvements, rather than defer funding for these needed improvements. In addition to funding reserves, the City used \$43,891 of the reserve funds to purchase a police cruiser, install sidewalks, and for building improvements to City Hall and Dwyer Stadium, thereby utilizing reserve funding instead of property tax increases for these types of improvements.

A consolidated Bond Anticipation Note (BAN) was issued in June, 2010 for \$3,547,000 to provide the cash necessary to conduct the Walnut Street Reconstruction project, to purchase an ice resurfacer, install a new roof on the DPW building and conduct the Ellicott Streetscape project along with water and sewer improvements as set forth in the City's Water & Sewer Capital Infrastructure Plan. The interest rate was 1.14%. These projects are reflected in the construction work in progress amount in Exhibit 10.

***Exhibit 10***

***Capital Assets Net of Depreciation***  
*(in thousands of dollars)*

|                               | Governmental<br>Activities |                  | Business -Type<br>Activities |                  |
|-------------------------------|----------------------------|------------------|------------------------------|------------------|
|                               | 2011                       | 2010             | 2011                         | 2010             |
| Land                          | \$ 1,070                   | \$ 1,070         | \$ 42                        | \$ 42            |
| Construction work in progress | 6,951                      | 6,627            | 1,817                        | 608              |
| Buildings                     | 7,468                      | 7,711            | 20,437                       | 21,481           |
| Machinery & equipment         | 1,556                      | 1,677            | 444                          | 418              |
| Infrastructure                | 591                        | 729              | 6,590                        | 6,880            |
| Total                         | <u>\$ 17,636</u>           | <u>\$ 17,814</u> | <u>\$ 29,330</u>             | <u>\$ 29,429</u> |



## Long-Term Obligations

For the year ending March 31, 2011, the City's constitutional debt limit was \$35,531,254. Outstanding bonds totaled \$8,639,344. Of this total, \$6,678,979 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 March 2011, Moody's affirmed the City's "A2" bond rating and assigned the City a "positive outlook". Moody's assignment of the positive outlook acknowledges a modest financial position by specifically identifying City management's ability to restore financial health, establishment of Retirement, Health Insurance and Employee Benefits Reserves and negotiated manageable settlements with three of its unions, which included wage freezes and healthcare concessions.

### ***Exhibit 11***

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

|  | Governmental<br>Activities |                  | Business-Type<br>Activities |                 |
|--|----------------------------|------------------|-----------------------------|-----------------|
|  | 2011                       | 2010             | 2011                        | 2010            |
| General obligation debt backed by the City | \$ 5,611                   | \$ 5,920         | \$ 2,039                    | \$ 2,225        |
| Installment purchase debt                  | 740                        | 788              | 250                         | 266             |
| Other debt                                 | 1,068                      | 1,150            | -                           | -               |
| Compensated absences                       | 2,579                      | 3,345            | 385                         | 572             |
| Other post employment benefits             | 2,204                      | 1,844            | 279                         | 235             |
| Total                                      | <u>\$ 12,202</u>           | <u>\$ 13,047</u> | <u>\$ 2,953</u>             | <u>\$ 3,298</u> |

## Factors Bearing on the City's Future

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

### Short-Term Factors

- Police Back Pay – The City's police union contract is four and one half years in arrears. The impact of future negotiations and/or arbitrations could be devastating to the City's recent financial achievements and future success, not to mention future property tax levels. Currently police union proposals exceed \$1,300,000 of retroactive pay and over \$4.6 million of retiree healthcare liability. These types of benefit requests would bring the City back into a deficit fund balance and a cash strained position, in addition to increasing future taxes by more than \$300,000 annually. Compulsory arbitration took place July 14, 2011; an award is expected by late fall 2011. Strong but fair negotiations will have to take place to ensure that benefit packages in the future are reasonable for City employees and affordable for City taxpayers.
- Sales Tax revenue – The year ending March 31, 2011 had a 7%, or \$353,574 increase in sales tax revenues over the prior year. While this is an increase over the prior year, the City's sales tax revenue remains \$145,990 less than revenue for the fiscal year ending March 31, 2009. Because sales tax makes up approximately one-third of the City's general fund revenue, any slight change in receipts may have a significant effect on the City's budget. Currently a 1% decrease in sales tax receipts equals a 1% increase in property taxes. The City needs to continue to remain conservative when budgeting sales tax in the future as growth in sales tax is slow at best.
- Reserve funding – Funding reserves now for future equipment and infrastructure improvements have and will be critical in avoiding larger tax burdens in future years. Planning for these improvements is a major priority in the City's work plan. Updating capital improvement plans accompanied with designated revenue streams to fund these plans are essential to maintaining a safe financial position for the City. In addition, continuing to fund the Employee Benefits Accrued Liability, Health Insurance and Retirement reserves will be critical in establishing safe financial resources for any unexpected expenses in the future and maintaining stable tax rates. For example, in the fiscal year ending March 31, 2010, the City's compensated absences liability was greater than \$3.5 million. For the fiscal year ending March 31, 2011 the City experienced 12 employee retirements and terminations. As a result, the City was required to pay out approximately \$225,000 in compensated absences upon termination of employee service. Accordingly, the City utilized its Employee Accrued Liability Reserve to pay for these one-time payments and avoided negatively impacting the City's unreserved fund balance. While it is unreasonable to fully fund all liabilities, it is important to properly assess and evaluate potential risks in order to appropriately fund and prepare for likely obligations.



- Workers Compensation Fund – There currently exists open workers comp claims from prior years that are not covered by the City's current workers comp carrier. These open claims are estimated at a liability of \$76,173. It will be imperative to appropriate funds to the workers comp reserve in order to absorb any claims that are not covered by the City's current insurance plan.
- State Budget – For the second consecutive year the City will need to be proactive in our response to various changes and cuts that affect the City as a result of the NYS Budget. We are currently aware of additional cuts in State aid and increased retirement costs. It is important that the City anticipate these well in advance and remain flexible in our ability to respond during the budget process.
- Property Tax Cap – With the 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 currently evaluating the impact of the tax cap on the City's budget.
- General fund revenues – If the major non-property tax revenues continue to decrease, the City will have to consider additional methods of generating revenue. User fees and special assessments for applicable services, such as garbage, sidewalks and roads, will have to be studied and considered in order to avoid substantial property tax increases or service losses.

### **Long-Term Factors**

- Post Employment Benefits (GASB 45) – The City's liability for post employment benefits as of the actuarial valuation date of April 1, 2011 amount to \$7,147,986. As of this time, this liability is unfunded and it is imperative the City begin to consider a means to fund these costs. If the City does not begin to fund anticipated retiree costs now, future year costs will prove to outweigh any savings achieved today. In addition, aggressive labor negotiations to reduce future retiree costs will be essential for maintaining lower retiree benefits in the long term and decrease this liability.
- Employee costs & retirement costs – As mentioned above, retirement costs have and are expected to increase significantly. In the same manner, employee benefit costs continue to increase. Maintaining reasonable employee benefits will be a major determining factor in the City's ability to provide quality services. Funding for these costs through reserves is imperative but also aggressively addressing a change to benefit levels for employees is equally important for the City to continue delivering services to the community at existing levels.

Due to New York State's significant fiscal crisis the City has experienced decreases in State aid as well as considerable increases in state retirement costs. In addition, the imposition of the Property Tax Cap will further limit the City's ability to combat increasing mandated costs as the cap imposes a ceiling on the City's ability to levy property taxes. The City's Council's Strategic Plan emphasizes Financial Health as one of seven strategic priorities. The City's financial improvement over the past several years has been the result of many necessary reactive and proactive approaches to budgeting and operations for the City. However, being faced with many large financial hurdles, namely union negotiations, retirement costs and state budget cuts, the City's financial outlook may quickly change for the worse. 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.

### **Contacting the City's Financial Management**

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

**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF NET ASSETS**  
**MARCH 31, 2011**

|   | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> | <u>Total</u>         |
|---|------------------------------------|-------------------------------------|----------------------|
| ASSETS  |                                    |                                     |                      |
| Cash and cash equivalents                       | \$ 6,124,673                       | \$ 7,175,591                        | \$ 13,300,264        |
| Property taxes receivable                       | 2,186,706                          | -                                   | 2,186,706            |
| Accounts receivable, net                        | 353,274                            | 1,494,677                           | 1,847,951            |
| State and federal receivables                   | 1,075,708                          | -                                   | 1,075,708            |
| Loans receivable, net                           | 356,121                            | -                                   | 356,121              |
| Due from other governments                      | 1,220,029                          | 518,662                             | 1,738,691            |
| Prepaid expenses                                | 31,849                             | 177,306                             | 209,155              |
| Capital assets not being depreciated            | 8,021,050                          | 1,858,672                           | 9,879,722            |
| Capital assets, net of accumulated depreciation | <u>9,614,621</u>                   | <u>27,471,664</u>                   | <u>37,086,285</u>    |
| Total assets                                    | <u>28,984,031</u>                  | <u>38,696,572</u>                   | <u>67,680,603</u>    |
| LIABILITIES AND NET ASSETS                      |                                    |                                     |                      |
| LIABILITIES:                                    |                                    |                                     |                      |
| Accounts payable                                | 272,727                            | 92,105                              | 364,832              |
| Accrued liabilities                             | 768,459                            | 487,859                             | 1,256,318            |
| Bond anticipation notes payable                 | 1,947,000                          | 1,600,000                           | 3,547,000            |
| Due to other governments                        | 535,083                            | -                                   | 535,083              |
| Deferred revenue                                | 1,545,440                          | -                                   | 1,545,440            |
| Long-term liabilities                           |                                    |                                     |                      |
| Due and payable within one year                 | 733,369                            | 247,844                             | 981,213              |
| Due and payable after one year                  | <u>11,468,618</u>                  | <u>2,705,713</u>                    | <u>14,174,331</u>    |
| Total liabilities                               | <u>17,270,696</u>                  | <u>5,133,521</u>                    | <u>22,404,217</u>    |
| NET ASSETS:                                     |                                    |                                     |                      |
| Invested in capital assets, net of related debt | 9,338,037                          | 28,142,035                          | 37,480,072           |
| Restricted for:                                 |                                    |                                     |                      |
| Insurance                                       | 584,130                            | -                                   | 584,130              |
| Capital projects                                | 878,332                            | 3,354,776                           | 4,233,108            |
| Employee benefit accrued liability              | 190,381                            | -                                   | 190,381              |
| Unrestricted                                    | <u>722,455</u>                     | <u>2,066,240</u>                    | <u>2,788,695</u>     |
| Total net assets                                | <u>\$ 11,713,335</u>               | <u>\$ 33,563,051</u>                | <u>\$ 45,276,386</u> |

See notes to basic financial statements.

**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED MARCH 31, 2011**

|                                   | Program Revenues |                         |  | Net (Expense) Revenue and<br>Changes in Net Assets |                            |                             |              |
|-----------------------------------|------------------|-------------------------|--|--|----------------------------|-----------------------------|--------------|
|                                   | Expenses         | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions             | Governmental<br>Activities | Business-Type<br>Activities | Total        |
| Governmental activities:          |                  |                         |  |  |                            |                             |              |
| General government                | \$ 2,013,196     | \$ 143,002              | \$ 41,694                                | \$ -   | (1,828,500)                | \$ -                        | (1,828,500)  |
| Police                            | 3,592,305        | 189,409                 | 195,355                                  | -  | (3,207,541)                | -                           | (3,207,541)  |
| Fire                              | 3,696,009        | -                       | -  | -  | (3,696,009)                | -                           | (3,696,009)  |
| Public safety                     | 244,727          | 66,985                  | -  | -  | (177,742)                  | -                           | (177,742)    |
| Health                            | 31,791           | 36,758                  | -  | -  | 4,967                      | -                           | 4,967        |
| Transportation                    | 2,012,647        | 28,485                  | 477,100                                  | 250,817  | (1,256,245)                | -                           | (1,256,245)  |
| Economic assistance               | 159,906          | 179,896                 | -  | -  | 19,990                     | -                           | 19,990       |
| Culture and recreation            | 918,691          | 47,103                  | 35,745                                   | -  | (835,843)                  | -                           | (835,843)    |
| Home and community<br>services    | 417,182          | 24,887                  | -  | 65,833   | (326,462)                  | -                           | (326,462)    |
| Refuse and recycling              | 973,865          | -                       | -  | -  | (973,865)                  | -                           | (973,865)    |
| Interest on debt                  | 333,648          | -                       | -  | -  | (333,648)                  | -                           | (333,648)    |
| Total governmental<br>activities  | 14,393,967       | 716,525                 | 749,894                                  | 316,650  | (12,610,898)               | -                           | (12,610,898) |
| Business-type activities:         |                  |                         |  |  |                            |                             |              |
| Sewer                             | 2,492,484        | 2,353,107               | 178,195                                  | -  | -                          | 38,818                      | 38,818       |
| Water                             | 3,834,050        | 2,271,996               | 2,609,708                                | -  | -                          | 1,047,654                   | 1,047,654    |
| Total business-type<br>activities | 6,326,534        | 4,625,103               | 2,787,903                                | -  | -                          | 1,086,472                   | 1,086,472    |

See notes to basic financial statements.

**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED MARCH 31, 2011**  
**(Continued)**

|  | Program Revenues        |  |  | Net (Expense) Revenue and<br>Changes in Net Assets |                             |               |
|--|-------------------------|--|--|--|-----------------------------|---------------|
|  | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Governmental<br>Activities                         | Business-Type<br>Activities | Total         |
| Expenses   |                         |  |  |  |                             |               |
| \$ 20,720,501 \$                                   | 5,341,628 \$            | 3,537,797 \$                             | 316,650                                | (12,610,898)                                       | 1,086,472                   | (11,524,426)  |
| Total governmental and<br>business-type activities |                         |  |  |  |                             |               |
| General revenues:                                  |                         |  |  |  |                             |               |
| Real property taxes                                |                         |  |  | 5,460,167  | -                           | 5,460,167     |
| Non-property taxes                                 |                         |  |  | 6,248,365  | -                           | 6,248,365     |
| Interest earnings                                  |                         |  |  | 75,827   | 27,687                      | 103,514       |
| State aid not restricted for a specific purpose    |                         |  |  | 1,860,924  | -                           | 1,860,924     |
| Other miscellaneous revenues                       |                         |  |  | 825,098  | 3,632                       | 828,730       |
| Transfers:   |                         |  |  |  |                             |               |
| Sewer  |                         |  |  | 10,162   | (10,162)                    | -             |
| Capital  |                         |  |  | 324,958  | (324,958)                   | -             |
| Total general revenues and transfers               |                         |  |  | 14,805,501   | (303,801)                   | 14,501,700    |
| Change in net assets                               |                         |  |  | 2,194,603  | 782,671                     | 2,977,274     |
| Net assets - beginning of year                     |                         |  |  | 9,518,732  | 32,780,380                  | 42,299,112    |
| Net assets - end of year                           |                         |  |  | \$ 11,713,335 \$                                   | \$ 33,563,051 \$            | \$ 45,276,386 |



CITY OF BATAVIA, NEW YORK  
BALANCE SHEET - GOVERNMENTAL FUNDS  
MARCH 31, 2011

|   | General             | Capital<br>Projects | Non-Major<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|---------------------|---------------------|------------------------------------|--------------------------------|
| <b>ASSETS:</b>  |                     |                     |                                    |                                |
| Cash and cash equivalents   | \$ 4,168,784        | \$ 1,092,559        | \$ 863,330                         | \$ 6,124,673                   |
| Receivables:  |                     |                     |                                    |                                |
| Property tax  | 2,186,706           | -                   | -                                  | 2,186,706                      |
| Accounts receivable   | 273,363             | 370                 | 79,541                             | 353,274                        |
| State and federal receivables   | 50,160              | 1,025,548           | -                                  | 1,075,708                      |
| Loans receivable (net of allowance for uncollectibles<br>of \$26,723 in the Special Grant Fund) | -                   | -                   | 356,121                            | 356,121                        |
| Due from other governments  | 1,220,029           | -                   | -                                  | 1,220,029                      |
| Due from other funds  | 178                 | -                   | -                                  | 178                            |
| Prepaid expenses  | -                   | -                   | 31,849                             | 31,849                         |
| Total assets  | <u>\$ 7,899,220</u> | <u>\$ 2,118,477</u> | <u>\$ 1,330,841</u>                | <u>\$ 11,348,538</u>           |
| <b>LIABILITIES AND FUND BALANCES:</b>   |                     |                     |                                    |                                |
| Accounts payable  | \$ 233,492          | \$ 25,840           | \$ 13,395                          | \$ 272,727                     |
| Accrued liabilities   | 692,203             | -                   | 76,256                             | 768,459                        |
| Due to other governments  | 535,083             | -                   | -                                  | 535,083                        |
| Due to other funds  | -                   | 178                 | -                                  | 178                            |
| Deferred revenue  | 2,832,302           | -                   | -                                  | 2,832,302                      |
| Bond anticipation note payable  | -                   | 1,947,000           | -                                  | 1,947,000                      |
| Total liabilities   | <u>4,293,080</u>    | <u>1,973,018</u>    | <u>89,651</u>                      | <u>6,355,749</u>               |

See notes to basic financial statements.

**CITY OF BATAVIA, NEW YORK**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**MARCH 31, 2011**  
**(Continued)**

|                                     | General      | Capital<br>Projects | Non-Major<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|-------------------------------------|--------------|---------------------|------------------------------------|--------------------------------|
| <b>FUND BALANCES:</b>               |              |                     |                                    |                                |
| Reserved for:                       |              |                     |                                    |                                |
| Encumbrances                        | 210,324      | -                   | -                                  | 210,324                        |
| Insurance:                          |              |                     |                                    |                                |
| General liability                   | 584,130      | -                   | -                                  | 584,130                        |
| Employee health                     | 245,563      | -                   | -                                  | 245,563                        |
| Capital projects                    | 878,332      | -                   | -                                  | 878,332                        |
| Employee benefits accrued liability | 190,381      | -                   | -                                  | 190,381                        |
| Retirement contribution             | 200,363      | -                   | -                                  | 200,363                        |
| Repairs                             | 65,711       | -                   | -                                  | 65,711                         |
| Unreserved:                         |              |                     |                                    |                                |
| Designated for special projects     | 38,063       | -                   | -                                  | 38,063                         |
| Designated for funding of reserves  | 700,000      | -                   | -                                  | 700,000                        |
| Undesignated                        | 493,273      | 145,459             | 1,241,190                          | 1,879,922                      |
| Total fund balances                 | 3,606,140    | 145,459             | 1,241,190                          | 4,992,789                      |
| Total liabilities and fund balances | \$ 7,899,220 | \$ 2,118,477        | \$ 1,330,841                       |                                |

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation

17,635,671

Long-term liabilities, including serial bonds payable, installment purchase debt, amounts due to other governments, compensated absences and post employment benefits, are not due and payable in the current period and therefore are not reported in the funds

(12,201,987)

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds

1,286,862

Net assets

\$ 11,713,335

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, 2011

|  | General           | Capital<br>Projects | Non-Major<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|-------------------|---------------------|------------------------------------|--------------------------------|
| REVENUES:                                  |                   |                     |                                    |                                |
| Real property taxes                        | \$ 5,136,061      | \$ -                | \$ -                               | \$ 5,136,061                   |
| Real property tax items                    | 297,043           | -                   | -                                  | 297,043                        |
| Special assessments                        | -                 | -                   | 179,896                            | 179,896                        |
| Sales and other taxes                      | 5,835,574         | -                   | -                                  | 5,835,574                      |
| Departmental income                        | 218,382           | -                   | -                                  | 218,382                        |
| Use of money and property                  | 58,400            | 5,781               | 11,646                             | 75,827                         |
| Licenses and permits                       | 83,967            | -                   | -                                  | 83,967                         |
| Fines and forfeitures                      | 186,695           | -                   | -                                  | 186,695                        |
| Sale of property and compensation for loss | 127,765           | -                   | 274,231                            | 401,996                        |
| Miscellaneous local sources                | 536,737           | 12,189              | -                                  | 548,926                        |
| Federal and state sources                  | 2,726,566         | 250,817             | -                                  | 2,977,383                      |
|  | <u>15,207,190</u> | <u>268,787</u>      | <u>465,773</u>                     | <u>15,941,750</u>              |
| Total revenues                             |                   |                     |                                    |                                |

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, 2011**  
**(Continued)**

|                                     | General    | Capital<br>Projects | Non-Major<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|-------------------------------------|------------|---------------------|------------------------------------|--------------------------------|
| EXPENDITURES:                       |            |                     |                                    |                                |
| General government                  | 1,551,853  | 44,479              | 252,662                            | 1,848,994                      |
| Police                              | 3,333,596  | -                   | -                                  | 3,333,596                      |
| Fire                                | 3,319,849  | -                   | -                                  | 3,319,849                      |
| Public safety                       | 223,091    | -                   | -                                  | 223,091                        |
| Health                              | 15,164     | -                   | -                                  | 15,164                         |
| Transportation                      | 1,911,616  | 255,083             | -                                  | 2,166,699                      |
| Economic assistance and opportunity | 361        | -                   | 159,545                            | 159,906                        |
| Culture and recreation              | 596,863    | -                   | -                                  | 596,863                        |
| Home and community services         | 247,013    | -                   | 146,383                            | 393,396                        |
| Refuse and recycling                | 975,205    | -                   | -                                  | 975,205                        |
| Employee benefits                   | 1,239,559  | -                   | 41,734                             | 1,281,293                      |
| Debt service:                       |            |                     |                                    |                                |
| Principal                           | 425,757    | -                   | -                                  | 425,757                        |
| Interest                            | 333,648    | -                   | -                                  | 333,648                        |
| Total expenditures                  | 14,173,575 | 299,562             | 600,324                            | 15,073,461                     |

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, 2011  
(Continued)

|  | General      | Capital<br>Projects | Non-Major<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|--------------|---------------------|------------------------------------|--------------------------------|
| Excess (deficit) of revenues over expenditures | 1,033,615    | (30,775)            | (134,551)                          | 868,289                        |
| OTHER FINANCING SOURCES (USES):                |              |                     |                                    |                                |
| Interfund transfers in                         | 350,000      | 155,000             | 456,400                            | 961,400                        |
| Interfund transfers out                        | (574,838)    | (51,442)            | -                                  | (626,280)                      |
| Total other financing sources (uses)           | (224,838)    | 103,558             | 456,400                            | 335,120                        |
| Net change in fund balances                    | 808,777      | 72,783              | 321,849                            | 1,203,409                      |
| Fund balances - beginning of year              | 2,797,363    | 72,676              | 919,341                            | 3,789,380                      |
| Fund balances - end of year                    | \$ 3,606,140 | \$ 145,459          | \$ 1,241,190                       | \$ 4,992,789                   |

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, 2011**

|  |                            |
|--|----------------------------|
| Net change in fund balances - total governmental funds   | \$ 1,203,409               |
| 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 (\$479,206), exceeded depreciation (\$644,811) in the current period. | (165,605)                  |
| In the statement of activities, the loss on the disposal of assets is reported, whereas in the governmental funds, the losses decrease financial resources. Thus the change in net assets differs from the change in fund balance by the cost of the assets sold.  | (12,406)                   |
| 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.   | 324,106                    |
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of debt repayments (\$357,507) and payments to other governments (\$82,040) made in the current period.                                    | 439,547                    |
| 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   | (360,023)                  |
| (Increases) decreases in accrued compensated absences reported in the statement of activities do not provide for or require the use of current financial resources and therefore are not reported as revenues or expenditures in the governmental funds.   | <u>765,575</u>             |
| Change in net assets of governmental activities  | \$ <u><u>2,194,603</u></u> |

See notes to basic financial statements.

**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF NET ASSETS - ENTERPRISE FUNDS**  
**MARCH 31, 2011**

|   | <u>Sewer</u>         | <u>Water</u>         | <u>Total</u>         |
|---|----------------------|----------------------|----------------------|
| <b>ASSETS:</b>                                  |                      |                      |                      |
| Cash and cash equivalents                       | \$ 2,709,431         | \$ 4,466,160         | \$ 7,175,591         |
| Accounts receivable                             | 721,337              | 773,340              | 1,494,677            |
| Due from other governments                      | -                    | 518,662              | 518,662              |
| Due from other funds                            | 57,576               | -                    | 57,576               |
| Prepaid expenses                                | 177,306              | -                    | 177,306              |
| Capital assets not being depreciated            | 839,541              | 1,019,131            | 1,858,672            |
| Capital assets, net of accumulated depreciation | 24,227,184           | 3,244,480            | 27,471,664           |
| Total assets                                    | <u>\$ 28,732,375</u> | <u>\$ 10,021,773</u> | <u>\$ 38,754,148</u> |
| <b>LIABILITIES AND NET ASSETS:</b>              |                      |                      |                      |
| <b>LIABILITIES:</b>                             |                      |                      |                      |
| Accounts payable                                | \$ 61,923            | \$ 30,182            | \$ 92,105            |
| Accrued liabilities                             | 12,185               | 475,674              | 487,859              |
| Bond anticipation notes payable                 | 1,435,000            | 165,000              | 1,600,000            |
| Due to other funds                              | -                    | 57,576               | 57,576               |
| Long-term liabilities                           |                      |                      |                      |
| Due and payable within one year                 | 195,286              | 52,558               | 247,844              |
| Due and payable after one year                  | 1,736,605            | 969,108              | 2,705,713            |
| Total liabilities                               | <u>3,440,999</u>     | <u>1,750,098</u>     | <u>5,191,097</u>     |
| <b>NET ASSETS:</b>                              |                      |                      |                      |
| Invested in capital assets, net of related debt | 24,705,213           | 3,436,822            | 28,142,035           |
| Restricted for capital projects                 | 998,680              | 2,356,096            | 3,354,776            |
| Unrestricted (deficit)                          | <u>(412,517)</u>     | <u>2,478,757</u>     | <u>2,066,240</u>     |
| Total net assets                                | <u>25,291,376</u>    | <u>8,271,675</u>     | <u>33,563,051</u>    |
| Total liabilities and net assets                | <u>\$ 28,732,375</u> | <u>\$ 10,021,773</u> | <u>\$ 38,754,148</u> |

See notes to basic financial statements.



**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -**  
**ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2011**

|   | Sewer         | Water        | Total         |
|---|---------------|--------------|---------------|
| OPERATING REVENUES:                       |               |              |               |
| Charges for services                      | \$ 2,353,107  | \$ 2,271,996 | \$ 4,625,103  |
| County water agreement charges            | -             | 1,674,563    | 1,674,563     |
| Rental of real property                   | -             | 550,000      | 550,000       |
| Other operating revenue                   | 178,195       | 385,145      | 563,340       |
| Total operating revenues                  | 2,531,302     | 4,881,704    | 7,413,006     |
| OPERATING EXPENSES:                       |               |              |               |
| Salaries, wages and employee benefits     | 596,666       | 982,519      | 1,579,185     |
| Contractual expense                       | 591,472       | 2,706,783    | 3,298,255     |
| Depreciation                              | 1,256,476     | 123,845      | 1,380,321     |
| Total operating expenses                  | 2,444,614     | 3,813,147    | 6,257,761     |
| Operating income                          | 86,688        | 1,068,557    | 1,155,245     |
| NON-OPERATING REVENUES (EXPENSES):        |               |              |               |
| Investment income                         | 10,121        | 17,566       | 27,687        |
| Interest expense                          | (47,870)      | (20,903)     | (68,773)      |
| Gain on sale of fixed assets              | -             | 3,632        | 3,632         |
| Operating subsidy from governmental funds | 9,638         | 1,442        | 11,080        |
| Operating subsidy to governmental funds   | (19,800)      | (326,400)    | (346,200)     |
| Total non-operating revenues              | (47,911)      | (324,663)    | (372,574)     |
| Change in net assets                      | 38,777        | 743,894      | 782,671       |
| Net assets - beginning of year            | 25,252,599    | 7,527,781    | 32,780,380    |
| Net assets - end of year                  | \$ 25,291,376 | \$ 8,271,675 | \$ 33,563,051 |

See notes to basic financial statements.

**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2011**

|   | Sewer        | Water        | Total        |
|---|--------------|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES:     |              |              |              |
| Cash received from customers              | \$ 2,431,590 | \$ 2,363,037 | \$ 4,794,627 |
| Cash payments for contractual expenses    | (777,482)    | (2,510,572)  | (3,288,054)  |
| Cash payments to employees for services   | (735,934)    | (985,117)    | (1,721,051)  |
| Other operating revenue                   | 178,195      | 2,609,708    | 2,787,903    |
| Net cash provided by operating activities | 1,096,369    | 1,477,056    | 2,573,425    |

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

|  |          |           |           |
|--|----------|-----------|-----------|
| Operating subsidy from governmental funds            | 9,638    | 1,442     | 11,080    |
| Operating subsidy to governmental funds              | (19,800) | (326,400) | (346,200) |
| Interfund loan or loan repayments received           | 37,221   | 2,161,193 | 2,198,414 |
| Interfund loans made or repaid                       | (12,297) | (619,502) | (631,799) |
| Net cash provided by noncapital financing activities | 14,762   | 1,216,733 | 1,231,495 |

**CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:**

|  |           |           |             |
|--|-----------|-----------|-------------|
| Acquisition and construction of capital assets               | (847,589) | (433,997) | (1,281,586) |
| Proceeds from sale of property, plant and equipment          | -         | 3,632     | 3,632       |
| Principal payments on debt                                   | (180,301) | (22,075)  | (202,376)   |
| Interest paid on debt  | (47,870)  | (20,903)  | (68,773)    |
| Proceeds from capital debt                                   | 1,435,000 | 165,000   | 1,600,000   |
| Net cash provided (used) by capital and financing activities | 359,240   | (308,343) | 50,897      |

**CASH FLOWS FROM INVESTING ACTIVITIES:**

|   |        |        |        |
|---|--------|--------|--------|
| Interest on cash and investments          | 10,121 | 17,566 | 27,687 |
| Net cash provided by investing activities | 10,121 | 17,566 | 27,687 |

See notes to basic financial statements.

**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2011**  
**(Continued)**

|  | Sewer        | Water        | Total        |
|--|--------------|--------------|--------------|
| Net increase in cash   | 1,480,492    | 2,403,012    | 3,883,504    |
| Cash - beginning of year   | 1,228,939    | 2,063,148    | 3,292,087    |
| Cash - end of year   | \$ 2,709,431 | \$ 4,466,160 | \$ 7,175,591 |
| Reconciliation of income from operations<br>to net cash provided by operating activities:        |              |              |              |
| Income from operations   | \$ 86,688    | \$ 1,068,557 | \$ 1,155,245 |
| Adjustments to reconcile income from operations to<br>net cash provided by operating activities: |              |              |              |
| Depreciation   | 1,256,476    | 123,845      | 1,380,321    |
| Change in assets and liabilities   |              |              |              |
| Decrease (increase) in:  |              |              |              |
| Accounts receivable  | 59,733       | 23,559       | 83,292       |
| State and federal receivables  | 18,750       | 67,482       | 86,232       |
| Due from other governments   | -            | 92,000       | 92,000       |
| Prepaid expenses   | (177,306)    | -            | (177,306)    |
| Increase (decrease) in:  |              |              |              |
| Accounts payable   | 24,215       | 9,139        | 33,354       |
| Accrued liabilities  | (32,919)     | 95,072       | 62,153       |
| Compensated absences   | (159,494)    | (26,869)     | (186,363)    |
| Other post employment benefit  | 20,226       | 24,271       | 44,497       |
| Net cash provided by operating activities  | \$ 1,096,369 | \$ 1,477,056 | \$ 2,573,425 |

See notes to basic financial statements.

**CITY OF BATAVIA, NEW YORK**  
**STATEMENT OF NET ASSETS -**  
**FIDUCIARY FUNDS**  
**MARCH 31, 2011**

|  | Private<br>Purpose<br>Trusts | Agency     |
|--|------------------------------|------------|
| ASSETS                                 |                              |            |
| Cash and cash equivalents              | \$ -                         | \$ 255,721 |
| Cash and cash equivalents - restricted | 21,209                       | -          |
| Total assets                           | \$ 21,209                    | \$ 255,721 |
| LIABILITIES AND NET ASSETS             |                              |            |
| LIABILITIES:                           |                              |            |
| Agency liabilities                     | \$ -                         | \$ 255,721 |
| Total liabilities                      | -                            | 255,721    |
| NET ASSETS:                            |                              |            |
| Restricted trust funds                 | 21,209                       | -          |
| Total liabilities and net assets       | \$ 21,209                    | \$ 255,721 |

See notes to basic financial statements.

CITY OF BATAVIA, NEW YORK  
STATEMENT OF CHANGES IN NET ASSETS -  
FIDUCIARY FUND  
FOR THE YEAR ENDED MARCH 31, 2011

|                                    | <u>Private<br/>Purpose<br/>Trusts</u> |
|------------------------------------|---------------------------------------|
| ADDITIONS:                         |                                       |
| Interest                           | \$ 74                                 |
| Total additions                    | <u>74</u>                             |
| DEDUCTIONS:                        |                                       |
| Health                             | <u>21,543</u>                         |
| Total deductions                   | <u>21,543</u>                         |
| Change in net assets               | (21,469)                              |
| Net assets - beginning of the year | <u>42,678</u>                         |
| Net assets - end of year           | \$ <u><u>21,209</u></u>               |

See notes to basic financial statements.



**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. REPORTING ENTITY**

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

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

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

**B. BASIS OF PRESENTATION**

**1. Government-wide statements:**

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

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

2. Fund Financial Statements:

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

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

Governmental Funds

- a. General Fund - the principal operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. Capital Projects Fund - used to account for and report financial resources to be used in the acquisition, construction or renovation of major capital facilities or equipment.
- c. Special Grant Fund - used to account for community development block grants and other federal grants not required to be accounted for in other funds.
- d. 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.

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Proprietary Funds**

The City reports the following enterprise funds:

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

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

**Fiduciary Fund Types**

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

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

**C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

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

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



**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

**D. BUDGETARY DATA**

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

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

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

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. DUE TO/FROM OTHER FUNDS**

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

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

**F. CAPITAL ASSETS**

Government-wide statements:

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

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

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

Fund financial statements:

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



**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. INSURANCE**

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

**H. LONG-TERM DEBT**

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

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

**I. COMPENSATED ABSENCES**

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

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

Compensated absences for governmental fund type employees are reported as a fund liability and expenditure in the government-wide financial statements. A portion of the compensated absences liability recognized is attributed to the value of sick leave converted to pay the employees' share of post-employment health insurance premiums. The compensated absences liability for the Governmental and Enterprise funds at the year-end totaled \$2,578,939 and \$385,180, respectively.

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

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**J. POST EMPLOYMENT BENEFITS**

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

**K. INTERFUND TRANSFERS**

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

**L. FUND EQUITY**

Government-wide statements:

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

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bond anticipation notes, bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets - Consists of net assets with constraints on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund statements:

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

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

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Reserve for Insurance - The City is self-insured for employees' health insurance. The City was self-insured for risks including, but not limited to, property damage and personal insurance and is at risk for residual claims and amounts prior to insurance deductibles. The reserve is funded annually through budgetary provisions in the General Fund.

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

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

Reserve for Retirement Contributions - This balance represents amounts reserved for future payments of retirement contributions.

Reserve for Repairs - This reserve is used for repairs on Dwyer Stadium pursuant to General Municipal Law, §6d.

Designations represent funds for which there is intent by the City to be used for a specific purpose. Designations of fund balance at March 31, 2011 include:

- a. Designated for Special Projects (EMS Program) - represents funds to be used to benefit the EMS Program as determined by the guidelines of the program.
- b. Designated for Funding of Reserves - represents funds that will be transferred to various reserves as determined by City Council.

**M. REAL PROPERTY TAX**

Real property taxes are levied upon budget adoption and become an enforceable lien on April 1<sup>st</sup>. Taxes are payable in two installments on May 1<sup>st</sup> and August 1<sup>st</sup>. 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 1<sup>st</sup>. 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 31<sup>st</sup> but have not yet been remitted to the School District are included in the account "Due to other governments".



**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

**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 2010-11 year, the five-year average full valuation was \$507,589,339 allowing for a maximum tax limit of \$10,151,787 (includes allowance exclusions). The City tax levy was \$2,383,469 for the year ended March 31, 2011.

**N. USE OF ESTIMATES**

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

**O. STATEMENT OF CASH FLOWS**

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

**NOTE 2 - REPORTING ON BUDGETARY BASIS**

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

**GAAP BASIS:**

|   |                     |
|---|---------------------|
| Fund Balance - March 31, 2011                   | \$ 3,606,140        |
| Deduct outstanding encumbrances                 | <u>210,324</u>      |
| BUDGETARY BASIS - Fund balance - March 31, 2011 | <u>\$ 3,395,816</u> |

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

**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.



**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

**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, 2011:

General Fund:

|   |                   |
|---|-------------------|
| Franchise fees                                    | \$ 216,809        |
| Other miscellaneous receivables                   | 56,554            |
| Total governmental activities accounts receivable | <u>\$ 273,363</u> |

Sewer Fund:

|             |                   |
|-------------|-------------------|
| Sewer rents | \$ <u>721,337</u> |
|-------------|-------------------|

Water Fund:

|             |                   |
|-------------|-------------------|
| Water rents | \$ <u>773,340</u> |
|-------------|-------------------|

|  |                     |
|--|---------------------|
| Total business-type activities accounts receivable | <u>\$ 1,671,983</u> |
|--|---------------------|

b. State and Federal Receivables - represents amounts due primarily from New York State and the federal government. Amounts accrued at March 31, 2011 consist of:

General Fund:

|                                     |                  |
|-------------------------------------|------------------|
| NYS EMT refresher course            | \$ 28,780        |
| State cyclical reassessment aid     | 21,380           |
| Total state and federal receivables | <u>\$ 50,160</u> |

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

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

**Capital Fund:**

|                                     |                     |
|-------------------------------------|---------------------|
| Walnut Street reimbursement         | \$ 964,097          |
| Cedar Street reimbursement          | <u>61,451</u>       |
| Total state and federal receivables | <u>\$ 1,025,548</u> |

- c. Due from Other Governments - represents amounts due primarily from the County of Genesee, New York, and other governmental entities. Amounts accrued at March 31, 2011, consist of:

**General Fund:**

|  |                     |
|--|---------------------|
| NYS sales tax  | \$ <u>1,220,029</u> |
| Total governmental activities due from other governments | <u>\$ 1,220,029</u> |

**Water Fund:**

|   |                   |
|---|-------------------|
| City/County water agreement                               | \$ <u>518,662</u> |
| Total business-type activities due from other governments | <u>\$ 518,662</u> |

**2. LOANS RECEIVABLE**

The loans receivable recorded in the Small Cities Grant Fund represent micro-enterprise loans receivable issued under the New York State Small Cities Block Grant programs and those passed through the U.S. Department of Housing and Urban Development. Loans outstanding as of March 31, 2011, under both programs amounted to \$150,276, net of an allowance of \$9,073 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, 2011, amounted to \$232,568, net of an allowance of \$17,650 for uncollectable loans.

**3. INTERFUND ACTIVITY**

Interfund activity balances at March 31, 2011, are as follows:

|                       | <u>Interfund<br/>Receivable</u> | <u>Interfund<br/>Payable</u> | <u>Interfund<br/>Revenues</u> | <u>Interfund<br/>Expenditures</u> |
|-----------------------|---------------------------------|------------------------------|-------------------------------|-----------------------------------|
| General Fund          | \$ 178                          | \$ -                         | \$ 350,000                    | \$ 574,838                        |
| Water Fund            | -                               | 57,576                       | 1,442                         | 326,400                           |
| Sewer Fund            | 57,576                          | -                            | 9,638                         | 19,800                            |
| Capital Projects Fund | -                               | 178                          | 155,000                       | 51,442                            |
| Self-Insurance Fund   | <u>-</u>                        | <u>-</u>                     | <u>456,400</u>                | <u>-</u>                          |
| Total                 | <u>\$ 57,754</u>                | <u>\$ 57,754</u>             | <u>\$ 972,480</u>             | <u>\$ 972,480</u>                 |

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

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

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

4. CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2011, was as follows:

|   | Balance<br><u>04/01/10</u> | <u>Additions</u>  | <u>Disposals</u> | Balance<br><u>03/31/11</u> |
|---|----------------------------|-------------------|------------------|----------------------------|
| Governmental activities:                      |                            |                   |                  |                            |
| Capital assets, not being<br>depreciated:     |                            |                   |                  |                            |
| Land  | \$ 1,069,508               | \$ -              | \$ -             | \$ 1,069,508               |
| Construction work in<br>progress              | <u>6,626,639</u>           | <u>324,903</u>    | <u>-</u>         | <u>6,951,542</u>           |
| Total capital assets not<br>being depreciated | <u>\$ 7,696,147</u>        | <u>\$ 324,903</u> | <u>\$ -</u>      | <u>\$ 8,021,050</u>        |
| Capital assets, being depreciated:            |                            |                   |                  |                            |
| Buildings and building<br>improvements        | \$ 9,781,357               | \$ -              | \$ -             | \$ 9,781,357               |
| Machinery, equipment<br>and vehicles          | 5,147,237                  | 154,303           | 99,626           | 5,201,914                  |
| Infrastructure                                | <u>3,088,384</u>           | <u>-</u>          | <u>-</u>         | <u>3,088,384</u>           |
| Total capital assets, being<br>depreciated    | <u>18,016,978</u>          | <u>154,303</u>    | <u>99,626</u>    | <u>18,071,655</u>          |

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

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

|   | Balance<br>04/01/10  | Additions           | <u>Disposals</u> | Balance<br>03/31/11  |
|---|----------------------|---------------------|------------------|----------------------|
| Less accumulated depreciation:                |                      |                     |                  |                      |
| Buildings and building improvements           | 2,070,431            | 243,177             | -                | 2,313,608            |
| Machinery, equipment and vehicles             | 3,469,845            | 263,698             | 87,220           | 3,646,323            |
| Infrastructure                                | <u>2,359,167</u>     | <u>137,936</u>      | <u>-</u>         | <u>2,497,103</u>     |
| Total accumulated depreciation                | <u>7,899,443</u>     | <u>644,811</u>      | <u>87,220</u>    | <u>8,457,034</u>     |
| Total capital assets, being depreciated - net | <u>10,117,535</u>    | <u>(490,508)</u>    | <u>12,406</u>    | <u>9,614,621</u>     |
| Governmental activities capital assets, net   | \$ <u>17,813,682</u> | \$ <u>(165,605)</u> | \$ <u>12,406</u> | \$ <u>17,635,671</u> |
| Business-type activities:                     |                      |                     |                  |                      |
| Capital assets, not being depreciated:        |                      |                     |                  |                      |
| Land  | \$ 41,500            | \$ -                | \$ -             | \$ 41,500            |
| Construction work in progress                 | <u>608,332</u>       | <u>1,208,840</u>    | <u>-</u>         | <u>1,817,172</u>     |
| Total capital assets, not being depreciated   | \$ <u>649,832</u>    | \$ <u>1,208,840</u> | \$ <u>-</u>      | \$ <u>1,858,672</u>  |
| Capital assets, being depreciated:            |                      |                     |                  |                      |
| Buildings and building improvements           | \$ 41,427,000        | \$ -                | \$ -             | \$ 41,427,000        |
| Machinery, equipment and vehicles             | 865,939              | 75,902              | 3,156            | 938,685              |
| Infrastructure                                | <u>11,608,091</u>    | <u>-</u>            | <u>-</u>         | <u>11,608,091</u>    |
| Total capital assets, being depreciated       | <u>53,901,030</u>    | <u>75,902</u>       | <u>3,156</u>     | <u>53,973,776</u>    |

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

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

|   | <u>Balance</u><br><u>04/01/10</u> | <u>Additions</u>   | <u>Disposals</u> | <u>Balance</u><br><u>03/31/11</u> |
|---|-----------------------------------|--------------------|------------------|-----------------------------------|
| Less accumulated depreciation:                |                                   |                    |                  |                                   |
| Buildings and building improvements           | 19,946,227                        | 1,043,300          | -                | 20,989,527                        |
| Machinery, equipment and vehicles             | 447,634                           | 46,819             | -                | 494,453                           |
| Infrastructure                                | <u>4,727,930</u>                  | <u>290,202</u>     | <u>-</u>         | <u>5,018,132</u>                  |
| Total accumulated depreciation                | <u>25,121,791</u>                 | <u>1,380,321</u>   | <u>-</u>         | <u>26,502,112</u>                 |
| Total capital assets, being depreciated - net | <u>28,779,239</u>                 | <u>(1,304,419)</u> | <u>3,156</u>     | <u>27,471,664</u>                 |
| Business-type capital assets, net             | <u>\$ 29,429,071</u>              | <u>\$ (95,579)</u> | <u>\$ 3,156</u>  | <u>\$ 29,330,336</u>              |

Depreciation expense was charged to functions as follows:

|   |                     |
|---|---------------------|
| Governmental activities:                            |                     |
| General government                                  | \$ 138,364          |
| Police  | 44,983              |
| Fire  | 62,559              |
| Health  | 15,806              |
| Transportation                                      | 111,662             |
| Culture and recreation                              | <u>271,437</u>      |
| Total governmental activities depreciation expense  | <u>644,811</u>      |
| Business-type activities:                           |                     |
| Water   | 123,845             |
| Sewer   | <u>1,256,476</u>    |
| Total business-type activities depreciation expense | <u>1,380,321</u>    |
| Total depreciation expense                          | <u>\$ 2,025,132</u> |



**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

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

**B. LIABILITIES**

**1. PENSION PLANS**

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

**FUNDING POLICIES**

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

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

|      | <u>ERS</u> | <u>PFRS</u> |
|------|------------|-------------|
| 2011 | \$ 358,990 | \$ 891,418  |
| 2010 | 261,268    | 516,361     |
| 2009 | 367,469    | 705,128     |

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

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

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

2. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

a. PLAN DESCRIPTION

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

b. FUNDING POLICY

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

c. ACCOUNTING POLICY

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

d. ANNUAL OPEB COST AND NET OPEB OBLIGATION

The City's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The City has engaged an actuary to calculate the ARC and related information per the provisions of GASB Statement No. 45 for employers in plans with more than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and the City's net OPEB obligation to the Retiree Health Plan at March 31, 2011:

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

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

| <u>Annual OPEB Cost and Net OPEB Obligation</u>    | <u>Fiscal Year Ending<br/>3/31/11</u> |
|--|---------------------------------------|
| Normal Cost  | \$ 213,081                            |
| Amortization of UAL                                | 397,470                               |
| Interest   | <u>24,422</u>                         |
| ARC  | 634,973                               |
| Interest on OPEB Obligation                        | 83,183                                |
| Adjustment to ARC                                  | <u>(120,263)</u>                      |
| OPEB Expense                                       | 597,893                               |
| Net OPEB contributions made during the fiscal year | (193,373)                             |
| Net OPEB obligation at beginning of year           | <u>2,079,582</u>                      |
| Net OPEB obligation at end of year                 | <u>\$ 2,484,102</u>                   |
| Percentage of expense contributed                  | 32.3%                                 |

**e. FUNDED STATUS AND FUNDING PROGRESS**

As of March 31, 2011, the actuarial accrued liability for benefits was \$7,147,986, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was not available, and the ratio of the unfunded unavailable accrued liability to the covered payroll was not available. The total post employment health insurance cost to the City for 37 retirees was \$193,373 for the year ended March 31, 2011.

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 A44, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

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

f. METHODS AND ASSUMPTIONS

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following assumptions were made:

The March 31, 2011, actuarial valuation, utilized the entry age actuarial cost method. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses), which is the expected short-term investment rate of the City's own assets, and an annual healthcare cost trend of 11 percent initially, reduced by decrements to an ultimate rate of 5 percent after 6 years. Both rates included a 2.5 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period is twenty-eight 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         | \$ 28,399     |
| Police                     | 108,280       |
| Fire                       | 137,805       |
| Public safety              | 10,247        |
| Transportation             | 41,643        |
| Culture and recreation     | 23,210        |
| Home and community service | <u>10,439</u> |

Total governmental activities OPEB expense \$ 360,023

Business-type activities:

|                            |                  |
|----------------------------|------------------|
| Home and community service | \$ <u>44,497</u> |
|----------------------------|------------------|

Total business-type activities OPEB expense \$ 44,497



**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

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

3. INDEBTEDNESS

a. SHORT-TERM DEBT

The City may issue Bond Anticipation Notes (BAN), in anticipation of proceeds from the subsequent sale of bonds. These notes are recorded as current liabilities of the funds that will actually receive the proceeds from the issuance of bonds. State law requires that BANs issued for capital purposes be converted to long-term financing within five years after the original issue date. During the current year, the City recognized \$45,390 of expenditures for their Bond Anticipation Notes interest.

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

|                                | Balance<br><u>04/01/10</u> | <u>Issued</u>       | <u>Redeemed</u>     | Balance<br><u>03/31/11</u> |
|--------------------------------|----------------------------|---------------------|---------------------|----------------------------|
| BAN maturing 06/17/10 at 1.80% | \$ 2,000,000               | \$ -                | \$ 2,000,000        | \$ -                       |
| BAN maturing 08/26/10 at 1.72% | 547,445                    | -                   | 547,445             | -                          |
| BAN maturing 06/16/11 at 1.14% | -                          | 1,947,000           | -                   | 1,947,000                  |
| BAN maturing 06/16/11 at 1.14% | -                          | 165,000             | -                   | 165,000                    |
| BAN maturing 06/16/11 at 1.14% | <u>-</u>                   | <u>1,435,000</u>    | <u>-</u>            | <u>1,435,000</u>           |
|                                | <u>\$ 2,547,445</u>        | <u>\$ 3,547,000</u> | <u>\$ 2,547,445</u> | <u>\$ 3,547,000</u>        |

b. LONG-TERM DEBT

Serial Bonds - The City borrows money in order to acquire or construct equipment, buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These are long-term liabilities, which are full faith and credit debt for the City. During the current year, the City recognized \$322,941 of expenditures for serial bond interest.



**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

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

The following is a summary of changes in long-term liabilities for the year ended March 31, 2011:

|                                   | <u>Balance</u><br><u>04/01/10</u> | <u>Additions</u>  | <u>Redeemed</u>     | <u>Balance</u><br><u>3/31/11</u> | <u>Due within</u><br><u>One year</u> |
|-----------------------------------|-----------------------------------|-------------------|---------------------|----------------------------------|--------------------------------------|
| Governmental activities:          |                                   |                   |                     |                                  |                                      |
| General obligation debt:          |                                   |                   |                     |                                  |                                      |
| Serial Bonds                      | \$ 5,920,000                      | \$ -              | \$ 309,000          | \$ 5,611,000                     | \$ 328,000                           |
| Other long-term liabilities:      |                                   |                   |                     |                                  |                                      |
| Due to other governments          |                                   |                   |                     |                                  |                                      |
| -Courthouse                       | 574,500                           | -                 | 68,250              | 506,250                          | 75,000                               |
| Due to other governments          |                                   |                   |                     |                                  |                                      |
| -Dwyer Stadium                    | 211,328                           | -                 | 5,000               | 206,328                          | 5,000                                |
| Due to other governments          |                                   |                   |                     |                                  |                                      |
| -Landfill                         | 364,191                           | -                 | 8,790               | 355,401                          | 16,155                               |
| Installment Purchase Debt         | 788,141                           | -                 | 48,507              | 739,634                          | 51,320                               |
| Compensated absences              | 3,344,514                         | 279,296           | 1,044,871           | 2,578,939                        | 257,894                              |
| Other post employment<br>benefits | <u>1,844,412</u>                  | <u>360,023</u>    | <u>-</u>            | <u>2,204,435</u>                 | <u>-</u>                             |
| Total governmental<br>activities  | <u>\$ 13,047,086</u>              | <u>\$ 639,319</u> | <u>\$ 1,484,418</u> | <u>\$ 12,201,987</u>             | <u>\$ 733,369</u>                    |
| Business-type activities:         |                                   |                   |                     |                                  |                                      |
| General obligation debt:          |                                   |                   |                     |                                  |                                      |
| Serial Bonds                      | \$ 2,225,000                      | \$ -              | \$ 186,000          | \$ 2,039,000                     | \$ 192,000                           |
| Other long-term liabilities:      |                                   |                   |                     |                                  |                                      |
| Installment purchase debt         | 266,086                           | -                 | 16,376              | 249,710                          | 17,326                               |
| Compensated absences              | 571,543                           | 82,503            | 268,866             | 385,180                          | 38,518                               |
| Other post employment<br>benefits | <u>235,170</u>                    | <u>44,497</u>     | <u>-</u>            | <u>279,667</u>                   | <u>-</u>                             |
| Total business-type<br>activities | <u>\$ 3,297,799</u>               | <u>\$ 127,000</u> | <u>\$ 471,242</u>   | <u>\$ 2,953,557</u>              | <u>\$ 247,844</u>                    |

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

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

c. OTHER LONG-TERM LIABILITIES

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

Installment Purchase Debt - The City has entered into Energy Performance Contracts for energy conservation improvements and equipment. Principal and interest payments are made annually. The first payment was made in November, 2007. The interest rate is 3.84%. During the current year, the City recognized \$19,503 of expenditures for their installment purchase debt interest.

Due to other governments - The City shares responsibility for the long-term maintenance of a landfill site in the Town of Batavia. The City's portion of the liability has been estimated at \$355,401 as of March 31, 2011 and is included in the long-term debt recorded by the City, as discussed further in Note 5.A. The City also owes Genesee County a portion of the financing of the Genesee County Courthouse and Dwyer stadium. The liability for these as of March 31, 2011 were \$506,250 and \$206,328, respectively.

d. MATURITY

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

| <u>Issue Description</u>             | <u>Original<br/>Date<br/>Issued</u> | <u>Original<br/>Amount</u> | <u>Interest<br/>Rate</u> | <u>Date of<br/>Final<br/>Maturity</u> | <u>Balance</u>     |
|--------------------------------------|-------------------------------------|----------------------------|--------------------------|---------------------------------------|--------------------|
| <u>Governmental Funds:</u>           |                                     |                            |                          |                                       |                    |
| Serial bonds                         |                                     |                            |                          |                                       |                    |
| Dwyer and BID                        | 02/01                               | \$2,859,000                | Various                  | 08/21                                 | \$1,300,000        |
| Landfill                             | 11/05                               | 1,360,000                  | Various                  | 11/21                                 | 844,791            |
| Equipment                            | 11/05                               | 100,000                    | Various                  | 11/21                                 | 62,117             |
| Dwyer Stadium                        | 11/05                               | 110,000                    | Various                  | 11/21                                 | 68,329             |
| City Centre                          | 11/05                               | 225,000                    | Various                  | 11/21                                 | 139,763            |
| City Centre                          | 11/05                               | 3,580,000                  | 4.25%                    | 11/36                                 | 3,196,000          |
| Installment purchase debt            | 11/06                               | 923,454                    | 1.850%                   | 11/21                                 | 739,634            |
| <u>Enterprise Funds:</u>             |                                     |                            |                          |                                       |                    |
| <u>Sewer Fund:</u>                   |                                     |                            |                          |                                       |                    |
| Serial bonds                         |                                     |                            |                          |                                       |                    |
| State clean water and drinking water | 07/99                               | 2,165,590                  | Various                  | 10/19                                 | 1,120,000          |
| State clean water and drinking water | 03/03                               | 600,000                    | Various                  | 04/12                                 | 120,000            |
| City Centre                          | 11/05                               | 447,500                    | 4.25%                    | 11/36                                 | 399,500            |
| Installment purchase debt            | 11/06                               | 91,407                     | 1.850%                   | 11/21                                 | 73,212             |
| <u>Water Fund:</u>                   |                                     |                            |                          |                                       |                    |
| Serial bond                          |                                     |                            |                          |                                       |                    |
| City Centre                          | 11/05                               | 447,500                    | 4.25%                    | 11/36                                 | 399,500            |
| Installment purchase debt            | 11/06                               | 220,364                    | 1.850%                   | 11/21                                 | 176,498            |
|                                      |                                     |                            |                          |                                       | <u>\$8,639,344</u> |

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

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

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

| <u>Fiscal Year</u> | <u>Serial Bonds</u> | <u>Interest</u>    | <u>Installment<br/>Purchase Debt</u> | <u>Interest</u>   |
|--------------------|---------------------|--------------------|--------------------------------------|-------------------|
| 2012               | \$ 520,000          | \$ 293,791         | \$ 68,646                            | \$ 18,303         |
| 2013               | 530,000             | 277,398            | 72,554                               | 17,033            |
| 2014               | 475,000             | 261,008            | 76,614                               | 15,691            |
| 2015               | 480,000             | 244,358            | 80,831                               | 14,273            |
| 2016               | 510,000             | 226,537            | 85,209                               | 12,778            |
| 2017-2021          | 2,455,000           | 840,685            | 497,791                              | 38,512            |
| 2022-2026          | 900,000             | 495,126            | 107,699                              | 1,992             |
| 2027-2031          | 1,105,000           | 288,150            | -                                    | -                 |
| 2032-2036          | <u>675,000</u>      | <u>59,076</u>      | <u>-</u>                             | <u>-</u>          |
| Total              | <u>\$ 7,650,000</u> | <u>\$2,986,129</u> | <u>\$ 989,344</u>                    | <u>\$ 118,582</u> |

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 \$507,589,339 allowing the City to incur debt up to \$35,531,254. Currently, the City has \$6,678,979 in debt chargeable against the debt limit, leaving an available margin of \$28,852,275.

**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 \$473,868. All parties designated as potentially responsible parties by the EPA participated in a Pilot Allocation Program. As a result of the Pilot Allocation Program, 75% of the long-term operation and maintenance have been allocated to the City, or \$355,401. As of March 31, 2011, a liability has been recorded in the Governmental activities funds for future maintenance and operation costs.

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - COMMITMENTS AND CONTINGENCIES (Continued)**

**B. COUNTY WATER AGREEMENT**

During the year ended March 31, 2001, the City entered into an agreement with Genesee County whereby the County has assumed responsibility for the production, treatment, operation, maintenance and/or supply of municipal water. Under the terms of the agreement, the County has agreed to lease the City's water supply and treatment facilities for a term not to exceed 10 years. The agreement also calls for the transfer of title to, access to, and/or rights to the County for certain machinery and equipment used in connection with the water supply and treatment facility. In addition, the City entered into an operational agreement with the County to operate and maintain the facilities. In exchange, the City has agreed to purchase water from the County on a wholesale basis. The rate in effect for the fiscal year ended March 31, 2011 was \$4.18 per 1,000 gallons for the first 300,000 gallons and \$3.49 per 1,000 gallons over 300,000 gallons. This rate is subject to adjustment on April 1<sup>st</sup> 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, 2011, the City recorded liabilities in the amounts of \$64,208, \$6,072 and \$5,616 in the General, Water and Sewer Funds, respectively, for incurred but not reported insured events.

**Workers' Compensation Plan**

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



**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - COMMITMENTS AND CONTINGENCIES (Continued)**

Since actual claim costs depend on complex factors, the process of computing claim liabilities does not necessarily result in an exact amount. Such liabilities are based on the ultimate cost of claims (including future claim adjustment expenses) that have been incurred but not charged or credited to expense in the periods in which they are made. As of March 31, 2011, the City has recorded a liability for future costs associated with open claims of \$76,173. The City has not consulted an actuary and has not estimated a liability for incurred but not reported claim liabilities.

**D. LITIGATION**

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

**E. CONSTRUCTION CONTRACTS**

The City has entered into construction contracts in the amount of \$628,920 for the North/Ross Street Sewer project and \$1,388,850 for the Bank Street project. The construction costs for the North/Ross Street project and the Bank Street project as of March 31, 2011 amounted to \$0 and \$1,226,750, respectively. The City has also entered into engineering contracts totaling \$230,000 for the Cedar Street reconstruction project. The engineering costs as of March 31, 2011 amounted to \$76,100.

**NOTE 5 - FUTURE GASB PRONOUNCEMENTS**

**A. FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITIONS**

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



**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - FUTURE GASB PRONOUNCEMENTS (Continued)**

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

**B. OPEB MEASUREMENTS BY AGENT EMPLOYERS AND AGENT MULTIPLE-EMPLOYER PLANS**

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

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

**C. THE FINANCIAL REPORTING ENTITY: OMNIBUS**

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. The Statement is designed to improve guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity by modifying certain requirements in GASB Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - FUTURE GASB PRONOUNCEMENTS (Continued)**

Component units are legally separate organizations that state and local governments include in their financial reports. Statement No. 61 modifies the existing criteria for inclusion of organizations that are “fiscally dependent” on a government. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government’s management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

Statement No. 61 also amends the criteria for reporting component units as if they were part of the primary government (*i.e.*, blending) in certain circumstances. For component units that currently are blended based on the “substantively the same governing body” criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The requirements of Statement No. 61 are effective for financial statements for periods beginning after June 15, 2012, with earlier application encouraged.

**D. CODIFICATION OF ACCOUNTING AND FINANCIAL REPORTING GUIDANCE CONTAINED IN PRE-NOVEMBER 30, 1989 FASB AND AICPA PRONOUNCEMENTS.**

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Statement incorporates into the GASB’s authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure.

**CITY OF BATAVIA, NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 – FUTURE GASB PRONOUNCEMENTS (Continued)**

While the guidance included largely has been taken “as is” from the original FASB and AICPA pronouncements, it has been modified when appropriate to relate specifically to the governmental environment to increase its usefulness to this audience. By incorporating and maintaining this guidance in a single source, the Statement reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial reports. It also eliminates the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments. The requirements of Statement No. 62 are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

**CITY OF BATAVIA, NEW YORK**  
**SCHEDULE OF FUNDING PROGRESS FOR RETIREE HEALTH PLAN**  
**FOR THE YEAR ENDED MARCH 31, 2011**

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

| <u>Schedule of Employer Contributions</u> | Fiscal Year Ending |                 |
|---|--------------------|-----------------|
|   | <u>3/31/11</u>     | <u>03/31/09</u> |
|   | \$ 193,373         | \$ 159,395      |

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



**CITY OF BATAVIA, NEW YORK**  
**BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND**  
**FOR THE YEAR ENDED MARCH 31, 2011**

|  | Original<br>Budget | Modified<br>Budget | Actual       | Variance<br>From Modified<br>Budget |
|--|--------------------|--------------------|--------------|-------------------------------------|
| <b>REVENUES:</b>                               |                    |                    |              |                                     |
| Real property taxes                            | \$ 5,441,630       | \$ 5,441,630       | \$ 5,136,061 | \$ (305,569)                        |
| Real property tax items                        | 172,000            | 172,000            | 297,043      | 125,043                             |
| Sales and other taxes                          | 5,504,689          | 5,504,689          | 5,835,574    | 330,885                             |
| Departmental income                            | 158,519            | 158,049            | 218,382      | 60,333                              |
| Use of money and property                      | 50,460             | 50,460             | 58,400       | 7,940                               |
| Licenses and permits                           | 53,080             | 53,080             | 83,967       | 30,887                              |
| Fines and forfeitures                          | 207,500            | 207,500            | 186,695      | (20,805)                            |
| Sale of property and compensation for loss     | 3,200              | 17,200             | 127,765      | 110,565                             |
| Miscellaneous local sources                    | 171,020            | 451,020            | 536,737      | 85,717                              |
| State and federal sources                      | 2,359,033          | 2,766,243          | 2,726,566    | (39,677)                            |
| Total revenues                                 | 14,121,131         | 14,821,871         | 15,207,190   | 385,319                             |
| <b>EXPENDITURES:</b>                           |                    |                    |              |                                     |
| General government                             | 2,258,665          | 1,938,790          | 1,551,853    | 386,937                             |
| Public safety                                  | 7,265,620          | 7,028,925          | 6,876,536    | 152,389                             |
| Health   | 16,050             | 15,404             | 15,164       | 240                                 |
| Transportation                                 | 1,888,880          | 1,976,027          | 1,911,616    | 64,411                              |
| Economic assistance and opportunity            | 30,000             | 92,693             | 361          | 92,332                              |
| Culture and recreation                         | 763,147            | 686,616            | 596,863      | 89,753                              |
| Home and community services                    | 343,200            | 320,621            | 247,013      | 73,608                              |
| Recycling                                      | 1,043,688          | 1,029,288          | 975,205      | 54,083                              |
| Employee benefits                              | -                  | 1,392,656          | 1,239,559    | 153,097                             |
| Debt service:                                  |                    |                    |              |                                     |
| Principal                                      | 433,007            | 428,007            | 425,757      | 2,250                               |
| Interest                                       | 338,674            | 338,674            | 333,648      | 5,026                               |
| Total expenditures                             | 14,380,931         | 15,247,701         | 14,173,575   | 1,074,126                           |
| Excess (deficit) of revenues over expenditures | (259,800)          | (425,830)          | 1,033,615    | 1,459,445                           |
| <b>OTHER FINANCING SOURCES (USES):</b>         |                    |                    |              |                                     |
| Interfund transfers in                         | 450,000            | 450,000            | 350,000      | (100,000)                           |
| Interfund transfers out                        | (240,200)          | (520,200)          | (574,838)    | (54,638)                            |
| Appropriated fund balance                      | 50,000             | 496,030            | -            | (496,030)                           |
| Total other financing sources (uses)           | 259,800            | 425,830            | (224,838)    | (650,668)                           |



**CITY OF BATAVIA, NEW YORK**  
**BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND**  
**FOR THE YEAR ENDED MARCH 31, 2011**  
**(Continued)**

|                                  | <u>Original<br/>Budget</u> | <u>Modified<br/>Budget</u> | <u>Actual</u>       | <u>Variance<br/>From Modified<br/>Budget</u> |
|----------------------------------|----------------------------|----------------------------|---------------------|--|
| Net change in fund balance       | -                          | -                          | 808,777             | 808,777                                      |
| Fund balance - beginning of year | <u>-</u>                   | <u>-</u>                   | <u>2,797,363</u>    | <u>2,797,363</u>                             |
| Fund balance - end of year       | <u>\$ -</u>                | <u>\$ -</u>                | <u>\$ 3,606,140</u> | <u>\$ 3,606,140</u>                          |

**SECTION B**  
**SUPPLEMENTAL SCHEDULES**

**CITY OF BATAVIA, NEW YORK**  
**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS**  
**MARCH 31, 2011**

|  | Special<br>Grant<br>Fund | Self<br>Insurance | Mall<br>Maintenance<br>Fund | Small<br>Cities<br>Fund | Total<br>Non-Major<br>Governmental<br>Funds |
|--|--------------------------|-------------------|-----------------------------|-------------------------|---|
| <b>ASSETS:</b>   |                          |                   |                             |                         |   |
| Cash and cash equivalents  | \$ 332,614               | \$ 303,577        | \$ 101,136                  | \$ 126,003              | \$ 863,330                                  |
| Accounts receivable  | -                        | 60,055            | 19,486                      | -                       | 79,541                                      |
| Loan receivables (net of allowance<br>for uncollectible accounts of \$26,723<br>in the Special Grant Fund) | 214,918                  | -                 | -                           | 141,203                 | 356,121                                     |
| Prepaid expenses   | -                        | 31,849            | -                           | -                       | 31,849                                      |
| Total assets   | \$ 547,532               | \$ 395,481        | \$ 120,622                  | \$ 267,206              | \$ 1,330,841                                |
| <b>LIABILITIES AND FUND BALANCE:</b>   |                          |                   |                             |                         |   |
| <b>LIABILITIES:</b>  |                          |                   |                             |                         |   |
| Accounts payable   | \$ 48                    | \$ 5,766          | \$ 7,581                    | \$ -                    | \$ 13,395                                   |
| Accrued liabilities  | -                        | 76,173            | 83                          | -                       | 76,256                                      |
| Total liabilities  | 48                       | 81,939            | 7,664                       | -                       | 89,651                                      |
| <b>FUND BALANCE:</b>   |                          |                   |                             |                         |   |
| Undesignated   | 547,484                  | 313,542           | 112,958                     | 267,206                 | 1,241,190                                   |
| Total fund balance   | 547,484                  | 313,542           | 112,958                     | 267,206                 | 1,241,190                                   |
| Total liabilities and fund balance   | \$ 547,532               | \$ 395,481        | \$ 120,622                  | \$ 267,206              | \$ 1,330,841                                |

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, 2011

|  | Special<br>Grant<br>Fund | Self<br>Insurance | Mall<br>Maintenance<br>Fund | Small<br>Cities<br>Fund | Total<br>Non-Major<br>Governmental<br>Funds |
|--|--------------------------|-------------------|-----------------------------|-------------------------|---|
| REVENUES:                                      |                          |                   |                             |                         |   |
| Special assessments                            | \$ -                     | \$ -              | \$ 179,896                  | \$ -                    | \$ 179,896                                  |
| Use of money and property                      | 6,837                    | 764               | 1,784                       | 2,261                   | 11,646                                      |
| Sale of property and compensation for loss     | 392                      | 273,839           | -                           | -                       | 274,231                                     |
| Total revenues                                 | 7,229                    | 274,603           | 181,680                     | 2,261                   | 465,773                                     |
| EXPENDITURES:                                  |                          |                   |                             |                         |   |
| General government                             | -                        | 252,662           | -                           | -                       | 252,662                                     |
| Economic assistance and opportunity            | -                        | -                 | 159,545                     | -                       | 159,545                                     |
| Home and community services                    | 135,482                  | -                 | -                           | 10,901                  | 146,383                                     |
| Employee benefits                              | -                        | 41,734            | -                           | -                       | 41,734                                      |
| Total expenditures                             | 135,482                  | 294,396           | 159,545                     | 10,901                  | 600,324                                     |
| Excess (deficit) of revenues over expenditures | (128,253)                | (19,793)          | 22,135                      | (8,640)                 | (134,551)                                   |

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, 2011  
(Continued)

|   | Special<br>Grant<br>Fund | Self<br>Insurance | Mall<br>Maintenance<br>Fund | Small<br>Cities<br>Fund | Total<br>Non-Major<br>Governmental<br>Funds |
|---|--------------------------|-------------------|-----------------------------|-------------------------|---|
| OTHER FINANCING SOURCES:                    |                          |                   |                             |                         |   |
| Interfund transfers in                      | -                        | 456,400           | -                           | -                       | 456,400                                     |
| Total other financing sources               | -                        | 456,400           | -                           | -                       | 456,400                                     |
| Net change in fund balances                 | (128,253)                | 436,607           | 22,135                      | (8,640)                 | 321,849                                     |
| Fund balances (deficit) - beginning of year | 675,737                  | (123,065)         | 90,823                      | 275,846                 | 919,341                                     |
| Fund balances - end of year                 | \$ 547,484               | \$ 313,542        | \$ 112,958                  | \$ 267,206              | \$ 1,241,190                                |



**SECTION C**  
**FEDERAL FINANCIAL ASSISTANCE**

**CITY OF BATAVIA, NEW YORK**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED MARCH 31, 2011**

| <u>Federal Grantor Program Title</u>                        | <u>Federal CFDA<br/>Number</u> | <u>Pass Through<br/>Grantor Number</u> | <u>Federal<br/>Expenditures</u> |
|---|--------------------------------|--|---------------------------------|
| <u>U.S. Department of Justice</u>                           |                                |  |                                 |
| Direct Program:   |                                |  |                                 |
| None  |                                |  |                                 |
| Passed through New York State:                              |                                |  |                                 |
| Bulletproof Vest Partnership<br>Program                     | 16.607                         | 2009BUBX09046584                       | \$ 1,590                        |
| <u>U.S. Department of Transportation</u>                    |                                |  |                                 |
| Passed through New York State:                              |                                |  |                                 |
| Federal Highway<br>Administration                           | 20.205                         | D024533/475340322/<br>D032451          | 193,818                         |
| <u>U.S. Department of Housing and<br/>Urban Development</u> |                                |  |                                 |
| Passed through New York State:                              |                                |  |                                 |
| Community Development Block Grants                          | 14.228*                        | 82-PW109-09                            | <u>411,000</u>                  |
| Total Expenditures of<br>Federal Awards                     |                                |  | \$ <u>606,408</u>               |

\*Denotes a major program

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

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all 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, *Audit 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 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**

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**



**Independent Auditor's Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance with  
Government Auditing Standards**

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Batavia, New York, (the City) as of and for the year ended March 31, 2011, and have issued our report thereon dated July 20, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

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



## Compliance and Other Matters

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

We noted certain matters that we reported to management of the City in a separate letter dated July 21, 2011.

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

*Freed Maxick & Battaglia, CPAs, PC*

Batavia, New York  
July 21, 2011



## Freed Maxick & Battaglia, CPAs, PC

### Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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

#### Compliance

We have audited the City of Batavia, New York's, (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended March 31, 2011. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the City's major federal program for the year ended March 31, 2011.

#### Internal Control Over Compliance

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

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

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

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

*Freed Maxick & Battaglia, CPAs, PC*

Batavia, New York  
July 21, 2011

CITY OF BATAVIA, NEW YORK  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2011

I. SUMMARY OF AUDITOR'S RESULTS

*Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? ☐ Yes ☒ No

*Federal Awards*

Internal control over major programs:

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

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

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

Identification of major programs:

CFDA Number(s)

14.228

Name of Federal Program or Cluster

Community Development Block Grants

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

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

CITY OF BATAVIA, NEW YORK  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2011  
(Continued)

II. FINDINGS - FINANCIAL STATEMENT AUDIT

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

III. FEDERAL AWARD FINDINGS AND QUESTIONED COST

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, 2011

I. FINDINGS - FINANCIAL STATEMENT AUDIT

**10-1 Financial Accounting and Reporting**

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

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

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

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

II. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

**SECTION E**  
**NYSDOT STATE SINGLE AUDIT PROGRAM**



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

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

**Compliance**

We have audited the 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 are applicable to the major state transportation assistance program tested for the year ended March 31, 2011. The program tested is identified in the summary of audit results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major state transportation assistance program is the responsibility of City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Draft 43 of NYCRR. Those standards and Draft Part 43 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the 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. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major state transportation assistance program for the year ended March 31, 2011.

**Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to the state transportation assistance program tested. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on the state transportation assistance program tested in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with Draft Part 43 of NYCRR. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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 noncompliance with a type of compliance requirement of a state transportation assistance program 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 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.

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

#### Schedule of State Transportation Assistance Expended

We have audited the basic financial statements of the City of Batavia as of and for the year ended March 31, 2011, and have issued our report thereon dated July 21, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City taken as a whole. The accompanying Schedule of State Transportation Assistance Expended is presented for purposes of additional analysis as required by Draft Part 43 of NYCRR, and is not a required part of the basic financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects, in relation to the basic financial statements taken as a whole.

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

*Freed Maxick & Battaglia, CPAs, PC*

Batavia, New York  
July 21, 2011

**CITY OF BATAVIA, NEW YORK**  
**SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED**  
**FOR THE YEAR ENDED MARCH 31, 2011**

| <u>Grantor/Program Title</u>                                   | <u>NYSDOT<br/>Contract/Reference<br/>Number</u> | <u>Expenditures</u> |
|--|---|---------------------|
| <u>U.S. Department of Transportation</u>                       |   |                     |
| Passed through New York State Department<br>of Transportation: |   |                     |
| Walnut Street Project  | D024533   | \$ 33,229           |
| CHIPs Aid  | N/A*  | <u>155,658</u>      |
| Total Expenditures of NYSDOT Assistance                        |   | \$ <u>188,887</u>   |

\*Denotes a major program



**CITY OF BATAVIA, NEW YORK**  
**NOTES TO SCHEDULE OF STATE TRANSPORTATION**  
**ASSISTANCE EXPENDED**  
**FOR THE YEAR ENDED MARCH 31, 2011**

**NOTE 1 - BASIS OF PRESENTATION**

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

**NOTE 2 - BASIS OF ACCOUNTING**

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

**CITY OF BATAVIA, NEW YORK**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR**  
**STATE TRANSPORTATION ASSISTANCE EXPENDED**  
**FOR THE YEAR ENDED MARCH 31, 2011**

I. SUMMARY OF AUDITOR'S RESULTS

Internal control over state transportation assistance expended:

- Material weakness(es) identified?                      ☐ Yes                      ☒ No
- Reportable condition(s) identified that are  
not considered to be material weakness(es)?                      ☐ Yes                      ☒ None Reported

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

Summary of Audit Findings:

Identification of State Transportation Assistance Programs tested:

Name of Federal Program

CHIPS

**Compliance Findings and Questioned Costs:**

No matters were reported.